Q1 2016 Earnings Call

Company Participants

- Andre Gerdau Johannpeter, President and Chief Executive Officer
- Harley Lorentz Scardoelli, Chief Financial Officer

Other Participants

- Alan Glezer, Analyst
- Daniel Sasson, Analyst
- Gabrielle Curtis, Analyst
- Ivano Westin, Analyst
- Leonardo Correa, Analyst
- Leonardo Shinohara, Analyst
- Tatiana Brikulskaya, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon and welcome to Gerdau's Conference Call to discuss the Results of the First Quarter of 2016. At this moment, all participants are connected in listen-only mode, and afterwards, we will have a question-and-answer session. (Operator Instructions)

We would like to remind you that forward-looking statements that might be made during this call related to Gerdau's business perspectives, operating and financial projections and targets are mere assumptions based on the management's expectations in relation to the Company's future. Although Gerdau believes that its remarks are based on reasonable premises, assumptions, there is no guarantee that future events will not reflect this evaluation.

Today with us we have Mr. Andre Gerdau Johannpeter, President and CEO; and Harley Scardoelli, CFO.

Now I would like to give the floor over to Mr. Andre Gerdau Johannpeter. Mr. Gerdau, you may proceed.

Andre Gerdau Johannpeter

Thank you very much. Good afternoon and welcome to our conference call through which we will be talking about Gerdau's results. We will start our analysis with the world steel scenario and afterwards the performance of Gerdau as well as investments, we will be analyzing the performance of the first quarter of 2016 vis-a-vis the same period last year; and at some point, we will refer to the previous quarter as well. After my presentation, Harley Scardoelli will be talking about Gerdau's financial performance and at last we will be available to answer your questions.

On page number 2, for those who follow us on the web, the world demand for steel will continue to drop in 2016. This is the forecast that the steel sector will continue to lead the complex and challenging moment. According to the World Steel Association, global demand should continue to go down with a drop of 0.8%, something around 1.5 billion tons, vis-a-vis the 3% slump in 2015. The challenges of the sector will continue to be the overcapacity of the sector, lower economic growth in China, volatility in the financial markets and a slow evolution of international trade.

In spite of the forecast for a slower demand in 2016 and after this is positive and it should be 3% up. I would like to mention the growth scenario, the recent growth in commodity prices in the last 60 days, we saw scrap, iron ore and as a consequence products such as steel having a major growth in their prices in this period. Another point of concern are imports, mainly those coming from China that continue to bring pressure on markets in North America and in Latin America, as well as the rest of the world, and this situation has led nine steel producers to issue a joint statement about China's intent to obtain market economy started in December this year, which would deeply affect the steel industry due to their unfair competition practices.

Now let's talk about the Brazilian market where political instability continues and this has been causing a slowdown in the economy and impacting the main steel consuming industries. According to Instituto Aco Brasil, apparent steel consumption in the country should drop 9% in 2016 after a drop of 17% in 2015.

In North America, non-residential construction continues with very good outlook and the infrastructure segment is also showing growth gradually, both are major consumers of our products.

I would like to mention the growth of the economy in Mexico, which has been recovering and showing a good outlook as well, both in industry and in construction. The SBQ segment, automotive sector continues to have an evolution in the US and in Europe. In Brazil, however, automotive industry has been showing consecutive drop in production and sales of both light and heavy vehicles, still considering Latin America, it continues to grow. And I would like to highlight Peru and Argentina on their path towards recovery.

On page number 3, about net sales and the major figures of Gerdau. Starting with consolidated shipment, 3.9 million tons shipped, a 7% reduction vis-a-vis the first quarter of 2015, mainly due to the lower volumes in Brazil and also the domestic market. Net sales were BRL10.1 billion in the first quarter of 2016, a 3% reduction on a year-on-year basis. In this period, we mentioned the strong presence of the Company in the North American market where net sales grew by 12% and also increase in exports from Brazil increasing by

72%, factors that partially offset the lower volume of shipments in the Brazilian domestic market in this quarter.

EBITDA reached BRL930 million, 16% reduction vis-a-vis the first quarter of 2015, again due to the lower performance of the Brazil operation and in part the special steel operation, in the comparison to the fourth quarter of 2015, we had an evolution of 2%. Consolidated net income was BRL14 million, a 95% slump vis-a-vis the same period last year, again due to the lower operating result. Nevertheless, the net income posted in the first quarter was up on the fourth quarter of 2015 when we had 41 million in negative adjusted result, 41 million negative result, not considering the non-recurring items. Also, we had 10% reduction in G&A expenses over the first three months of 2016 on a year-on-year comparison.

Now on page 4, we talk about investments. During this period, the Company disbursed BRL485 million for investments. And I would like to mention the two main investments which are the new heavy plate rolling mill with an annual capacity of 1.1 million tons, which is already in operating cash (inaudible) Minas Gerais and should start up in July 2016. And the other major project is in Argentina which is the construction of the new melt shop already in advance stage. 80% of the work already concluded and all equipment already delivered by suppliers.

Installed capacity of the new plant that will be up and running by the end of this year will be 650,000 tons per year, contributing for the replacement of part of steel imports into the country. For 2016, the CapEx investment estimate continues to be BRL1.5 billion, priority given to the maintenance of existing industrial plants and this amount considers a 35% reduction in the disbursement level vis-a-vis 2015 as the main investments underway heavy plate and the melt shop are being finalized.

And now, I would like to give the floor to Harley, who will talk about the results of the first quarter. Thank you.

Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Thank you, Andre. Good afternoon everyone. Now, I will talk about the performance of each one of the business operations in the first quarter of 2016 and, afterwards, giving some details about the consolidated result. Starting with Brazil, the uncertainties in the environment have been causing a lower level of demand, affecting the performance of our businesses when we compare to the first quarter of 2015.

In relation to the fourth quarter of '15, shipments in the domestic market had an increase due to the seasonality of the periods of comparison. Exports went down in the first quarter of '16 in relation to the fourth quarter of'15 due to the channeling of shipments to the domestic market.

Looking at the EBITDA for the first quarter of 2016, the absolute value increased by 33% in relation to the fourth quarter of '15, due to the better market mix and the lower cost with production stoppages. With that, EBITDA margin went from 6.9% in the fourth quarter of '15 to 9.2% in the first quarter of 2016.

In North America, the economic environment continues to be positive, due to the gradual improvement in the non-residential construction sector, driving an increase in sales of 2.4% when compared to the first quarter of 2016 to '15. And there are signs of recovery also in other sectors. EBITDA of the first quarter of '16 reached BRL355 million as compared to 254 million in the first quarter of 2015, a 40% increase.

This improvement is due mainly to the effect of the exchange rate variation in the period together with a better EBITDA margin 6.6% in the first quarter of '15 going to 8.3% in the first quarter of '16, due to the lower cost per ton sold and lower operating expenses in US dollars.

But in relation to the fourth quarter of '15, a slight drop in EBITDA margin was due to the one-off effect of the lower metals spread in the first quarter of '16, as the transfer of the increase in the scrap cost to the steel cost will be felt as of the second quarter of '16. South America; shipment in the first quarter had a drop of 6.5% on a year-on-year basis with different behaviors in countries where we operate. At the same time, optimization of operating cost, mainly in the Argentina, Colombia, and Peru units besides the lower scrap costs drove an increase in the EBITDA margin that went from 9.6% in the first quarter '15 to 14.8% in the first quarter of '16, the better margin in this operation since 2010, the benchmark [ph].

In special steel, the shipment in 2016 first quarter dropped by 9% vis-a-vis the first quarter of '15, due to the slump in the demand from the automotive sector in Brazil. In relation to the fourth quarter of '15, the increase in shipments occurred due to the good demand from the automotive sector in North America. The EBITDA reduction in special steel operations in the first quarter on a quarter -- on a year-on-year basis occurred due to the lower dilution of fixed costs and lower profitability in the Brazil and US units.

Although this country continues to have good demand from the automotive sector, the challenges faced in the oil and gas sectors affected the profitability of these units. On the other hand, the India unit had an improvement in the profitability when compared on a year-on-year basis. As a consequence of the effect, its EBITDA margin went down from 11.6% in the first quarter '15 to 8% in the first quarter of '16. On a quarter-on-quarter comparison, exception made to Brazil, margins improved in all other geographies. And the EBITDA margin went to 8% in the specialty steel area.

Slide number 7, talking about the consolidated results, adjusted EBITDA reached BRL930 million in the first quarter of '16 with a drop of 16% on a year-on-year basis. If we look at the bridge chart on the upper part of the slide, we see that the reduction of the adjusted EBITDA occurred due to the drop in the volume shipped, partially offset by a higher net sales per ton and lower cost of shipment.

On the lower part of the slide, you can see that we went from a net income of BRL267 million in the first quarter of '15 to 14 million in the first quarter of '16, due to the lower

EBITDA and a higher depreciation when compared to the -- when we compare the variations of these periods. It's important to stress the positive evolution of the EBITDA in relation -- in the first quarter in relation to the fourth quarter of '15, in absolute terms 930 million vis-a-vis 911 million and then margin 9.2% vis-a-vis 8.7% in the fourth quarter of '15.

Now slide number 8, indebtedness. The gross debt on March 31, 2016 was BRL23.7 billion, 11% lower in relation to December 2015, due to the exchange rate variation in the period and the amortizations made over the first quarter of '16. The average weighted cost of debt was 7.1% a year, with the average amortization term of 6.3 years. On March 31st, 2016, only 10% of the gross debt was short-term, represented most of them by working capital lines. I would like to mention that in relation to the maturity of BRL4 billion for 2017, the cash availability and credit lines of the Company are more than enough to honor these commitments and most of them mature only in October of 2017.

Besides, the Company has the alternative of refinancing part of this debt. We would like to mention that as most of the EBITDA in the last 12 months was generated by business operations abroad, mainly in US dollars, and that more than 80% of the consolidated net debt of 31 March 2016 is also denominated in US dollars, the net debt/EBITDA indicator calculated in this currency presented a result of four times. Such as in the last two years, the focus on free cash generation of the Company points to a reduction in this indicator over the year.

Slide number 9, working capital and the positive evolution of this indicator over the last few quarters. In March 2016, the cash conversion cycle continued to drop in relation to December '15, due to the 4.5% drop in the working capital compared to a drop of 3.5% in net sales. I would like to mention the 18-day reduction in the cash conversion cycle from March 2015 to '16 resulted from the strong inventory management of the Company and this is the shortest cash conversion cycle that we delivered since the fourth quarter of '13.

Slide number 10, free cash generation, as we can see on the upper part of the slide, the EBITDA was enough to honor our CapEx commitment in context that interest and increase in working capital resulting into a free cash flow -- positive free cash flow generation and the reduction of CapEx over the year -- and the CapEx reduction over the year, especially in the second half, and the additional efforts in the optimization of working capital will be important part in the generation of free cash flow in 2016.

Now, I would like to give the floor back to Andre.

Andre Gerdau Johannpeter

Thank you, Harley. Now, let's go to our last remarks. Our strong presence in North America and mainly the management efforts made by our team in all our operations allowed us to have a reduction of 21% in the working capital in the first quarter on a year-on-year comparison, resulting into a positive free cash flow generation. Besides, we had the evolution of the consolidated EBITDA in relation to the fourth quarter of 2015. Now in relation to the first quarter of '15, the highlights are the 40% expansion in the North America EBITDA and 44% in the South America operation.

The first quarter was marked by the traditional seasonality of this period in North America and by Brazil as well, which has the scenario of political uncertainty and also the economic downturn that we are living during this period.

Nevertheless, the impact caused by the aggregate of these factors does not represent a trend for the year's result because, for example, recently we had a marked recovery in international commodity prices, which should benefit our exports from Brazil in the next few months. On the other hand, we have little visibility about the behavior trend of international prices more in the long run.

I would like to highlight that we continue our process of transformation at Gerdau. We work to generate more market value and increase competitiveness of our operations in this challenging steel scenario, always keeping our indebtedness under control. Also considering these challenges, our focus in 2016 continues to be the generation of free cash flow by means of limitation of new investments and also decrease in our cost and reduction in our financial leverage.

We continue to work in the modernization of our corporate culture and in the definition of strategic initiatives including there the revaluation of the profitability potential of our assets.

And now, Harley and I are available to answer any questions that you might have. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will start our Q&A session now. (Operator Instructions) Our first question comes from Roy Yackulic [ph] Bank of America Merrill Lynch.

Q - Unidentified Participant

Good afternoon everyone. Thank you for the questions. I have two questions. The first one has to do with metal spreads in the US. Could you talk about the level of metal spread today vis-a-vis the first quarter and what would be reasonable to expect considering the possible increasing prices of steel and scrap? And working capital, do you still have room to cut your margins or is the current level already adequate?

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Good afternoon. This is Harley. In relation to your first question about spread, it was more than $400 per ton and the trend for the second and the third, they are traditionally stronger for North America and probably we will see the metal spread getting closer or exceed the one that we have today, over the next few months. As you mentioned yourself, we see an improvement in prices in North America also driven by the recent increases in the scrap prices, bringing about the correction in prices, so we see this trend.

The second part of your question about working capital, this year -- we have been working strongly in all our operations, and we will be able to capture some additional there and this will probably happen in the second part of the year. This is an important part, traditionally the year start with a slow -- a lower need and then the reduction -- the translator apologizes, because she can barely hear the CFO.

Operator

Leonardo Correa from BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon everyone. Thank you for the question. My first question is directed to Andre. I know you don't really talk about prices in the domestic market, but I will try to insist a little bit on this theme. We have been seeing a major mismatch there that I would like to check overall, if you believe that it is sustainable to have a price distortion [ph] in the domestic market vis-a-vis such as we haven't seen today.

Of course, demand is low now. And also competition seems to be hindering things a little bit. So, could you talk about that because maybe some people believe that the level of discount is excessive in Brazil and looking ahead, could we work with an expectation of some degree of correction in these discounts and going back to more normal premium storage, 5% premiums, the historical levels?

And my second question is more detailed regarding Latin America. Looking at the result, this is already the best performing asset of yours, around 15% margin, and we have been seeing a margin which is much better than everybody expected. So my doubt is the following, does this change your strategy regarding investments and divestments, because you were giving signs that Latin America could be among the assets held for sale. And what about this better performance that was a shade now, does this change your intentions regarding divestments? Thank you.

A - Andre Gerdau Johannpeter

Good afternoon. This is Andre. I will answer the first and Harley will answer the second. Well, you said yourself that we don't talk about prices, but maybe I could make a general remark about the moment that we're living, the moment that we are all living.

The very strong recovery in commodity prices in general in the last two months or two and a half months, iron ore scrap and as a consequence steel, semi-finished and finished products their saw their prices going up quite a lot during this period. And when this happened in all our operations, there is the opportunity to look for something regarding prices and this depends on each country, demand, supply, foreign market, so what I can tell is that in all our operations, all our teams are evaluating the market situation. And with the change in the international prices as a consequence, this affect domestic markets above these operations and in Brazil specifically.

And you talked about the big mismatch between domestic prices and imported prices. And in this moment that we are living we see a very big drop in demand, our shipments dropped 28% and this is the same for the whole market, when we look at the data of Aco Brasil, over time we should bounce back to historical levels.

Maybe, well, we will have to wait for demand to pick up, but normally we shouldn't go on working with the situation that we have today. But this is something that we had not seen for a very long time and this, of course, affects the whole dynamics of the Brazilian market.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

This is Harley. Regarding the second question about Latin America, we still see good margins, strong margins and you have to remember that Latin America means nine countries, so you have the average of many different geographies with their own market dynamics. What we can say is that margins should continue to be strong, 15% is something as I mentioned myself.

Regarding opportunities, we have not made any decisions regarding divestment of assets and we continue to observe the market and always trying to optimize our portfolio, but we analyze it very carefully. Thank you.

Operator

Ivano Westin from Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Good afternoon, Andre, Harley. Thank you for the questions. The first question is about CapEx. You gave a guidance of 1.5 billion for the year. Could you please update us, are you maintaining this guidance for 1.5 billion, because in the first quarter, you had a stronger pace annualized than that and the breakdown of the maintenance CapEx for the first quarter. And the second point is about indebtedness. You have reported four-time net debt/EBITDA ratio and you have a major part of you debt maturing next year. So what is the level of comfort of your indebtedness?

And going back to divestment, in case these do happen, will you be using the amount in order to reduce your debt or will you be rolling over your debt? So these are my questions. Thank you.

A - Andre Gerdau Johannpeter

This is Andre. We're trying to look for the breakdown of the first quarter CapEx. Once again, the first quarter is not in the regular pace, okay? So, you cannot just take that and annualize it. Our target continues to be 1.5 billion and impacted by the heavy plate in Minas Gerais and Ouro Branco to come on board in July. And the melt shop in Argentina, 85% ready and the equipment already delivered, waiting to be assembled. So a major part of our investments was made in the first quarter, so you cannot annualize that, and 45% of the first quarter were invested in these two major projects. So there is a downward trend and then we will go towards the 1.5 billion for the next few quarters.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

This is Harley. Regarding your second question, what about our indebtedness over the year, and if we are comfortable with these levels. Our trend will be to bring this indicator down consistently towards 3.5. So this is our intention to bring this indicator to this level and due to our focus in the generation of free cash flow, we see this indicator going down from this level of four times that we reached. And the CapEx reduction together with a free cash flow generation allow us to believe that we will continue to advance in this regard over the year. Regarding rolling over our debt, most of this debt that is a bond that matures in October. Now we can perfectly finish it with our cash position and our short-term facilities that we have and we can draw at any moment $700 million additionally. This would be about $1.5 billion in cash that we have today. And as I shared, of course, we have the opportunity to roll over part of this debt if we chose to do so. So, we have these opportunities ahead of us.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much, Harley and Andre.

Operator

Marcos Assumpcao from Itau BBA.

Q - Daniel Sasson {BIO 19234542 <GO>}

Good afternoon everyone. This is Daniel Sasson from Itau. My first question has to do with the volume of the Brazil operation. The volume was more towards the domestic markets and I would like to know, if with better prices internationally, should we see more exports increasing again? And the same regarding iron ore, the shipments to third parties was not so big in the first quarter. So do you intent to increase or even export iron ore with the better prices?

And my second question has to do with SBQ. We saw a major change in the mix. Volumes in North America is stronger than the volumes in Brazil, and I believe that part of this 4% reduction in the sales per ton. What is really due to mix, what is due to prices in the different regions, could you explain the reason for that, please?

A - Andre Gerdau Johannpeter

This is Andre. About the volume of the Brazil operation, the trend is to increase the exports as we see prices increasing in the international markets, so normally we close the deal and then you see the reflex of that two or three months later. So, as at the end of May or June or July, this is when we will see more exports. And if this continues at these levels, then more important than volume is the fact that with the new prices, we could start to see a better profitability coming from exports and part of what decreased last year, because profitability had dropped a lot because of the prices impacting the first quarter in Brazil and we still have a couple of months of being affected and then we will have exports with higher volumes and with higher profitability. And iron ore, with better prices as well for iron ore, we start to study the possibility of exporting and we will probably see some deals being made feasible by freight -- due to freight by port or the combination of freight and port and we have the expectation that we will be able to export over the year iron ore as well.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

This is Harley. About the special steel operation, we do not get into very specific details about each one of the geographies, but the concept is the one that you mentioned yourself, a change in the mix, more shipments to Latin -- by North America not Brazil mainly because of the automotive market in Brazil, the situation that we have. In spite of all that, in a comparison, if the margins improved in all geographies, in the comparison of the consolidated margin going to 8% from 6.9% and we have a good outlook for this operation for the year over 2016.

Operator

Our next question comes from Gabrielle Curtis, Banco Do Brasil.

Q - Gabrielle Curtis

Good afternoon. About the Latin American operations. You see that you have margin gains, but a drop in sales in the first quarter compared to the first quarter of '15 and the last one as well due to the variation of performance of prices. So could you give more details for the reasons for that and which were the ones that drove the margin down, please?

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

This is Harley, Gabrielle. Regarding your question about South America, we have to highlight the good performance of Argentina, Colombia and Peru, which brought the margin to the levels that you saw. In the other countries, we have smaller operations and with some seasonable impact and sometimes regarding the exchange rate, for instance, Venezuela. And one important point to be mentioned is the cost optimization and a good performance of Argentina, Colombia and Peru.

We believe the performance of these three countries is resilient, Argentina, Colombia and Peru. It has been resilient because of the fundamentals of these economies, where we saw the recent changes in Argentina and the good outlook also for Colombia and Peru regarding growth and steel consumption. So they have good fundamentals in place driving this good performance.

Q - Gabrielle Curtis

Thank you.

Operator

Alan Glezer, Bradesco BBI.

Q - Alan Glezer {BIO 17508681 <GO>}

Good afternoon everyone, I have two questions. The first one related to North America. I would like to understand with the price recovery in the global steel market, how do you see the impact on exports take into account the anti-dumping situation of the Turkish steel? So how do you expect to see the behavior of steel in the US market, and do you believe this creates an opportunity for gains in volumes and also for prices to become higher?

And the second question has to do with the Brazil business unit. Net sales per ton dropping 3%, I would like to know if this is the effect of the product mix with higher participation of plan [ph] of flat products or was it because of discounts that you applied during the quarter? I would like to understand what caused this drop in your net sales per ton. These are my questions.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

This is Harley, good afternoon. Imports in our operations of North America, this is quite under control and if we draw a comparison in relation to last year, year-on-year, the import of long steels dropped 10% due to many different factors. More measures against damages to the industry, because of import. So all this plays a role in this dynamic. Also in the pricing, the increases announced and that were published by the press recently, they are supported on this environment of lower levels of imports.

Regarding prices in Brazil and the drop of between 2% and 3%, it is a function of the mix. It does not have anything to do with discount, it has to do with mix and the product that we shipped in this quarter.

Operator

Leonardo Shinohara from HSBC.

Q - Leonardo Shinohara {BIO 18788974 <GO>}

Good afternoon, thank you for the question. Valor published news about the flat steel market and what is your outlook for heavy plates? Thank you.

A - Andre Gerdau Johannpeter

This is Andre. Could you be more specific, please? What are you referring to?

Q - Leonardo Shinohara {BIO 18788974 <GO>}

You have a market share in flat steel and it was published in Valor newspaper saying that you were able to gain additional market share in flat steel. And as this is positive news, I would like to know what about the heavy plate market? Could you please tell me something about heavy plate?

A - Andre Gerdau Johannpeter

I will talk first about the hot rolled coil, which was specifically what was mentioned in Valor. In fact, we are small in this market, we are just starting, we have a new product, so we are relatively small vis-a-vis the traditional suppliers. However, we are very pleased with the acceptance of the product with the quality of our service and our product and we have been achieving some growth in our shipments, mainly because we also operated in the Comercial Itau [ph] and many clients already bought long steel from Gerdau, and due to our long-standing relationship, they are also buying now flat products. So again, we are small, we are going on small strides and we are on the learning curve and this is our situation.

Regarding heavy plates, that will come on stream in July. This is a product where we are placing our bet because of the high quality of our product, because it's a modern rolling mill, which will allow us to supply practically to all segments that consume this kind of product in Brazil. And we are placing our bet on the high quality of our product and we have our partnership with JFE, which is a Japanese company that will be giving us support in the development of this product, and little by little, we expect to conquer market. We are a new entrant, this is a new product, the heavy plate, with the hot rolled coil, we already have a small operation, but we are still small.

Operator

Question in English.

Q - Unidentified Participant

Yeah. I was hoping you can hear me. My question has to do with the investments in India. Recently, I saw news that the Company is considering doubling the capacity in the country. So I wanted to see, if you can confirm this and say how much of the CapEx will be, if anything, included in 2015 or in 2016? And then the second question has to do with the inventory reversal of the -- the reversal of an inventory adjustment of BRL40 million that we saw in the cash flow statement. If you can comment a little bit more about what that is related to and if this was somewhere in the EBITDA number reported by the Company? Thank you.

A - Andre Gerdau Johannpeter

The first question is about India, and something that was published in the newspaper regarding the expansion of our operation there. With the growth in the Indian market, and we work in the automotive industry there. So this news was published and due to the expansion of the market. But right now, our priority is to consolidate the India operation that has been improving consistently because of demand in India and we are being able to certify our products or have our products certified by our clients. So it's even better than we expected, but our priority is to stabilize and optimize our assets the size it is today.

And the second question will be answered by Harley.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

The question was about the reversal of some provisions that affect our cash flow in the quarter, BRL38 million. The adjustments were made last year and the difference has to do with the exchange rate. So this is -- the interpreter once again apologizes, but she can barely hear Mr. Harley.

Operator

Tatiana Brikulskaya from HSBC.

Q - Tatiana Brikulskaya {BIO 19421363 <GO>}

Hi, guys. Thank you so much for hosting the call. I have one very quick question, I was wondering if you could provide us the information on your current availability under credit facility. Thanks so much.

A - Andre Gerdau Johannpeter

Could you please repeat your question?

Q - Tatiana Brikulskaya {BIO 19421363 <GO>}

Sure. I was wondering if you could provide us information on your current availability under credit facility.

A - Andre Gerdau Johannpeter

Tatiana is asking about our availability regarding the credit facility.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

We have about $700 million available in our working capital credit facility and the total is $1 billion. We have already drawn 300 million. So we have available to a $700 million.

Q - Tatiana Brikulskaya {BIO 19421363 <GO>}

Great. Thank you.

A - Harley Lorentz Scardoelli {BIO 7283603 <GO>}

Besides, we have a cash position of $1.5 billion.

Operator

The question-and-answer session is closed. We would like to give the floor back to Mr. Andre Gerdau Johannpeter for his closing remarks.

A - Andre Gerdau Johannpeter

Thank you very much for participating on Harley's behalf as well. And if you have any additional questions, our Investor Relations team will be available to you. And I would like to invite you all to our announcement on August 10, the results of the second quarter of 2016. Thank you very much. Have a good day.

Operator

Gerdau's conference call is closed. We thank you very much and thank you for your participation. Wishing you all a very good afternoon.