Q1 2016 Earnings Call

Company Participants

- Romel Erwin de Souza, Chief Executive Officer
- Ronald Seckelmann, Chief Financial Officer and Investor Relations Officer
- Sergio Leite de Andrade, Commercial Vice-President Officer

Other Participants

- Carlos de Alba, Morgan Stanley
- Daniel Sachs, Analyst
- Gabriela Cortez, Analyst
- Humberto Meireles, Analyst
- Ivano Westin, Analyst
- Karel Luketic, Analyst
- Leonardo Correa, Analyst
- Leonardo Shinohara, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen, thank you for standing by and welcome to the Usiminas Conference Call to discuss the Earnings Results of the First Quarter of 2016. At this time, all participants are in a listen-only mode. Later on, we will conduct a Q&A session where instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded.

I would like to mention that this conference call is being broadcast live on the company's Investor Relations website, www.usiminas.com/ri. The earnings release and the slide presentation are also available on that site. Participants who are listening to the conference in English may also ask questions directly to the speakers.

Before proceeding, let me mention that forward-looking statements made during the conference call with respect to the company's business perspective as well as projections, operating and financial targets regarding its growth potential are forecasts based on the management's expectation as to the future of Usiminas.

These expectations highly depend on the steel industry's performance, the country's economic situation and that of the international markets. Therefore they are subject to changes.

With us today are Usiminas' Executive Board, Mr. Romel Erwin, CEO; and Technology and Quality Vice President Officer; Mr. Ronald Seckelmann; Finance And Investor Relations Vice President Officer and Subsidiaries Vice President Officer; Mr. Sergio Leite; Commercial Vice President Officer; Tulio Chipoletti; Industrial Vice President Officer; Nobuhiko Takamatsu; Corporate Planning Vice President Officer; Mr. Wilfred Bruijn-Bill; Managing Director of Mineracao Usiminas; Heitor Takaki; Managing Director of Usiminas Mecanica; and Cristina Morgan, Head of IR.

First, Mr. Romel Erwin will -- with some considerations followed by Mr. Seckelmann that will comment on the first quarter of 2016 earnings results and concluding with the management who will be available for a question-and-answer session. I give the floor to Mr. Romel Erwin.

Romel Erwin de Souza {BIO 17406447 <GO>}

Good afternoon, ladies and gentleman. On behalf of the Usiminas Board here, I would like to thank everybody for their participation in this earnings result conference call of the first quarter of Usiminas. As everybody knows about the economic prospects of the Brazilian market of 2016, therefore, we do know that measures must be taken in order to minimize the impacts. In Usiminas, we always are focused, and during the first quarter, we can mention as our main actions, the industrial reconfiguration with the shutdown of the primary areas of Cubatao plant, the adaptation of personnel and a reduction of G&A, a sale of assets as well. The reduction of CapEx for -- by controlling prioritizing -- control of working capital and reduction of our stocks, which allowed us to improve our results.

We have -- we've made negotiation with creditors that have allowed us to attain the standstill and now the renegotiation of our debt that is already is in an advanced stage that was only possible through the presentation of capitalization proposals by our Board and supported by the General Assembly of shareholders.

All of these fact, the renegotiation of our commitment and the approval of our capitalization are a clear demonstrations of trust on Usiminas from our shareholders and from our creditors as well.

In order to finalize my introduction words, I would like to say that it in beginning of the year, I was in the US and in Japan in to order receive on behalf of Usiminas, international awards from some of our main buyers that certify the quality of our services and products and our capacity to service properly. We continue focused on actions that are able to improve all of our results. As a demonstration of our commitment with our shareholders, with our investors, with our customers, with our creditors, with our employees, and with the communities where we perform. So these adds up to our credibility and the liquidity that give support to all of our businesses.

Thank you very much for your attention. And now I give the floor to Ronald so he can present our earnings results.

Ronald Seckelmann {BIO 3722329 <GO>}

Good afternoon to everyone. Well, you can follow me through the slides and our web -- on our webcast. We will start with some operating and financing indicators. In the first slide, we can see that the steel sales during the first quarter were 25% lower than in the past quarter with a drop registered in the domestic market, and the export iron ore sales as well, they grew 45% during this period and basically the explanation is the window opportunity to export our material, we have a window opportunity.

The adjusted EBITDA after extraordinary effective regarding the sale of power and the sale of asset is back positive accumulating R$52 million in the first quarter. Our net profit evolved positively as well, nevertheless we've seen [ph] a loss, we have a loss of a R$151 million with no effect regarding our administrative matters.

Now, we will go to our next slide. We can see the quarterly evolution of the steel sales, you can see that we've sold less than the other quarters with a downturn in exports and a down -- and we also have domestic market.

And here, we have the evolution of the quarterly results of the steel here. We can clearly see what is the size of the effect of the sale of power, a loss of 37 million, the effect of the write-off of assets, a gain of 72 million resulting in the business, steel business unit, we have a result of R$46 million in adjusted EBITDA better than the former two quarters but we -- there is still room for improvement.

Now, here we see the evolution of iron ore evolution, we can see that the size of this export -- the export of material that was already stocked in one of our terminals and we took advantage of a window [ph] where we combined.

The port operation and relatively favorable prices to feasible asset business. The evolution of the quarterly results in mining, here we can see a slight improvement against the last quarter, still impact by the negative result of the sale of power.

Now, here we see the consolidated EBITDA, it has improved regarding the past quarter. It is clear here the negative effect of the sale of electric energy, the surplus of electric energy that result [ph] in a positive result in the sale and write-off of asset. Here our next, here we can see the result in some of the fronts where we continued focus. One of them is the control of the general expenses and administrative expenses, the focus of our management, as you can see on the upcoming slide, we can see the control of our working capital, we were able to lower a bit our working capital during the first quarter.

And in the other slide, you can see one of the main components of the working capital, that is the steel inventories. These are semi-finished, finished products or -- in our plants that can follow the evolution of them, so we have been able to control our stock and maintain them according to what we see in the market as a whole.

The next slide shows the -- here we have our indebtedness and net growth cash position, a slight improvement in growth and net indebtedness basically because of the effect of the appreciation regarding the portion of our debt that is in foreign currency.

Now, our consolidated CapEx, very low in the first quarter. I would recommend not the figure of the year will be approximately the half of what we had last year as a whole. During the first quarter, it's slightly below what is normal, I believe that it will recover in the upcoming quarters.

And at last, complementing all the comments of Romel, here we have some important events among the standstill agreement with the main creditors' side. Now, on March for 120 days on a capital increase duly approved for R$1 billion and access to Usiminas Mining cash through capital reduction of inter-company loan that is ongoing, debt renegotiation also ongoing and asset sales that is ongoing, and we will continue focusing on these actions.

These are my comments, and we are at your disposal for the Q&A session. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we will initiate our Q&A session. (Operator Instructions). Our first question Karel Luketic, Bank of America Merrill Lynch.

Q - Karel Luketic {BIO 16467278 <GO>}

Good afternoon, thank you very much for answering question. My first question goes to first Sergio Leite, one regarding prices. I believe that the press announced prices as of April and potential prices in May.

If you could give us an outlook what is the strategy regarding the increase of prices, if you have plans in order to increase prices after April and how are the prices in the domestic market before and after exports?

And another question to Sergio as well. Regarding the sales strategy in the domestic market, if we see the sale in the domestic market excluding, for example, plates we have, so the market was stable. If you could talk about what was your strategy for heavy plates and if you will have a reversion of this trend in the upcoming quarters?

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Good afternoon. Your question is highly encompassing. We're talking about price and stocks of the market. Let's start with the prices, okay. From sometime the Brazilian market has been following the international markets in terms of prices, and some years ago, that went up to 2011, 2012 where in Brazil, we practiced different prices that were higher. From three years to four years, prices have followed the international trend.

Now in the past two months, we've seen a significant increase. An example here is the international market. Here, the levels are $260 per ton to 450 per ton -- $450 per ton.

Let's see, our strategy was to follow the variation of prices in the export market compared of course, together with the exchange rate real, dollar where we decided to increase 10% as of April 1, we have implemented this increase in prices, we are negotiating with the industrial sector to implement it in the distribution as we do in our businesses.

Subsequently, we negotiated with the industrial sector, and one, two months later, we actually increased it in the industrial sector. When I say the industrial sector, I am excluding the automotive sector where our contracts are yearly.

Last week, we decided to increase our prices as you mentioned, something came out in the press, so we decided to increase our prices as of May 5 at a 12% rate. And obviously, this new increase in prices also will be negotiated with the industrial in the -- sector. And our strategy is to increase our prices and these are prices that are practiced in international markets like the United States.

For example, here in the distribution, it's about $490 I said, with the increase of 12% goes to a level of 550 -- $560. That is the level that we see in the US market. So this is our strategy, our structure regarding pricing.

Even with an increase of 12% of May, we still have verified that there is a price difference, something that you call premium, negative premium and generally, yes it is negative. I remember that the breakeven point is here 5%.

Now, regarding the market and sales, well, as you just mentioned, in the domestic market during the first quarter, there was a drop of 14% in sales regarding vis-a-vis the fourth quarter. And in our variation and here we have, for example, we had stable consumption of flat steel.

What happened in the market wasn't a drop that could be a surprise during the first quarter of 2016, but yes, there was a result in the first quarter of 2015 as a strategy during the fourth quarter of 2015, we worked strongly in order to increase a -- to stop imports and you have to remember that a market that dropped 8% vis-a-vis the third quarter, the consumption of flat steel dropped 8%, the first [ph] quarter vis-a-vis the third quarter of 2015. And sales grew 70%. So we have an exceptional result on the first quarter.

So if we compare, for example, the first quarter of the year 2016 with the third quarter of 2015, we will have a result that is very interesting that shows us that -- shows us that we're in the right path in terms of the domestic market.

The apparent consumption of flat steel of the fourth quarter and the third quarter of 2015 dropped 8% and our sales grew 0.1% or as I would say, we remained stable. Therefore, our sales always compared to the performance of apparent consumption from the third quarter vis-a-vis the second and the first regarding the third showed better performance than the apparent consumption of flat steel. This is the situation of our sales.

Our sales, I believe, are behaving properly according to our strategy. In the fourth quarter of 2015 were [ph] 8% and our sales increased 17%. So I believe that your question was more encompassing.

Operator

Our next question, Daniel Sachs from Itau BBA.

Q - Daniel Sachs {BIO 16072324 <GO>}

Good afternoon to everyone. Thank you very much for questions. My first question is a follow-up of the former question from Karel. You said that a good part of the price increase in the domestic market is due, because the increase of the ADQ in the international market. My question is, how sustainable do you believe that this price increase will be in the export market or in the international market, because if we take into account, the World Steel Association and (inaudible) the 70% of installed capacity, this is what we -- don't you believe the -- an increase of the ADQ will drop our sales or will drop the price of steel in the international market.

And my second question would be regarding iron ore, therefore you use the window of opportunity and you exported one part of your stock material during the first quarter, and I would like to know what today would be the price, the breakeven price delivered in China? And therefore, with this increase of iron ore that we have seen in the past week, it perhaps you will be able to export iron ore more regularly or more frequently throughout the upcoming quarters. These would be my questions. Thank you very much.

A - Romel Erwin de Souza {BIO 17406447 <GO>}

Okay. Now regarding your analysis, regarding prices in the international market, we do agree with you that two months ago, there was no expectation of an increase of prices in the international market.

We never thought that they would go from $260 per ton to 450 [ph] more over $200 of increase. Is there is a risk in that increase, yes, there is a risk.

Yes, it is an unsustainable risk that we have to wait the behavior -- of the behavior of the international prices. What we can now do in Usiminas is not follow the international trends, and just wait for the price to drop, the market is dynamic, prices go up and down. So this is part of the market dynamic, but your questions regarding the risk are correct and we do agree with you.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Daniel, good afternoon. It's about your question, the exports would -- what I have is the following. We, in March, we had a window of opportunity, a ship left during the month of April. And there is a combination of factors here that involve, not only the price of China, but also the exchange rate, the maritime freight and port tariff. Just for you, to have an idea, the maritime freight or sea freight where it was 65 -- $50, when we close the three deliveries the port cost were below two digits, which made our sales very attractive and the exchange rate was around R$4.

And what we've seen from there till today, has been the -- increasing, iron ore increasing, but the exchange rate has already dropped approximately 10%, 15%. Sea freight went from $6 to $9, to a 50% increase and port cost already went back to the two-digit according to the information that we received from an auction that took place very recently.

So yes, we do have to pay attention to the market, because the increase of the price. It's a good feelings regarding what we may see in the future, but I believe it is very premature to make a decision to shut down a plant. We have four plants in Mineracao Usiminas, we're only working with one plant today in order to reconnect a new plant where we have to hire people and therefore, we will have to initiate other operations. And in order to make these types of decisions, we need a stabilization of the main variables that I just mentioned that are part of export.

So we will continue monitoring the market. Of course, if the indicators are positive throughout a long period, and if we can see sustainability in the near future, we will start producing and exporting more.

Operator

Our next question, Ivano Westin, Credit Suisse.

Q - Ivano Westin {BIO 17552393 <GO>}

Thank you very much for your question. Well, the first question for Romel would be -- Romel, you mentioned during your initial comment, the control of working capital and inventory control. I -- would you like to quantify this and show us what target you have throughout this year?

Now my second question here would be the sale of energy and investments. Here, what can we expect throughout the rest of the year regarding these two points, or these two matters?

A - Romel Erwin de Souza {BIO 17406447 <GO>}

This is Romel, good afternoon. We don't have a pre-established target, we operate as opportunities emerge. This is what we've done throughout this period. Now, regarding the sale of our electric power, we are at the mercy of the market. We have a contract of -- with the electrical power and this contract of electrical power is higher than our needs.

So the alternative that we have here is to continue selling this surplus of this power in the free market. The price and the price of sale is not very favorable for Usiminas.

Now, in terms of the sales of our assets, we are focused on selling non-operating assets, that's the greatest value asset that we have today that is available for sale. And if Usiminas Mecanica, we are still waiting for the presentation of proposal.

Q - Ivano Westin {BIO 17552393 <GO>}

Okay, thank you very much.

Operator

Our next question Leonardo Correa, BTG Pactual.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon to everyone. Now, the first question. For Sergio, regarding the price dynamic in the domestic market. Now of course, the prices follow the foreign market and we've seen an increase of prices in the international market, yes, when we see -- we were lagging behind in price, so there was a difference in prices, if you could talk about the demand of the domestic market that is still there, that we even with the two increases of prices, we are still within discount scenario in the domestic market versus the international market now.

Or -- so I would just like to see how this dynamic will vary from hereon. We are before a new situation where the premium of balance of 5% throughout the time, don't you believe that it should go back to these levels? How do you see the new concept in the industry within the scenario of weaker demand, or is lower than the ideal situation?

And the second point, when we talk about cost, if -- when we see the cash cost of coils, there was a reduction of 2% quarter-after-quarter, this company continues generating a lot of revenue, R$2 billion of revenue per quarter that is high, and with the conversion capacity below its potential, Romel, perhaps if you could tell us how your program to cut cost is right now?

And number of months have gone by after you announced Cubatao, I don't know you have any further information to give us regarding the impact that this has had on the company, and how you see cash cost evolution per ton in the upcoming quarter? I believe that this would help us a lot.

A - Sergio Leite de Andrade {BIO 6771322 <GO>}

Leonardo, now regarding the price strategy in the domestic market, a question that Daniel, Karel made, it follows the dynamic of the international market. When I answered Karel, I told him that the price difference, the premium although with the increase of May 5th, we are still slightly negative, and when the breakeven of 5%, what I can say, if we prevail this difference in prices slightly, that is slightly negative, or below 5%, yes, there is space for an increase in the near future. Now, Daniel mentioned the concern regarding the sustainability of the increase in prices in the international market. What we have to do is to follow the price dynamic of the international market, the sustainability of this price increase of $200 per ton, the behavior of the domestic market as well and what I can state, if we have price differential below 5%, yes, there is still space in order for another price increase.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Good afternoon, this is Ronald. Now, when you said how are we able to obtain more cost performance than we have been able to obtain up to the date. This is a continuous program that hasn't started right now and doesn't have an end. We constantly try to improve our cost performance. I would just like to highlight that during the first quarter, as you mentioned, we carried out an industrial reconfiguration with the shutdown of Cubatao unit. So throughout the quarter, a number of expenses and costs regarding the shutdown took place and then they get mixed with everything that you have seen.

Your other question regarding what we expect from the industrial reconfiguration in Cubatao, I would like to comment something. We are not reducing the production capacity of Cubatao forecast reduction. We are reducing our production capacity in steel because we want to adapt the size of Cubatao to the demand.

So in reality, we carried out a number of operating adjustments and the result is not going to be a cost reduction of the remaining production, we want to export the product that we wouldn't be able to sell in the domestic market are normal cost, our normal cost highly dependent on the exchange rate and raw material, but they're highly dependent on our installed capacity and how we use it.

And as you can see, in all the steel industry in Brazil, the industry is operating at a low capacity, so I believe this creates obstacles to reduce cost sometime.

Operator

Our next question in English, Carlos de Alba, Morgan Stanley.

Q - Carlos de Alba {BIO 15072819 <GO>}

Thank you very much. The question has to do with steel volumes going forward. The product shipments in the first quarter were 903 million, sorry, 903,000 tons, but the Cubatao steel production dropped to a little bit less than 800,000 tons. So how you -- and you had a significant sale of inventory during the quarter.

So how do you see the normalized level of finished steel in the coming quarters? And second is, could you give a little bit more specific about the cost actions and the cost reduction initiatives that the company is following? The company still had a negative gross margin, and yeah, it is going to rise R$1 billion in equity, but unless the company can really reduce cost, you know this is not going to solve the situation. And so could you please give us, given the situation of the company, a little bit more details of your cost initiatives?

A - Romel Erwin de Souza {BIO 17406447 <GO>}

Regarding our sales rhythm [ph], the trend here and production, the trend is to be at the same level of the first quarter. This is the trend, the normal trend that we have for the upcoming quarters.

And Carlos, regarding your question in terms of cost and cost performance, what we can expect in the upcoming quarters in terms of cost as I just mentioned during Leonardo's question, our cost highly depend on the level of use of our installed capacity that continues low, and we have no prospects that this will change strongly in the upcoming quarters. So our initiatives that have already been commented throughout a number of quarters, while we continue pursuing for a higher level of productivity of labor. We are also working in order to improve from the costs and mix of raw material in an environment where we have a weak demand, you cannot maximize volume. What you can do is minimize cost here.

You try to cheaper mix of raw material, a volume, as I said, is very important because we can't do anything against the optimization of lines that we have already done. We shutdown -- loss of heavy plates, we've reduced a site to maximize other types of products. So there is no novelty [ph] here regarding what we have been mentioning for some time. But going back to my main point, volume in the steel industry is still a very important variable.

Operator

Our next question, Leonardo Shinohara, HSBC.

Q - Leonardo Shinohara {BIO 18788974 <GO>}

Good afternoon. My questions are for Bill. Bill, the cash cost of iron ore, 54 this quarter, 55 in the past, I would like to know how sustainable this is? You said that you're operating with one plant because you have other plants to shut down. What is the cost here? And understanding the freight variable in port services, are two things that go hand-in-hand, but I would like to know how sustainable this cash cost is because it seems very competitive.

But second question, a macro question, regarding steel, the price of steel and the -- we have low use of capacity and high price, and also what is the level of prices for iron-ore, and what do you see in terms of prices from here on?

A - Romel Erwin de Souza {BIO 17406447 <GO>}

Leonardo, good afternoon. Now, regarding the cash cost, our second quarter is between R$54 to R$55 per ton. Now the two quarters with only one plant in operation. Now in order to reconnect the second plant, as I just mentioned, this is not an easy decision to make, this involves a number of things, you have to hire personnel, you have to renegotiate terms with suppliers, but obviously if we assume a new plant because of exports, well, this will help us in terms of cost per ton, because the rest of our cost does not depend on the volume.

The highway, the railway [ph] port tariff, all of them are independent of volume, -- cash cost if more participation in terms of scale, but we have carried out a number of activity to review our cost last year.

We've seen the most advantageous situation. So this is what we have practiced and we have been able to maintain this in a sustainable fashion, and it will vary, perhaps not significantly, if we're able to export that it is something that we will be verifying, analyzing throughout the second quarter of this year.

Now, regarding my view of price levels, I would like to say that the changes have been very quick, volatility is high currently, when we decided to export 40 days to 45 days ago, the future curves from the main banks and analysts showed prices below 40.

And now, one month and a half later, the prices were almost 70 during the holiday, going to 65 last week. But when I see from hereon, and I see some movements in the market, something between $50 and $55.

Now, the level of volatility today is so high that an accurate forecast is very difficult to make.

Operator

Geraldo Meloni [ph] our next question (inaudible).

Q - Unidentified Participant

Well, good afternoon. My question would be regarding exports. As you said, the prices of the international market increased strongly, like 50%, I would like to know when will it be interesting for Usiminas to increase the exports -- are your exports when the exports are at the international level prices, would it be time to start exporting?

A - Romel Erwin de Souza {BIO 17406447 <GO>}

Geraldo, with the price scenario of the international market today and with the significant increase of the price of the plate, not only product, well, our strategy is to identify the best niches to our export. As you are aware, in cold coils, hot coils or hot-rolled, cold-rolled, we have the North American market, we're always respecting the best market that allow us to do obtain results, when right now, there is no indicators to lead us to increase production to export. I believe that there is a situation where we will continue in the same levels as we have been operating, at least during the first quarter.

Q - Unidentified Participant

And what about profit of exports today? The profit for exports, it is interesting today, profits regarding exports?

A - Romel Erwin de Souza {BIO 17406447 <GO>}

No, profit at today's prices, I believe is small but positive, so depending on the market, let's say, one of the most important market you can even verify that in our earnings announcement is Argentine market, Mercosur, the margins are very good for the Argentine market, almost equivalent to the domestic market Argentina.

So we consider Mercosur as domestic market, we have more distant markets than you have a logistic costs but you have lower margins. Right now, we are working with markets that present good margin for the current situation in terms of steel, regarding the international market.

Operator

Our next question, Gabriela Cortez, Banco do Brasil.

Q - Gabriela Cortez {BIO 18801371 <GO>}

Well, good afternoon. Thank you very much. I have a question regarding the mining industry. I know that the performance of the first quarter there was better exchange rate and transportation freight. Now is the continuously -- continue favorable from hereon to export mining iron ore, would you be able to have enough products to export. If you would resume one of your plants, how long would it take and how much could you increase to your production if you would have to resume a new plant?

A - Romel Erwin de Souza {BIO 17406447 <GO>}

Gabriela, good afternoon. As I said, it's not an easy decision to make, based on four variables that are very important when you take these -- make these type of decision that is the international price. The sea freight that has been increasing today around $9, the exchange rate that has been dropping that goes against this type of decision and the port costs that is not only a tariff, but it's also the availability of port space. So all of these variables have to be taken into account and have to be favorable in order to make a decision to reconnect a plant, to reconnect or resume a plant.

And for a plant to operate at a full capacity, it could be any of the three plants, it is a process that takes at least three months and can even go up to six months of ramp-up. So this is a very serious decision. So as soon as we have a good level of safety to make this type of decision based on the sustainability of the indicators, well, yes, perhaps we can decide to do this. Nevertheless, this is very premature to say, if we are going to reconnect the plant in the current condition. Let's see what the market shows us in terms of what is sustainable. And then, because we don't want to reconnect the plant to shut it down subsequently.

Q - Gabriela Cortez {BIO 18801371 <GO>}

And what about the performance of the first quarter of 2016, could it be replicated for the upcoming quarters, would you have enough stock for this inventory?

A - Romel Erwin de Souza {BIO 17406447 <GO>}

Gabriela, the exports during the first semester were two ships, 350,000 tons, and another ship that left on the month of April, iron ore was -- iron ore that was stocked. This is production, we had to produce a bit more to complement it, but we have no more stock material to export in the short-term in order to work in the export market from here on. If we would have to reconnect the plant, it would be new production.

Now the expectation, if there would be a possibility during the second quarter because of the price that have increased significantly regarding the average of the first quarter, this would be an improvement in our results.

This is something that we will have in our normal sales of the second quarter.

Operator

Our next question (inaudible).

Q - Unidentified Participant

Good afternoon. I have two questions. The first question, the cost of the debt profile.

Seeing your efforts to obtain capital of R$1 billion and your transaction with MUSA, you have a gross debt of R$7.4 billion, what would be the debt profile? And in this first quarter, you had R$240 million to pay your interest rate.

My second question regarding the profitability of rolled products in Cubatao. What about the analysis regarding the possibility of producing coils in the Cubatao using plates from third-party and the cost of shutting down Cubatao. I don't know, if you have this figure and show what is the non-recurrent effect that we see in the result of the first quarter when you shut down the high furnace in Cubatao. These would be my questions.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Good afternoon. This is Ronald. Now regarding the debt profile, I would like to say the increase of capital that is ongoing right now as well as the agreements of the Usiminas cash position, want to strengthen our liquidity position and not necessarily to drop in the short period our gross debt. And as we commented, we are in a stand still period where we suspended all the principal statements during a 120-days after March. I would like to say that the interest rate and the different spreads that we will have from here on will depend on the negotiations that we have with our creditor.

So I believe that we will not have major changes regarding what just happened or what has happened, and regarding our debt profile. For the cost of our debt, your other question, all the profitability of (inaudible) in coil is different than we would have in a totally integrated production. And it has to be considered -- taking into account the market that we service, and the alternatives that we have in order to sell higher volume.

Well, we only go into operations that are profitable, and minimum, the marginal operation has to present positive marginal contribution, we're talking about profit, taking into account the market condition, but it's not the same profit where we would have a totally integrated production.

But I -- and so why you no longer have integrated production in Cubatao because when you have this, you produce -- and you have to put this production somewhere else, the domestic market instead of growing, it has shrunk throughout the next quarter, the only way was to export and export is less profitable than when you sell to the domestic market.

What we did was temporarily shut down the primary areas in Cubatao and now we can choose and we can only produce and sell to profitable customers.

Q - Unidentified Participant

Another follow-up regarding the shutdown of primary areas of Cubatao, can you quantify what is the non-recurrent effects that we will have.

A - Ronald Seckelmann {BIO 3722329 <GO>}

What we had in the first quarter, it is very little, something that we mentioned in the fourth quarter. Well, practically reflects everything that took place throughout the first quarter. Therefore, this was already expected.

Now, if you were to analyze in detail, our cost statement, you will see that -- but you go to -- from one you displace things, one place to the other, there has been no major effect because of the shutdown of the primary areas of Cubatao.

Operator

Our next question, Humberto Meireles, Goldman Sachs.

Q - Humberto Meireles {BIO 16541842 <GO>}

Good afternoon. I would go back to sales of the domestic market and market share. If we see the first quarter, Usiminas has dropped 14% in the domestic market, if we could broaden this (inaudible) Brazil dropped 15%, Usiminas 21%, I would like to know what is behind this drop, mix, what are the main reasons for this drop in market share in the domestic market.

A - Ronald Seckelmann {BIO 3722329 <GO>}

So, result of 2015, we practically dropped as much as the market dropped. Now, for example, flat steel dropped 20 and we also dropped the same in 2015 regarding flat steel, now this is regarding 2014. Now in 2016, we are verifying during the first quarter in comparison to the first quarter of last year, a drop of 30%, what --

And we have the same market share last year. So according to our analysis, today we are making our analysis during the first quarter of 2016, we have the same market share of 2015, we have not observed a drop.

Q - Unidentified Participant

So what about -- you sold into domestic market to do proxy -- to gain market share.

A - Ronald Seckelmann {BIO 3722329 <GO>}

Our Brazilian steel, for example, is a bit more broader than our analysis -- our Brazil special steel in our analysis, no, we don't consider flat steel as special. We follow the market where we operate, not in the broader market in markets where we operate, we're maintaining the same market share. Now obviously, there was a new player in 2015 -- 2014, 2015 actually in hot-rolled products and this affected us because this player was already in the market of hot-rolled, but we supplied them. So in addition to occupy a space where we were present, this represented a drop of sale for us and we have to offset this drop on sale.

In 2016, we have a new impact, we also have a new player in heavy plate. So of course we are no longer going to sell to this player of heavy plates.

Q - Unidentified Participant

So thank you very much.

Operator

With no further questions, I would like to give the floor to Mr. Romel Erwin for his final statements.

A - Romel Erwin de Souza {BIO 17406447 <GO>}

We would like to thank everybody for participating in this earnings results conference call. We're at your disposal for any questions you may have, and please, you can send all your questions to our Investor Relations department. To everyone, once again, thank you very much.

Operator

Our conference call has come to an end. We would like to thank everybody for their participation. Have a good afternoon. If you have any questions, the Investor Relations team is at your disposal to answer any questions. Thank you very much.