Q1 2013 Earnings Call

Company Participants

- Andre Bier Gerdau Johannpeter, President, CEO
- Andre Pires, VP, Director
- Unidentified Speaker, Unknown

Other Participants

- Ivan Westing, Analyst
- Marcos Assumpcao, Analyst
- Othelo Agea, Analyst
- Renato Antunes, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon. Welcome to Gerdau's Conference Call About the Results for the First Quarter of 2013. At this time, all participants will be in listen-only mode and later on we will initiate our Q&A session. (Operator Instructions)

We would like to emphasize that any forward-looking statement that might be made during this conference call related to Gerdau's business outlook, projections and financial and operating goals, are mere assumptions based on the management's expectations related to the future of the company.

Even though Gerdau believes that its comments are based on reasonable assumptions, there is no guarantee that future events will not effect this evaluation.

Here today are Mr. Andre Bier Gerdau Johannpeter, Director, President and CEO of the company and Andre Pires, Vice President and IR Director. With no further ado, I would like now to give the floor to Mr. Gerdau Johannpeter. You may proceed.

Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

(interpreted) Thank you. Good afternoon and welcome to our conference call about the results for the First Quarter of 2013. We will begin our analysis by looking at the steel market worldwide and later we will refer to Gerdau's performance during the first three months of the year and we will also talk about the outlook in the regions where we operate.

Afterward; afterwards, Andre Pires will give you more details on the company's financial performance and after that, we will be available to take your questions.

It is important to highlight that in this presentation we will evaluate the performance of the First Quarter of 2013, drawing a comparison with the same period of the year before.

Now, would like to give you more details on the world steel market. The main regions of the world, Europe, north and South America, the Middle East and Africa experienced a resolution in their output levels during the First Quarter, with the exception of Asia and particularly China.

World steel production is 389 million tons in the First Quarter of 2013, up 2% when compared to the first three months of last year, excluding China, the world's production was 197 million tons, which was 4% lower vis-Ã -vis the First Quarter in Brazil it was down by 5% reaching 8.3 million tons.

Now, steel production in Latin America without considering Brazil is six four; 6.4 million tons, 18% less when compared to the First Quarter of 2012. The steel production in the United States reached 21 million tons, down 8% when compared to the same period of last year.

Now, talking about the outlook estimates from the international monetary fund, 0.23; 0.3% growth of global GDP in 2013. The World Steel Association also shares a positive view.

World steel consumption this year should be up 3% vis-Ã -vis 2012, reaching 1.45 billion tons mainly after the second half of the year. This is a movement led by the emerging countries, however this growth rate is still below historical levels. And moreover, it is not enough to reduce the excess of install capacity in the world today. To give you an idea, in 2013, 27% of the install capacity of steel in the world will not be used. The historical average is of approximately 17%.

Now, looking at Gerdau's performance in the First Quarter, net income was BRL9.2 billion, in keeping with the same period of 2012, mainly due to an increase in shipment of long steels in the Brazilian domestic market, however Gerdau's performance was influenced by lower demand in Europe and north America, as well as by an increase in of steel imports in Latin America and in the US.

In addition, we had some one off situations here in the period, such as the start up of the plant in India and the deployment of the management (inaudible) in North America and some maintenance strategies. These factors impacted shipments. And as a consequence, we experience a reduction in the dilution of our fixed costs, which in turn affected our margins in terms of operation; operating cash generation or EBITDA was BRL805 million, down 20% when compared to the same period last year.

Now, net income was also impacted this period with BRL116 million when compared to BRL397 million in the First Quarter of 2012. When compared to the Fourth Quarter of 2012, consolidated shipments were up 6%, net revenues were 2% and net income 12%. This shows that despite the reduction in margins here in the period, there is a trend toward recovering Gerdau's performance along 2013.

Investments in the quarter totaled BRL571 million. Mainly investments to increase the production capacity of iron ore and the installation of the coiled, hot roll stretch rolling mill there in the Branco mill and as announced before, for the period of 2013-2017, the company will invest BRL8.5 billion in its still end mining industrial plants.

Now, I would like to talk about the performance in the quarter and the outlook for the Brazil plants. This does not include the specialty steel plants in the country.

In the First Quarter, we experienced 12% growth into the domestic market. The industrial sector and important market for Gerdau showed recovery especially in the areas of energy and agricultural machinery and equipment. In terms of the proven economic outlook, the focused report indicates a 3% growth of GDP in 2013. As a consequence, steel consumption is estimated by (inaudible), Brazil should reach 26.2 million tons, up 4% when compared to last year.

In terms of the main factors service by Gerdau in the Brazil operation. And we are talking now about civil construction, an estimate in the market points to a 1.8% growth in the industry GDP in 2013, which should bring about increases in sales of structural shapes and rebars.

Now, looking in the segment infrastructure projects are happening, despite delays in the construction schedules. The highlights in this segment are the urban mobility projects. So, urban mobility projects for the 2014 World Cup and other projects related to the Rio Olympics in 2016. The civil construction industry is working at a good pace, also the shopping mall segment continues to grow whereas; where as additional projects currently experience a lower pace with potential for growth in the near future.

Industrial GDP however should increase by almost 3% in 2013, according to estimates. In terms of the agribusiness, we should experience 6.5% increase in 2013. In the mid range, one of the challenges of this industry in Brazil is to increase the per capita steel consumption currently at 128 kilograms per inhabitant.

And when we compare to China, it goes over 400 kilograms per capita and in Russia is approximately 250 kilograms per capita.

Now, I would like to talk about North America on slide five, for those of you who are following us on the web. In the First Quarter Gerdau sales ended out Canada and in the US were impacted by a more rigorous winter when compared to the year before by imports of steel in the region and the deployment of the management (inaudible), that in the mid-run will became an important asset in bringing about business.

In the period of analysis, the market did not post any seasonal improvements in terms of (inaudible) prices, which impacted our results. It is also important to say that the US continues to present a gradual recovery of its economy. According to the purchasing managers index, the integer for supply management, it was; it is a good indicator reaching 51.3 points in March, considering that any figure above 50 represents growth.

Now, in terms of non residential construction, we have seen some signs of recovery, even though the recovery is happening at a slower pace than expected. For 2013, the IMF estimates that the GDP of the United States should grow approximately 1.9%, with its steel consumption should evolve to 2.7%, reaching close to 100 million tons.

In Latin America. And this does not include Brazil, there was a reduction of gains in the region, mainly due to increases of steel imports into Latin America, which expedited the industrialization process of the entire production chain.

Now, during the period and the analysis, the market were more impacted by imports of steel in Colombia and Chile, countries where the currency are more appreciated. So there are; it was a good outlook for the economies in the region, considering GDP, some countries should have an increase in their GDP between 4% and 6%, boosting mainly mining for the construction and infrastructure. Our challenge in the region is to increase profitability in this environment of volatility in international prices and also this should impact import prices.

Our main investment in the region is the construction of a new producing mill of structural shapes in Mexico, which should add more value to our product mix. This is an important investment that reinstate our trust in the development of Mexico and in addition, it will allow us to serve our customers better through the replacement of imports of structural shapes.

For 2013 countries in Latin America should reach steel consumption of 44.5 million tons, up 6% when compared to figures from 2012.

Slide six, specialty skills. And I would like to remind you that this includes Brazil, the United States, Europe and India. In this First Quarter, with lower demand for steel in Europe and also some one off adjustments in the inventories, in some service centers in the United states, cause a reduction in sales volumes for Gerdau.

These factors added to the start up of the operation in India impacted the margins of this business, mainly working with the automobile industry in Brazil with production of vehicles grew 12% in the first three months of the year, reaching 828,000 tons. The highlight goes to the segment of trucks with 39% and buses plus 57%.

The outlook for 2013 is sales of Gerdau during the expectation for further growth in the production of automobiles, trucks and agricultural machinery. We will then continue to invest in our capacity in the country with investments in our mills in the state of Sao Paulo.

Now, in North America, we produced 4 million tons. Here I'm referring to automobiles, light and commercial automobiles. 1% growth vis-Ã -vis the same period of last year.

For the remainder of 2013, the outlook is very positive for the segment involving automobiles, light and heavy vehicles and we are still investing in North America to cope with this growing demand for specialty skills.

In Europe the landscape is quite different. The registration of vehicle came down by 10%, going down to 3 million units. And commercial vehicles go down by 11% going to 4,002,000. In 2013 we still foresee a trend towards a reduction in sales volume and a lower activity in the region.

In India, the market should continue to grow but maybe not growing as much as when in comparison to previous years. Currently, we are starting up the blast furnace power generation plant (inaudible) and the rolling mill, all in our operation in India.

Now, I'll go to my final remarks, slide number seven. Take a look at the world steel industry, the main challenge is to cope with the excess install capacity that reached 545 million tons in 2012 and this year should be close to 590 million tons. As I said at the beginning, this is 27% of the total installed capacity. As a consequence, the utilization of the install capacity in the world today is 79%. And in Brazil, it is even lower, being at 71%.

This unbalance between supply and demand stemming from the excess in stall capacity puts more pressure on the margins of the industry as a whole and adds more volatility to the costs of raw materials. Added to that, we must also consider artificial monetary practices of some countries in an attempt to benefit their respective trade balances, which is reflected in an increase of steel input levels both direct and indirect particularly in Latin America and the United States.

On the other hand, the World Steel Association anticipates a gradual return on consumption levels, considering a lower systemic growth of the European crisis, the rebound of the US economy, despite all of the fiscal issues and the stable growth of China, which is currently at 8% in India 6%. It is important to say that other countries in Asia will continue to grow in the mid and long run. For Gerdau, the outlook is also positive.

The; if we look at the markets where we operate, they are showing improvements under demand side, which together will have a positive impact on our performance in the next quarters.

Even considering those very complex and volatile environment. And the mid and long run, we can say that once again we will be able to cope with the challenges and also take opportunities of new investments. We are promoting the very strong integration of raw materials and product sales. We want to reach higher productivity and also to infuse our capacity to add value to our customer.

We; the company is highly committed towards reaching our goals. All of those concepts can be translated into our new; new management projects that will bring substantial benefits to the company.

The grow of who wants to increase our own production of iron ore, we will build shipments and also we have to highlight the start up of the operation in India. In conclusion, I would like to state that where we've continued to work very hard to increase the operating efficiency of our business, to optimize working capital are two current with demand levels and considering the volatility of the market, we will cautiously manage our investment schedule and CapEx approvals.

With all of these initiatives, we should go towards recovering the company's margins, which undoubtedly is our major challenge. With that, I conclude part of the presentation. I will give the floor to Andre Pires. And then I will get back to you again to answer your questions. Thank you.

Andre Pires {BIO 17698724 <GO>}

Thank you, Andre. Good afternoon, to all. For those who are following us on the webcast, we'll start on slide eight. I'll now address the consolidated results for the First Quarter of 2013 and then give you details on each business operation. I will end the presentation talking about our capital structure.

Starting on slide eight, despite a 4% reduction in shipments, net revenues showed a relative stability in the First Quarter of 2013, vis-a-vis the same quarter of last year. This stemmed from a higher net revenue per tons sold. In comparison with the First Quarter of 2012, net sales revenue, RLV, was up 2%, given the higher volumes sold.

Costs of sales grew 2% in the quarter, mainly due to a reduction in volumes sold with a resulting lower dilution of fixed costs. As a result, the gross margin was 10% posting a 2percentage point reduction in the quarter.

Sales, general and administrative expenses, SG&A, increased by BRL35 million in the quarter within the range of approximately 7% of net revenue, climbing to a relative stability.

EBITDA was down 20% in the First Quarter of 2013 compared to the same period of 2012. Looking on the bottom chart on slide eight, we can see that the mid-sector leading to a EBITDA reduction was an increase in the cost of sales. Also contributing at a larger extent are the slight drop in net revenue and the SG&A expense increase.

The biggest negative financial results stems on one hand, from a lower interest income primarily due a lower cash level plus lower interest rates and on the other hand, from higher interest expenses resulting from an increase in gross debt. Thus net income was reduced totaling BRL160 million in the quarter, compared to the First Quarter of 2012, however net income increased by 12%.

Moving on to slide nine. And let's talk about the performance of each business operation, starting with Brazil. Represents a 7% increase in net revenue was given the 5% increase in the net revenue as a consequence of higher growth. Internal market showed a 12% increase.

Domestic sales were highly (inaudible) sales up from finished goods, which are traditionally exported. The domestic market posted a 12% growth in shipments. And 2% growth in net sales revenue per ton where there was a 23% drop in shipments to the external market.

This change in the semi finished goods, combined with a less favorable external market resulted in a reduction in exports. A superior operating performance led to a 24% EBITDA increase in the First Quarter of 2013 compared to the same quarter of the previous year with EBITDA margin expanding from 13% to 15%.

Compared to the First Quarter of 2012, the lower EBITDA and EBITDA margin resulted from maintenance stoppages added to a less favorable product mix. In other words, higher sales of semi finished goods in the domestic market.

Moving on to slide 10, we are going to talk about our operations in North America. Over there, shipments were down 13%, which resulted in a reduction in net sales revenue of 7% compared to the same quarter of 2012.

As mentioned before, higher volume of delivery stemmed mainly from a more rigorous winter in the First Quarter of 2013, vis-Ã -vis the First Quarter of 2012, as well as from the deployment of a new management software and higher imports.

That drove down the EBITDA which totaled BRL148 million in the quarter, influenced by reduced volumes in the resulting lower dilution of fixed costs. However, comparing to the First Quarter of 2012, the EBITDA increased from BRL59 million to BRL148 million in the EBTIDA margin increased from 2% to 5%, stemming from higher volume sales, which is signs of demand recovery compared to the First Quarter of 2012.

As information, some economic indicators such as sales of new homes in ABI continue to signal a rally in the residential construction sector in the coming months.

Moving on to slide 11, we're going to talk about Latin America and I'd like to remind you that we exclude Brazil. Shipments were down 30% in the First Quarter of 2013 compared to the same quarter of 2012, primarily due to the operations in Colombia and Chili where imports increased.

Net revenue in the quarter was stable. When a higher net revenue puts on sold of set reduction in sales. The reduction in EBITDA in the First Quarter of 2013 which was BRL53 million resulted from lower volumes sold and the consequent lower dilution of fixed costs.

Compared to the First Quarter of 2012, EBITDA grew jumped BRL21 million to BRL53 million, where the EBITDA margin grew some 2% to 5%. It is worth highlighting that in this quarter, there was no impact from extraordinarily and non-recurring items as was looking to the First Quarter of 2012, which partially explains the performance.

Moving on to slide 12, I'm going to talk about the specialty steel business operation, where there was a 4% reduction in shipments in the First Quarter of 2013 compared to the same period of last year and a 2% drop in net revenue.

Shipments were impacted by lower activities in Europe and the United States, due to inventory adjustments in the production chain at the automotive industry. This volume reduction was partially offset by higher net revenue per ton sold.

EBITDA reduction in the First Quarter of 2013 which amounted to BRL150 million, resulted from lower volumes sold with lower dilution of fixed costs. And from the consolidation in India which last year was equivalent to the equity income.

On slide 13, we're going to talk about the net debt and liquidity. Net debt on March 31st of 2013 was BRL14.9 billion, of which 18% are denominated in Brazilian reals, 47% are denominated in foreign currency from Brazil. And 35% in foreign currency from subsidiaries overseas. The average weighted cost of the debt ended the quarter of 0.9%with an average amortization period of 4.6 years.

Cash reductions came from December 2012 to March 2013 was due mainly to the services of debt higher weighting capital requirements in investments made during the First Quarter of this year.

The 8% increase in the net debt, gross debt minus cash, on March 31st of 2013, when compared to March 31st of 2012, resulted from the co-option exercised on the 14% stake of (inaudible) in Spain and from the higher working capital requirement in the period.

Talking about working capital. Working capital posted a 3% improved compared to December of 2012, while net revenue increased 2%. And as a consequence the cash conversion cycle posted a one day increase relative to the center of 2012. However, it is important to highlight by working capital that this increase was due to an increase of accounts receivable from clients because the controls were reduced in the average time was reduced by six days.

Growth net over EBITDA ratio and net debt over EBITDA ratio increased over December of 2012. The company expects these ratios to come down in the coming quarters, giving the expectation of better operating results, lower investments to be made if compared to the previous year as well as a reduction in the cash conversion cycle.

Finally, I would like to point out that on April 8th of 2013, Gerdau issued a bond with a 10 year maturity aiming to extend the average payments term of the debt. The amount issued was $750 million, carrying a 4.75% per-year coupon.

Some of these funds have already been used for the service of short-term borrowing and for the advanced payment of working capital credit facilities. As mentioned before many time, we did not want to increase our gross debt.

Finally, to conclude in terms of dividends, we paid dividends of BRL8 million, referring to dividends of the First Quarter; BRL8 million worth of dividends will be paid beforehand to the shareholders of Metallurgica Gerdau SA, referring to the performance of the First Quarter and BRL34 million will be paid to the shareholders of Gerdau SA.

We'll end this presentation and now move to the Q&A.

Questions And Answers

Operator

We will now start the Q&A session. (Operator Instructions) Please wait as we collect the questions. Our first question comes from Renato Antunes from Brazil Resal. Please, proceed sir.

Q - Renato Antunes {BIO 17439917 <GO>}

Good afternoon, to all, thank you for opportunity. My first question has to do with the steel unit in Brazil. If you could perhaps help us understand when we look at the net revenue per ton, the domestic market, there was the decrease in the First Quarter of 2013, you mentioned that one of the effects was the product mix.

Is this really the only driver for this decrease or was there anything else, perhaps a price discount. And I know sometimes your conference calls are the thing but what kind of mix and what kind of prize could we expect for 2013? That's my first question.

And the second question has to do with leverage. Andre mentioned in the last slide about the prospect of reducing the debt levels due to the better EBITDA in cash generation, could you perhaps elaborate and help us quantify two mainlines. CapEx, there was a market decrease in this quarter, perhaps you could tell us what you expect between that in 2013 of the year, that would be interesting.

And also the working capital. You mentioned client receivables and low inventories. Is there any room to improve the current level? Could you help us understand how to quantify this? Thank you.

A - Andre Pires {BIO 17698724 <GO>}

Hello, Renato, this is Andre Pires. Thank you for the question. As for your first question about net revenue, indeed in the First Quarter of 2013 comparing to the First Quarter of 2012, the main impact in terms of the mix, which is somewhat different is how our sales of semi-finished goods we see our share of semi-finished goods in the domestic market.

With that net revenue was impacted. Again, I think that this was a little bit out of the cost that we're normally used to seeing in Brazil.

And so your second question about the debt level, indeed we have a number of leverages; a number of approaches to try to reduce our debt and we're working on it. We talked about CapEx, indeed, CapEx out-weights in 2012 was $1.6 billion for this year. We are working with a CapEx of about $1 billion. So that alone can was cash generation around $600 million and will impact the leverage. There's also work ongoing about future investments that will be made according to the demand and availability.

And as we're working capital, I quickly mentioned working capital in the presentation, although working capital requirements increased in the quarter, we see a higher increase in the clients account while inventories were reduced. So, we have to adjust the working capital to the level of demand. We believe that that will be the impact on the working capital. Thank you.

Operator

Our next question is from Marcos Assumpcao from Itau BBA. Marcos, you may proceed.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good afternoon. My first question refers to the maintenance, or the prolonged maintenance stoppage that you experienced in the first half of the year and how; how much that impacted your results in the First Quarter so that we could have an idea of what the result would be for the Second Quarter, excluding that effect.

And the second question, referring to the product mix, I just try; I'm just trying to understand your strategy. That strategy of pursuing more sales of semi finished in Brazil should continue for a longer period of time. And can you tell me to whom you sold these products please.

A - Unidentified Speaker

Well, about maintenance stops, it's difficult to quantify the impact that I think that we must say that part of a reduction of the EBITDA margin in Brazil was due to maintenance stoppages and the other part was due to cost of sales and; that happened in 2012 and in early 2013. And I think the impact will not be so severe the next quarter.

But in terms of the sales mix, the main reason for this rationing is that looking at the prices in the international prices, it's better to sell domestically rather than export. But we; the fact that we are selling I the domestic market means that we are selling at a good margin.

This is a strategy whereby we will try to avoid exporting at very depressed prices in the international market.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

So, the demand already existed in the domestic market and you were not able to service all these customers or it's a new demand?

A - Unidentified Speaker

Well, it's a recent demand.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Thank you.

Operator

Our next question is from Ivan Westing from Credit Suisse. You may proceed.

Q - Ivan Westing

Good afternoon, Andre Gerdau and Pires. I would like you to elaborate more on your sales and margins for North America, you showed some changes in shipments in the First Quarter. But the margins are still low. Do you expect any recovery and at what level? And, also I would like you to comment on the sales of $117 million of assets. Thank you.

A - Andre Pires {BIO 17698724 <GO>}

This is Andre Pires. Well, North America, in fact we could feel a slight recovery in our margins in the First Quarter. But however, if you draw a comparison with the First Quarter of last year. And I'm sure you are monitoring that closely, scrap is the main reference for prices in the US and the performance is low and its dropping further, that's why the possibility of price conversation is lower.

We are experiencing some improvement. But there is no greater possibility to expand margin further. We are also looking at some KPI or indicators that point to a demand recovery. But this is taking some time to materialize. The fact is that the EBITDA margin is improving and we do believe that the trend is for the EBITDA margin to continue on the improvement path.

In terms of your second question, I didn't understand it quite well because the connection was bad. But I think you were talking about selling of a stake or assets. I think you were referring to the sale of Gerdau's stake in a time or a time plant and the gains were of approximately BRL30 million from this operation alone. The planting up trees or pine trees and that's what we sold. Thank you.

Operator

Our next question is from Thaiggo from Merrill Lynch. You may proceed.

Q - Unidentified Participant

Good afternoon, I have two questions, one about a specialty sales. The average price has been somewhat weaker quarter on quarter. You talk about the spinning effect. Perhaps you could mention a little bit more about possible discounts in the domestic market and what we can expect looking forward from this business unit.

My second question has to do with your current production of ore. What can we expect from now on in terms of growth, could you give us an update please?

A - Andre Pires {BIO 17698724 <GO>}

This is Andre Pires. In the specialty steels, the two main effects here were lower activity in Europe, our operation in Spain and there was also an effect, Thaiggo, of some inventory reductions in North America. We believe that this is a one time off effect because if we look, the manufacturing of (inaudible) continues to be very strong on; in the US, 1.5 million units were expected for this year.

And like I said before, with the reduction of the price of scrap, that pushes down the number a little. But these are some non-recurring events and there's a third sector, which is the accounts consolidation in India in the end of last year, it was to be posted as the equity income, we had a pre operating activity, pre set up and that obviously impacts the activity of specialty steels.

And so the second question will have no strategy whatsoever for discounts in the domestic market. I will give the floor to Andre to answer your question about mining.

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

Hello, this is Andre. About mining, we should produce 6.5 million , 7 million tons to supply the domestic market and increase by 1.5 million tons; that is our forecast and we expect the production to increase year on year. We have two shipments already for the Second Quarter of iron ore.

Q - Unidentified Participant

Any follow up to my last question -- what is the volume that you expect for 2014, to export iron ore and what about the logistics for exports?

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

Well, we will have the capacity in the middle of the year of 11.5 million per year with a start of up of a new plant with capacity in the second half and beginning of next year should be achieved. That would be 6.5 million, 7 million production and the 4.5 million of capital would be exported.

As to the logistics solution, we are negotiating with the existing parts; the negotiating solutions for the short and medium term. We have (inaudible) the part. We are working on basic engineering, conceptional engineering, provided we can have a more midterm solution.

For the short term we rely on investments to be made by volume and we expect more longer term contracts to be resolved.

Operator

(Operator Instructions) Our next question comes from Mr. Renato Antunes from Brazil Resal Please proceed sir.

Q - Renato Antunes {BIO 17439917 <GO>}

Thank you for the second opportunity to ask. I have two quick questions. If you could talk about the scrap market in Brazil, how do you see the scrap market in Brazil? Can you move to increase exports? Is this a concerning for (inaudible) don't have scrap?

And the second question is, could you give us an update for the rowing mill , what is your expectation in terms of volume of this rowing mill?

A - Unidentified Speaker

About the scrap, there's a big debate about this. If I have enough scrap to manufacture steel -- we have; or we have been following the trend, there is scrap according to price and availability in the region and for exports it should have been growing, not markedly. But has been growing. So we are assessing this against our strategy because today will (inaudible) scrap because we cannot have a shortage of scrap and sometimes you have to use the scrap to have balance the situation.

This is more like the situation that we'll see in the market. That's why the coiled hot rolled strength to rolling mill, we are now completing the tests since the beginning of the year, we've been testing it. So we are doing our installation supplying the software to do the cold test. And then the hot test until we have this started, most probably by mid-June; and sales starting in the end of July and we expect to deliver 200,000 tons. Most of the deliveries will probably go to the domestic market. Thank you.

Operator

Our next question comes from Mr. Hobo from JPMorgan. You may proceed, sir.

Q - Unidentified Participant

I only have one question and I think it's a question that will answer the questions of others. The other; the previous quarters underperformed when compared to the historical results of the company, how comfortable are you in terms of the Second Quarter looking at the figures? Do you believe that it will be an upwards trend? So this is my main question.

A - Andre Pires {BIO 17698724 <GO>}

Hobo, here is Andre Pires. Our expectation and the Second Quarter is that the Second Quarter will be better, we are working towards that end, we are managing the company bearing that in mind. In March was significantly better when compared to February. In

March we also have some seasonal impact. But we experienced a significant improvement, therefore we do believe that we will see a better landscape next quarter.

Demand is quite sound and we have more stability in the market so our expectation for the Second Quarter not only for the Second Quarter but also for the remaining months of the year is that we will have better results, especially comparing this quarter with the previous quarter of the year before.

Operator

Our next question comes from Othelo Agea from Goldman Sachs. You may proceed, sir.

Q - Othelo Agea

Thank you for this opportunity. Could you please tell me more about the semi finished product because; and how they would impact your March modeling, given that cost and price are way below your sales numbers. Can you please tell me how many hundred thousand times (inaudible) in terms of slabs, just so that I can have a more precise model for the future and learn more about the domestic market.

And the second point has to do with your comment related to the coil hot roll strips rolling mill, do you believe that also and clearly in the situation for Brazil for specialty skills, when do you expect the start up of the new plant to begin?

A - Unidentified Speaker

Thank you.

A - Andre Pires {BIO 17698724 <GO>}

Marcello, this is Andre Pires. In terms of semi finished, we do not have any specific strategy and we do not review numbers related to volumes. We try to take opportunity, we try to benefit from the market opportunities as we've been doing and we see better opportunities to operate now in the domestic market rather than export. So therefore this is a very; a very momentary situation.

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

This is Andre, on the slide four, when you look at Santa Cruz mill that should start up in August of 2014, in green; the green line is specialty steels form the mill in Sao Paulo in 2013 called hot rolled strips should start up in June of this year and these are some of the main events. I don't know whether I left anything behind?

Q - Othelo Agea

No, you just answered correctly. I just want a further clarification on Andre Pires response. So what about Altamenas capacity? I think you're operating below your capacity. I just want to understand your strategy to transfer your operations from the external to the domestic market. So you're operating below your capacity, is that right?

A - Andre Pires {BIO 17698724 <GO>}

In fact, we are operating slightly below. But there is some slack and so there were; there was the opportunity to sell to the domestic market. So we took advantage of that. There are two factors here, there are better margins in the domestic market. And also we have some opportunity to expand our domestic penetration. Thank you.

Operator

Our next question comes from Thiago from Citi Bank. Go ahead, sir.

Q - Unidentified Participant

Thank you for the opportunity. I have one follow up question about the situation in India. When do you expect the ramp up to happen? Do you still expect an impact of the start up costs for the Second Quarter? And my second question was did you work specialty steels, how do you see the test performance in the coming quarter? Thank you.

A - Unidentified Speaker

Well, in India, all equipment is operational. In that (inaudible). So we can see that everything is working and now we have the learning curve. So in the First Quarter we have a minimum production and the ramp up should happen throughout the year. But the results will only become stronger next year when we have a higher production speed next year should be producing about 150,000 tons around that. And that's when we're going to start breaking even and generating cash.

It's difficult to give you a deadline. But this is what we expect. This is what we envision that will happen.

Your second question, Thiago was about specialty steels, could you ask that question again? Where you referring to a specific region?

Q - Unidentified Participant

Well, not really, I was just wondering about the situation in Brazil, the flat steels industry has considered a price increase of the automotive industry and how do you see the market outlook for specialty steels in the automotive industry in particular? Do you expect a price increase?

A - Unidentified Speaker

This is (inaudible). As you know, Thiago, we don't talk about prices and what we can tell you is that the demand in the industry remains overheated. Andre in the presentation talked about an increased in the truck, bus, in agricultural machinery segments in the First Quarter of 2012, we had a record recall manufacturing. So this is what everybody sees and we agree that there impacts a demand increase. But we never comment on prices.

Q - Unidentified Participant

Thank you.

Operator

I would like now to turn the floor over to Mr. Johannpeter for his final remarks.

A - Andre Bier Gerdau Johannpeter {BIO 1925562 <GO>}

On my own behalf and on behalf of Andre Pires, I'd like to thank you for your interest and for your questions. And if there are any questions our investor relations department remains available to all of you, as always. And I take this opportunity to invite you for your next conference call on August 1st to talk about the Second Quarter of 2013. Thank you, have a good day.

Operator

This concludes today's Gerdau's conference call. We thank you for your participation. Have a good day.