



Vardhman

VARDHMAN SPECIAL STEELS LIMITED

Delivering Excellence. Since 1965.

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN SPECIAL STEELS LIMITED – Q1 FY23

Sir,

Pursuant to the provisions of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call of the Company held on 26th July, 2022 to discuss the Company's business and financial performance for Q1 FY23.

Kindly note and display the notice on your notice board for the information of the members of your exchange and general public.

Thanking you,

Yours faithfully,
FOR VARDHMAN SPECIAL STEELS LIMITED


(Sonam Taneja)★
Company Secretary

YARNS | FABRICS | THREADS | GARMENTS | FIBRES | **STEELS**



“Vardhman Special Steel Limited Q1 and FY23 Earnings Conference Call”

July 26, 2022



MANAGEMENT: MR. SACHIT JAIN - VICE CHAIRMAN AND MANAGING DIRECTOR, VARDHMAN SPECIAL STEELS LIMITED
MR. SANJEEV SINGLA - - CHIEF FINANCIAL OFFICER, VARDHMAN SPECIAL STEELS LIMITED
MR. R.K. REWARI – EXECUTIVE DIRECTOR, VARDHMAN SPECIAL STEELS LIMITED
MS. SOUMYA JAIN – VARDHMAN SPECIAL STEELS LIMITED
MS. SONAM TANEJA – COMPANY SECRETARY, VARDHMAN SPECIAL STEELS LIMITED
MR. SUMAN CHATTERJEE – INDEPENDENT DIRECTOR

Moderator: Ladies and gentlemen, good day and welcome to Vardhman Special Steels Limited Q1 FY23 earnings conference call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should we need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shreya Manivannan from IIFL Securities Limited. Thank you and over to you mam.

Shreya Manivannan: Thank you, Neerav. Good afternoon, everyone. On behalf of IIFL Securities, I welcome you all to the earnings conference call for the Q1 FY23 for Vardhman Special Steels Limited. We are pleased to have with us Mr. Sachit Jain – Vice Chairman and Managing Director and Mr. Sanjeev Singla, CFO. We will have the opening remarks from the management followed by a question-and-answer session. Thank you and over to you sir.

Sachit Jain: Shreya, Thank you. Ladies and gentlemen welcome to Earnings Call. With me, our new ED of the Company – Mr. R.K. Rewari, our CFO – Sanjeev Singla, our Company Secretary – Sonam. We also have with us our one of our new board members, Suman Chatterjee, who is joining the call. He is based in Gurgaon and my daughter, Soumya is also on the call.

So, a lot of us from the Company’s side and as before, we will start with a few comments in the beginning, but as you know, the large part of our concall is mostly questions raised by you that we will answer, but let me share with you that we had a very special quarter, which just went by, why is it special? In many ways, the most important way in which I would say this special is we have a really strengthened our Company board. So, we have four new board members, Mr. Rewari I already talked about who’s new Executive Director (ED), he joined us as the Chief Executive in February and now he is ED in the Company. He has about 40-years’ experience and 30 years of that is with our group and I worked with him very closely, when I began my career in setting up the operations in Vardhman Textiles.

We have three other directors that I would like you to into to introduce you to one is Ito San from Aichi Steel Division, Ishigami, the earlier president of the Steel Division has retired and Ito San has come in his place and Ito San is a steel man, but he also has a lot of forging experience and he was head of MD and president of Shanghai Forging. So, he has got forging experience as well as a China experience and he will be a very good addition to the board and two new independent directors – Mr. Suman Chatterjee who is on this call, he is an IIM Ahmedabad graduate 1989. He started with Levers, became the MD of Levi’s India and was the MD of SC Johnson India and Chief Revenue Officer of Lenskart, now he is an independent consultant, and he happens to be a batchmate of mine that is on side but his main core expertise is marketing. Of course, general management after that. The other board member who has joined us is Mrs. Vidya Shah. She is from the Edelweiss group. Her career is in Finance. She is also an MBA from Ahmedabad, same batch as ours 89 batch, has worked at ICICI Investment Banking and few investment banks, and then of course, Edelweiss, since it was founded. She was the CFO of Edelweiss and now she is the head of the Edelweiss Foundation. So, her expertise is finance, as



well as the CSR, NGOs and so on so she is going to be sharing our CSR committee in addition to being a board member.

So, with the addition of these board members introduction, let me also share why else this quarter was special. We have had record production, record sales for the first time, we crossed 50,000 tons actually 52,000 tons of sales. We had record profits after tax of course & moved towards the new tax regime of 25%. So, that is the main reason why we got record profits, but within the quarter in one particular month, we have hit 19,000 tons of sales. So, you know, this shows that the Company's ability to sell and of course, production has kept max, we had record production in our SMS, in our rolling as well as Bright Bars so all around the Company has functioned well.

So, I wanted to thank my colleagues who are very few of them are here, but Mr. Rewari as the head of all our operational team is here. So, on your behalf, I mean he's here on behalf of the team. These are the main reasons why it was special. If you recall, some of you who were there in the earlier call, in the previous call and said there is this year is totally unpredictable. We have no way of giving any forecast, so except for this year all forecasts are out, volatility was crazy. Ingot prices range from 38,000 at the low to 63,000, in the middle, came down to 42,000 went back to 52,000. So, there was no way of predicting when to buy, when not to buy, when to stop, when to hold, so it is an absolutely crazy quarter, I have never seen something like this in my 30-year career and when the price negotiated the OEs happened. We have got price increases from most of the OEs, some of the OEs are still not settled, but most of them have settled. So, Rs. 9000 is the common increase most of the OEs have given for this quarter, our expectation was higher. We were expecting between 12,000 to 15,000 and we deserve that, we deserve 15 we are expecting 12,000 to 15,000. The OEs haven't given that because the sentiment of the steel industry changed on the 21st of May, when the government changed the rules of doing business of steel in the country by imposing a 15% export tax on steel.

Now this tax that we understand is temporary, how temporary it is and till when it is we don't know, but for the moment it disrupted the steel pricing, change the sentiment drastically as steel prices crashed and therefore the OEs could manage by giving us a lesser increase and was perhaps due to us. In addition to Q1, we have also settled Q2 for most of the OEs. So, there has been a price reduction of Rs. 4000 per ton for Q2. Of course, the raw material prices have also come down in Q2. So, a reduction was warranted perhaps not to the extent that the OEs have managed to get away with this. So, this is the overall scenario.

Our EBITDA per ton is within the Rs. 7000 to 10,000 range that is in the normal range. It is lower than Q1 of last year, which was over 12,000 and this year, it's about 9800 or something. So, around that figure. So, it is within that range and we do believe that despite the uncertainties continuing because of fluctuation raw materials continue and the lesser than what we deserve increase, we will still be able to maintain our EBITDA per ton for the full year between the range of 7 to 10. Demand continues to be robust, cars are strong, motorcycles are medium, so are tractors and commercial vehicles but really cars are strong.

So, overall, on that front also we believe that we would like to up our target of earlier we had announced that last year 173,000 tons, this year 180,000 tons, but we believe now we would like to target 190,000 tons maybe 195,000. But let's say 190,000 tons with hopefully an upward bias from that, but that is what we'll be targeting for this year. So, these are the overall update, a specific positive event. I want to share that as you are aware that you're looking at environmental approvals for our expansion of the existing plant, we got the central environment approval. We needed the consent to operate from Punjab Pollution Control Board, I am happy to share with you that that has also been received by the Company and which means of course subject to our fulfilling all the conditions, which in our opinion will be done by the end of December this year, maybe even earlier than that, but by December surely all the conditions were met. So, the point is, it is now in our hands, it is not in governmental bodies hands to get the approval. These are the general opening remarks at this stage and we will wait for your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Umesh Gupta, individual investor please go ahead.

Umesh Gupta: Our EBITDA guidance is 7000 to 10,000 per ton? So, my question is why is it such a wide range in guidance? Like from the bottom end to the top end there is a difference of 40%? Why I am asking this is there is a Company in structural tubes business and they also EBITDA guidance per ton only, but there is a difference of only 10% and their raw material is also steel only. So, this is my first question.

Sachit Jain: Okay, so maybe they have a better grip on their Company and they can predict exactly what numbers will come. We maybe don't have that strong end operations that we cannot predict exactly. There are so many variables out here, so many fluctuations happen and the a price negotiation which happens, there is not a mathematical formula that the cost goes up and automatically the price will increase by that much. So, there's a demand scenario, there's a government uncertainty which comes in. For example, there is a sudden government policy which came in has suddenly shifted the price increase that we were going to get dramatically which has changed the EBITDA that we would have got for Q1 and then for Q2 also because the reduction would have happened on a on a higher base, so, there are so many unpredictable out here that is difficult to predict and other Company may be in a pure conversion business where it is possible for them to predict exactly and they have set formula with which prices change. So, I cannot comment on another Company, but in our Company, there are too many variables. So, this is why the range will be there.

Umesh Gupta: Okay, sir my second question is, in this quarter, we have got a 42% increase in our revenue in that 42% increase, 2% is on account of the value-added product. So, I mean, what kind of product are these and is this 2% going to increase in next quarters or in next year, I mean, in the long term.

Sachit Jain: Yes. So, in the next three years is 2% is going to become and 2% is not total, but it's the shift. So, we increase in margin because we already have what a value-added products. But 2% is the shift, is the increase in the turnover because of the value-added products. So, please do not think

it's just 2% of the entire Company's sales, but to share with you that we have already said in public and said it several times Aichi's business, our partners for some of you joining the call for the first time, Aichi Steel Corporation of Japan, which is part of Toyota group is our JV partners and they expect to source between 30,000 to 50,000 tons per year in three years' time. So, maybe by 24 or 25, there will be a maybe a spillover, but by 25-26, we expect, I think 24-25, we should get between 30,000 to 50,000 tons will be sourced by Aichi itself. In addition to Aichi there are other Japanese OEs that are approaching us and other tier 1 suppliers of Japanese OEs that are approaching us independently because they know with Aichi coming in, our processes are going to become much stronger. So, those kinds of inquiries coming in, we see this figure of 30,000 to 50,000 tons in my opinion, will actually cross 50,000 tons as a total. So, today as of now the sales are minuscule. So, the big chunk is going to happen in the next three years, starting this year itself. So, starting already approvals from Toyota has started coming. So, already mass manufacturing for some parts has begun. The every quarter we will have more products coming online. So, the mass manufacturing of Toyota products is going to be increasing every quarter.

Moderator: Thank you. The next question is from the line of Ritvik Seth from One-Off Financial. Please go ahead.

Ritvik Seth: Sir I had a few questions. Firstly, what would be the production for Q1 FY23.

Sanjeev Singla: So, let me share the numbers it is the 54,000 tons of billet production and about 47,000 tons of rolled production

Ritvik Seth: Okay. So, I would assume that we would have sold 5 odd thousand from our inventory and that means our inventory which had increase at the end of March.

Sanjeev Singla: Yes you are right, partly it is from the inventory and partly it is from outside rolling.

Ritvik Seth: Okay from outside rolling also.

Sachit Jain: To answer this question, yes inventory levels have come down partly. So, sales are partly from inventory and we also do outside rolling for certain products. So, partly products come from that.

Ritvik Seth: Sir connected question to this is what will be the net debt after June at the end of June 2022.

Sanjeev Singla: 180 crores.

Ritvik Seth: 180 crores okay.

Sachit Jain: And to share with you the current net debt is higher than what it should be. The reason for that is because we had higher priced inventory which is getting eaten up because raw material was higher in Q1 second the price increases for the OEs happened in July okay. So, the 9000 rupees

is a big chunk and the invoicing of that has begun to happen now and therefore, those amounts are lined as outstanding. So, roughly over 30 crores is extra outstanding just because of the price increase and therefore the debt is higher because of that to that extent, so, you will see these numbers normalizing by Q2. So, Q1 actually we had a net negative cash flow despite having record profits, the cash flow is negative for Q1, but Q2, by end of Q2, we will be back to normal limits. End of the year our net debt levels will be below 100 crores.

Ritvik Seth: Right right as inventory. Okay sure got it. Okay. So, and you mentioned that we have received the final regulatory clearance from the Punjab Pollution Control Board. So, should we assume that our brownfield expansion is on track and should be completed by Q4 FY23?

Sachit Jain: No. See there are there are several parts with this brownfield expansion. One part is the furnace part increasing the production of the melting. So, that part is completed. Second part is the environmental parts which we said will be completed by December. Third part is rolling mill, that will be that will take some more time, and then fourth part is some additions to the rolling mill which will increase our production further improved quality and so on that will take still further time and then there is the quality the NDT, the Non-Destructive Testing line which itself is a big chunk of investment, which will also take something like two years, one and a half to two years from now. So, there are several parts to it. The point is capacity now is no longer a constraint for sale for the next two years. Okay. So, as the market demand picks up, we have the ability to service the market through our internal sources and through a bit of outsourcing.

Ritvik Seth: Okay. Okay. So, if there is demand, you know, earlier, capacity expansion was to be completed by Q4 FY23, which would have increased.

Sachit Jain: We never said that. We have always said the melting will be done first, the rolling will take a little longer, and the rolling has got delayed because as you're aware that because of this global supply chain issues, the supply from all equipment manufacturers has got delayed. So, it's for that reason, otherwise, you are right, that by end of this year, we were expecting our rolling mill expansion to also have got completed. It will take one year more, but we have been able to improve our productivity of our rolling mill. So, the rolling what I am seeing very clearly is capacity is no longer a constraint for sales.

Ritvik Seth: Okay, so if there's a demand of say about 230,000 to 240,000 tons in the market, then we will be able to.

Sachit Jain: Next year we will be able to match to 230 to 240. If that demand happens that level, we will be able to meet that demand. I am not expecting that kind of demand. So, let's not someone get a wrong impression.

Ritvik Seth: Right. So, that will be from debottlenecking and then some rolling outside as well, right?

Sachit Jain: And then sometimes the billet is from outside. So, we are able to do all those things sometimes to meet servicing requirements and so on.

Ritvik Seth: Okay. So, sir in last couple of calls, you have mentioned that, you know, there could be some update on the Greenfield CAPEX, you are expecting Aichi representatives to come to India and so, you know, would you like to highlight anything on this or.

Sachit Jain: Things are still being discussed. So, I am afraid nothing is going to be announced very soon. The good part of Japanese is they are very thorough in the work that they do whatever when it is decided everything is decided together, we will come up as a absolutely world class plant. So, no update as of now, but the fact is everyone in Aichi understands that we will have a capacity problem in 24-25.

Ritvik Seth: Sure, sir this last point you mentioned as scrap prices are very volatile in Q1 FY23. So, you know, they have stabilized now and you know with this increase and then subsequent decrease in prices, you think that any fluctuation has been taken care of.

Sachit Jain: You see I am not a soothsayer I cannot forecast where commodities will move. The best of world experts fail in predicting commodity movements. So, I will not even try to venture in that area, but just for the information of everybody out here since we do not have very high stocks of raw material. Normally we don't. So, we take raw material based on the market prices of that particular point. Once in a while when we see a massive arbitrage that we saw last year, then we stocked up heavily on local raw materials. But those kind of opportunity will come once in a while when it is a clear arbitrage from trends that you see and we did that we took advantage of that. Similarly for graphite electrodes, we saw at the level of graphite electrode prices that were available, we stocked up for one year on graphite electrodes. So, it was a big call, I took, a big increase our inventory, but also gave us benefit as a Company in terms of lower graphite electrode prices than the market prices. So, once in a while, we will take that kind of call, but that is not the way we do business when a clear arbitrage is visible, only then we do it because we do not want to speculate on prices of raw material.

Moderator: Thank you. The next question is from the line of Devang Shah, retail investor. Please go ahead.

Devang Shah: First of all it's the first time I am also tracking the Company. Mujhe ye janna tha two wheelers ka or four wheelers ka exact kitna weightage hai sales ke ander. So, either much more dependency four wheelers main hain ki two wheelers main hai abhi.

Sachit Jain: Dekhiye dono ka lakhbhag aas pass hai, two wheelers ka 30-32% ke aas pass hoga yeh quarter to quarter badalta rehta hai aur four wheelers ka 37-40% ke aas pass hoga but trend agge chalte hue clearly four wheelers ki taraf hai. So, trend clearly four wheelers kyoki sara jo Aichi ka business hai sara jo export ka business hai jiski main baat kar raha tha wo sara four wheelers ka hai. So, aage chalkar four wheelers ka 50 to 60% hone ki sambhawna hai.

Devang Shah: Okay, second query yeh tha, ki exactly precisely humare competitors kaun hai listed main kyoki jaise main dekhte ja raha hu so humare competitors, peers kaunse honge?

Sachit Jain: Exactly koi bhi nahi hai.

- Devang Shah:** Okay, exactly but nearby 50-60% yah 70% weightage aata hoga.
- Sachit Jain:** So, nearby agar dekha jaye mere hissab se Mukand. Mukand wo jo Sumitomo Mukand jo ho gaya hai so wo wali Company. Sunflag. So mere hisab se wo humare sabse kareeb honge. Market ke hisab se ye dono hi hai.
- Devang Shah:** Sir jaise like business aur hum log view dekh rahe hai, so currently stock main aapka raw material hua steel, steel is your raw material.
- Sachit Jain:** Nahi nahi steel nahi, scrap humara raw material hai.
- Devang Shah:** Sorry, haan scrap hoga. So, now agar OEMs ko aapko milna hai auto companies ko so do you take three months or six months they take the call for the price hike. So, recent correction aaya to bhi cannot benefit a lot from that, either on inventory was there to inventory at par ho gaya ki OEMs ko aapko rate hike kar ke diya so you got the sales and you got the figures? So, I just want to know like how much inventory Company rakhti hai to consider ki is quarter ka ki three months ki inventory rakh kar aap workout karte ho the OEM se. Kaise karte ho?
- Sachit Jain:** So, cycle aisa hai ki har OE alag alag tareeke se kaam karta hai so kuch OE hai jo formula base se kaam karte hai par har ek koi averages ki baat karta hai, koi teen mahine ke average pricing leke chalta hai, inventory ka decision kisi Company ka hoga ki inventory rakhe ya na rakhe. So, OEs jo hain aam taur pe jo quantum of increase hai wo same dete hai puri industry ko. So, Maruti agar price increase dega to ek category ko dega, alloy steel bars ko agar price increase dega so agar Rs. 9000 ki price increase di hai to sabhi ko Rs. 9000 ki price increase dega, aapki cost jyada badi hai ya kam hui hai usse faraq nahi padta. So, industry main negotiation industry wide chalti hai.
- Devang Shah:** So, that would also take three to six months 6 maheene to lete honge na meeting ke liye.
- Sachit Jain:** No no. Kyonki har quarter main badal raha hai to aamtor par ek dedh maheene main ho jata hai, is maheene main volatility itni jyada thi to kisi ko samajh main nahi aa raha that ki kis basis pe calculate kiya jaaye. So, yeh unprecedented tha ki jo July main ja kar settlement hui hai aisa bahut der baad dekha hai maine.
- Devang Shah:** Aur sir aapka interest of the best quarter kaunsa hota hai quarter 1,2,3, 4 main se dekha jaaye to.
- Sachit Jain:** Aisa kuch nahi hai aam taur pe Q2 best hona chahiye demand ke hisab se kyoki OEs main stocking up chalti hai Diwali ke sales ke liye. To base point of view se aam taur pe Q2 best hona chahiye. So, 52,000 tons humara Q1 main ho gaya to aap bolenge to Q2 aapka best hota hai aap keh rahe ho so Q2 main humare aam expectation 52 ke upar hone chahiye to aisa nahi hone wala.
- Devang Shah:** Okay, second yeh puchna hai ki agar aapke liye beneficiary mostly kya hai beneficiary for this Company ki steel ke price lowest rahe to acha hai or highest rahe to acha hai ya to autos main



demand ache rahe to acha hai. Agar mereko categorize karna hai to Vardhman Special Steels hai.

Sachit Jain: Aam taur pe. So, bilkul acha question hai aapka, humare liye best hai ki steel main manda na ho aur teji bhi nahi ho.

Devang Shah: Flat rate ho.

Sachit Jain: Steel flat chal raha hai aur auto demand achi ho wo best scenario hai.

Devang Shah: Woh best scenario hai kyoki auto demand is at the biggest is because the plants 100% pe work hi nahi kar rahe abhi. They are working on 70-80%, to steel kam ho gaya aapke liye.

Sachit Jain: So, steel manda ho gaya. Steel manda demand ki wajah se nahi hua. Yeh sarkar ki jo policy aaye hai 15% export duty lagane ki usse manda aaya hai. It is an artificially induced manda aur policy jaise ki sunne main aaya hai ki yeh temporary hai aur agle kuch maheene main hat jayegi so jo steel main manda jo aaya hai, mande se normal main aa jayega ye teji main aayga. I believe yeh Seshagiri Rao jo JSW ke MD ki statement aaye hai ki Q3 main wo strong demand expect kar rahe hai wo badi Company hai wo jante hai hum unki follow karte hai. Agar Seshagiri Rao ke rahe hai ki steel main cheeze theek ho jayengi to hum bhi yahi manenge. I presume ki unhone bhi ye anadaza lagaya hoga ki ye export duty hat jayegi but again mere ko koi andaza nahi hai main to unki statement dekh ke anadaza laga raha ho so mera naam nahi aana chahiye ki Sachit Jain ne

Devang Shah: No, we don't want to speculate, I understand ki wo speculate nahi karna hai but mereko bhi samajhna hai ki agar Vardhman Special Steels ka price yaha se double hoga three times hoga ya five times hoga to kaunse scenario main auto main teze hone se, steel ki teze or mande se so thoda sa to humko view aaye ki yeh industry ko ya aapke stock ko dekhna kaunse scenario main theek hai.

Sachit Jain: Auto main teze so sir app ek usme factor aap bhool gaye ke hamare yaha pe ek bada business jo aane wala hai wo export ka hai wo auto ki na teze se farak padta hai na mandi se farak padta hai.

Devang Shah: Okay so but that is going to come after 2025

Sachit Jain: Nahi 2025 main aa jayega yeh to har saal ab aana shuru ho gaya hai wo part aana shuru ho gaya hai humara, agle saal se.

Devang Shah: Aichi main jo sale kar rahe ho wo. So, that what you're selling to Aichi?

Sachit Jain: So, agle saal se nazar aana shuru ho jayega.

Devang Shah: So, from next year. So, from next year, so, that will be how much the proportionate ratio of the sales.



- Sachit Jain:** That is a small proportion. So, from next year uska impact aana shuru ho jayega, we will not be sharing yearly hum kitna.
- Devang Shah:** 5% 10% to abhi ho raha hoga na to itna conviction se bol sakte ho.
- Sachit Jain:** Abhi to start hua hai, I mean abhi to juma juma wo paida hue hai to abhi to crawl karna shuru hua hai baby aap bhagne ki baat kar rahe ho?
- Devang Shah:** No, no sir I am just looking to.
- Sachit Jain:** Abhi toh start hua hai.
- Devang Shah:** Sir aapki Company specializations business main hai so kahi na kahi to aapke paas powering ki beneficiary hogi because very less Company aapke competitors hai aapke paas less companies compete karne main hai aapke paas unorganized marke hot hog.
- Sachit Jain:** Phir main explain kar do jo yeh competitors kam hai wo business ke liye jo pricing decide hoti hai market main uske kayo aur players hai usme JSW bhi aa gaya Tata long products bhi aa gaya, Jayaswal NECO bhi aa gaya, Kalyani bhi aa gaya, so kai aur players aa jate usme, Arjas bhi aa jata. Hum aise industry main nahi hai ki khali teen log decide karte he ki kya ho raha hai. Competitor matlab so ek dusre ko substitute kar sakte hai with less effort wo sirf teen players hai.
- Moderator:** Thank you. The next question is from the line of Anil Kumar Sharma, an individual investor. Please go ahead
- Anil Kumar Sharma:** Sir, my question is, as you said there is OEMs get increase on industry wise level. So, there are as you said there are three competitors mainly, but for example Sunflag or Mukand their process are different, they are not using electrode graphite. So, are they in a better position or we are in a better position in this scenario.
- Sachit Jain:** Sir, kehna bahut muskil hai wo to aap log ko judge karna hai kaun better position hai. Aap hume dekhie main kisi competitor pe compete nahi karna chahata ki wo hum se better than hai ki hum unse better hai.
- Anil Kumar Sharma:** Mera point wo nahi hai jab bhi price ki baat aati hai us point se main keh raha ho.
- Sachit Jain:** Price main to jiski jiski chal jaye jiski negotiations chal jaaye uski chal jaati hai. So, pehle do saal se hum log set kar rahe the pricing is baar kisi aur ko bulaya gaya so OE assess karta hai kis kis ki, so ye change hota rehta hai. But advantage ke liye jaise jaise environment conscious badti jaati hai, carbon footprint jo hai Vardhman Special Steels ko sare hamari competitors aur puri industry may sabse kam hoga Yes, so jaise jaise ye environment consciousness badti jaygi aur customers may baat cheet honi shuru ho gayi hai. So, as this environment consciousness improves, you will see that Vardhman Special Steels will be the biggest beneficiary of

environment consciousness, because we use the recycled process, electric arc furnace. Our impact on the environment is the lowest.

Anil Kumar Sharma: Right sir so best wishes for great numbers, you are doing great effort for that we wish you very good from core of our heart.

Moderator: Thank you. The next question is from the line of Rushabh from RS Capital Services Private Limited, please go ahead.

Rushabh: I am just trying to understand your vision. I was just going through the presentation. Like, you know, the, as the new car is transitioning from gasoline to hybrid to EV and we are, transitioning towards more speciality products for EV. So, from a 3 to 5 years perspective, how does the pricing cover with the OEMs change and also in terms of volumes, as you said, like more exports will come into the picture. So, we will have more steady business going forward. So, please explain here.

Sachit Jain: So, first of all, this is your assumption that is a logical change to EVs. That is your assumption

Rushabh: No that is in the presentation that the industry will shift one of these slides.

Sachit Jain: People are saying this presumption, but this is an assumption and this assumption could actually may not play out the next 10 years may not, we do not know. Okay, so we are preparing ourselves for both the worlds, we are preparing ourselves for the world in which EV is going to be the dominant player. We do not think that is that we do not believe that is the scenario. But if that is the scenario, we have to be ready for that. So, we are preparing for EVs, and currently about 6% of our business last year was sales to EVs and going ahead, we will be increasing our percentage towards EVs because we are ready with those products. Second, the negotiating power, please understand, we are talking to global OES. As a small steel Company, there is no negotiating power that we have with these companies. So, even to think that you can have a negotiating power with the global OES is a misconception. So, we do not venture into that area. If we had a negotiating power, would be say will be 7 to 10,000 range EBITDA per ton, you will say will be 20,000 EBITDA per ton. Okay, and so our belief is that gasoline engine will stay for a longer time than most people think. We also believe that hybrid cars is the way forward for the environment and actually, the more and more studies are coming out that EVs actually the carbon footprint of an EV over the lifetime of the car is higher than that of even a diesel engine. Yes, so again it's a shocking thing, but I just came across a study. So, this is not my view. This is a study which has come out in a reputed journal. So, I am just sharing that, that there are enough counter views coming in now more and more counter views coming in that EVs is not the way for the future from the environment point of view, it is a better car to drive, somebody wants to use it, somebody wants to do the test drive. Tesla is an excellent car, and so on, but when the subsidies get withdrawn from this industry, highly subsidized and where is electricity grid? Where is the power? So, you know, all those are questions that have to come in. Anyway, this is not my area of expertise, but I am just saying that EVs may or may not be the future for the next 10 years, beyond 10 years, who knows. And I am not saying they will not be I am just saying the questions

are started coming up that it may not be as attractive as people are thinking it to be. That's what I am saying.

Rushabh: In terms of, initially we will be targeting in Japanese OEs in growing so, most of the capacity would be towards fulfilling that demand going forward. Then, we might become an export of going forward.

Sachit Jain: So, let me say that we are not particularly oriented towards Japanese, but if you look at the Indian market, it is dominated by Japanese companies. So, it is Maruti, Toyota, Honda, Nissan four Japanese OEs. If you look at motorcycles also, Hero is originally from the Japanese from the Hero Honda Technologies with the Honda Technology based materials, so is Honda so is Yamaha so is TVS so, you know it is just that those the India is a market dominated by Japanese that of course, there is Hyundai, there is Tata and in addition, Southeast Asia also largely it is Japanese oriented. So, keeping these two scenarios in mind, I think that is why we search for a Japanese partner. We were lucky, we got Aichi as our partner and so we have catered to the Japanese but that is what the market is. If the market was let's say, if Indian market was dominated by Volkswagen and Peugeot and Renault and if that was the domination we would probably look for German partner.

Rushabh: Sir you just mentioned that Mukand is our competitor and they have some tie up with Sumitomo.

Sachit Jain: So, they were always a competitor. Let's learn that now. Mukund is number one in this industry. Okay, so they set the industry benchmark. So, they have not become a competitor now, they were always the competitor and they are the market leaders.

Rushabh: And suppose with tie up they become even more better now. They have a tie up with Sumitomo?

Sachit Jain: Not necessarily, not necessarily because Sumitomo is not a steel Company. Sumitomo is the trading Company. If my view you want out here amongst all the Special Steel Companies our alliance with Aichi is a strongest alliance because Aichi is acknowledged in Japan as the best automotive steelmaking. Our tie up is with a steel maker with an automotive steel maker and which is acknowledged as the best automotive steel manufacturer in Japan and probably the world. So, going forward I do not think any other Company will be able to stand up to us when the full advantage of Aichi Technology comes to us.

Moderator: Thank you. The next question is from the line of Udhayaprakash from Value Research India Private Limited. Please go ahead.

Udhayaprakash: Sir I have few questions. In the last quarter management had stated that in May sample orders to Aichi will come in so have we received any response from the medium quality or something and are we still sitting to the plan of commencing production in slide 24.

Sachit Jain: Yes, so Uday the process of a trial orders is continuous and regular production has also started. So, because there are so many parts for which the steel is growing and so many steels that are

getting approved. So, every quarter we are receiving approval of one or the other steel quality and then trial order for that is going on and for the ones where the Trial orders have gone earlier the manufacturing order started coming in production order started. So, the process is in full flow.

Udhayaprakash: Okay, my second question is you had stated that many other OEMs other than Toyota are also in the inquiry. Are we having any further discussion with any of them with the potential to convert them into sales or are they just in the.

Sachit Jain: No, these are in the serious discussion. So, Yamaha very clearly is coming in. There are a few others that are I think, Koyama is an existing customer, but thanks to Aichi support being there. Now they are looking at us for global operations. There are a few other OEs that are being discussed and thankfully, Aichi is using their offices for each of these OEs also which is in addition to their business. We are getting the support of Aichi fully in all because all the Japanese OEs are contacting them straight.

Udhayaprakash: Okay sir my third question is our price increase from OEMs we received at Rs. 9000 and then you stated that there was a price reduction also for Rs. 4000 per ton in Q2 so what is the expectation sir? Can you please make it clear. When will the Rs. 4000 reduction will have an effect in our revenue in our EBITDA?

Sachit Jain: Yes, so. So, let's say only one OE that has not yet given the price increase of Q1 that is Tata Motors. Okay, so there is only one OE that has not given the increase. Of course, in our portfolio, it is a very small amount. So, it really does not matter too much. But yes, so all other OEs have settled Q1. In Q2, the costs have gone down and the market sentiment of steel has gone down for both reasons. The auto OEs are reduced prices. So, from first of July, that is Q2 all invoicing will be at a lower price. So, the OEs have agreed on a Rs. 4000 reduction. So, a Rs. 9000 increase. If we look at March prices, Q1 is a Rs. 9000 increase for most of the OEs and Q2 is a Rs. 4000 reduction from that which means still a Rs. 5000 rupees increase from March prices. This is for most of the OEs, but one of the OEs have not yet agreed on Q2 though has agreed on Q1 and Tata says they're not even increased agreed on Q1, there is no question of agreeing on Q2. So, there is some things still pending, but most of the OEs are settled for Q2 also. So, we have these level handle, not a complete handle and but reasonable handle at least on the on the profitability of Q2. Now since Tata has not given any price increase in Q1, so it has not been settled so far so, we have not taken impact of any increase which was given by Tata if they give any increase in Q1 those that will be added to Q2 numbers.

Udhayaprakash: So, sir how long would it take actually for us to reflect increase will it take a month these numbers to reflect?

Sachit Jain: No, no, it is put into effect within a couple of days. Because once the OE increases, then the next processes then they get internal approvals and then the paperwork gets done, then they send it to us, then they send it to their tier 1. So, the whole process takes about 15 days or so roughly.

Udhayaprakash: Right now the prices are fluctuating highly. So, if the prices increase once again, in next quarter, let us say in Q3. Is it possible for us to have an increment? Once again, will the OEM accept it or because they have already done it in Q1, would it be difficult?

Sachit Jain: No, there is no such thing. So, if the cost increases in Q2 and raw material cost increases in Q2 and the market situation indicates towards that, we will justifiably ask for a price increase in Q3. As of now, we have settled only Q2. So, till 30th September our fate is sealed for most of OEs, Q3 is wide open.

Moderator: Thank you. The next question is from line of Rohan Mehta, individual investor. Please go ahead.

Rohan Mehta: Good afternoon, sir and congratulations on a great quarter. Most of my questions are already answered and just had a couple of more. So, with the expansion plans that we have in over the next few years, would CAPEX be funded mainly from the funds that we received from Aichi and internal accruals or is there any chance of any equity dilution as well or any other scheme.

Sachit Jain: So, if I look at the capacity expansion has two parts, one is the capacity expansion in the existing location. So, which is what is going to happen in the next two to three years. So, that it can be funded totally by internal accruals and little bit of incremental debt. So, we do not need dilution from the Company's point of view. Now, moment we put up a new plant the Greenfield plant, which will cost anywhere between 1500 to 2000 crores, we will need an equity dilution. So, this is as far as need is concerned from purely financing angle. There is another need which comes in in terms of demonstrating to the Japanese OEs, the seriousness of Aichi and the importance of Vardhman Special Steels in Aichi and the Toyota System which would mean at some stage though the Company may not financially need any further money, there could be a possibility of Aichi increasing their Stake from the current levels. So, that possibility is clearly there. In fact, we have signed the agreement there is an agreement with them that at some stage, they will increase their stake from the current 11. See 11-1/2% is too small a stake as we become extremely important in Toyota's Global System. They will in all probability they will want to increase the stake from the current levels.

Rohan Mehta: Right. So, you had mentioned this in one of the earlier calls as well.

Sachit Jain: Exactly. So, I am saying yes the Company doesn't need any money, but for strategic reasons there could be a possibility of dilution at some stage.

Rohan Mehta: This would be looking closer to the latter half of the decade right.

Sachit Jain: So, there are two parts again, one is need, the need will be in the second, as you rightly said the latter half of the decade where we put up the new Greenfield then there will be need but the strategic part can happen anytime could happen next year, could happen two years from now, three years from. I do not know where it is Aichi feels the right time. Because when see just now the business for Toyota has just started where it picks up a little bit of momentum at some stage, they may want to increase their stake and we will facilitate that. So, as a Company management,



we have already agreed as Vardhman Group we have agreed that at some stage they want to increase the stake we would welcome them to increase the stake in the Company, but the probability that Vardhman will sell shares to them is very low and therefore, any increase in stake that they put in will be through further dilution i.e. fresh equity. So, which means the Company becomes even stronger with more funds infusion rather than the probability that promoting companies will be selling their stake.

Rohan Mehta: Fair enough fair, that is that is good to hear. So, sir about the immediate expansion at the current facilities that you mentioned so what kind of incremental capacity would be at our disposal over the next two to three years?

Sachit Jain: Currently, our capacity is two lakh tons of billet making and 180,000 tons of rolled product. By the time we complete the current phase of expansion, the existing location, our capacity overcapacity on the existing product mix will go up to about 250,000 to 260,000 tons of billet making and about 225,000 to 230,000 tons of rolled production. But now, some of the products from Aichi that will come in will perhaps need a lower productivity. So, then the capacity will be dependent on the product mix that comes in and may fluctuate may come down a bit. But in all probabilities the capacity will be enhanced product mix will be 240,000 tons or above in billet making.

Rohan Mehta: Got it sir. So, just one last question sir, speaking of Aichi now that you have mentioned in the presentation that the trial orders have also, supply of trial orders has begun. So, if you could just shed some light on how that is going and if there is any feedback from Aichi.

Sachit Jain: See trial orders have been approved which is why the production orders have begun. So, but there are several parts because we are to be the dominant supplier of one of the major auto platforms of Toyota in 2025, so one by one various parts are being added to our kitty. So, as each part the approval comes in, and it is a tedious process to get approval of each part. It is part by part approval, it is not that Vardhman steel is approved and you can produce anything, so Vardhman Steel has to be approved then the steel has to be approved and then for each part it has to be approved.

Rohan Mehta: Approved right

Sachit Jain: Yes so all the process is going on. I am saying that the final approval has started coming in and so the manufacturing orders have begun. Now, in the next few months, we will know how is the impact of these of the manufactured products that are going in, but Aichi's own people are here, all quality people are here. So, they are making sure that the product is as per Toyota's Specifications.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Sachit Jain for closing comments.



Sachit Jain:

Ladies and gentlemen, thank you so much for showing your interest in our Company. We remain committed to our vision of being the number one Company in India and specialized steel and when I say number one it means in quality, safety and in customer appreciation, we will never be number one in terms of size, there will be much bigger companies than us in this area. The other area we want to be in is to be a world class Company that anywhere in the world when people talk about the leading special steel Company that are the equivalent to the best in the world, we want to be up there in that name. So, that is what drives our Company and thanks to our partners Aichi we are started off on a good footing. I wanted to share this also the first three years term with Aichi will be coming to an end by September and we are in the process of negotiating the fees and other terms, etc, for the next three years. So, those will be finalized the next couple of months from first of October, we will be working within with the contract for the next three years. So, overall, this year will remain a bit choppy and uncertain still, but on an overall basis, I remain optimistic about the business primarily because of our partners, and the support and the clear runway that we are getting. Thanks to them. Our team has worked well and our bankers have supported as well. So, our EBITDA to capital employed and all of those things will remain, our eye is on the ball on all those parameters that you as investors also looking at. So, thank you so much once again for showing your support in our Company.

Moderator:

Thank you very much. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.