Vardhman
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VARDHMAN SPECIAL STEELS LIMITED

CHANDIGARH ROAD
LUDHIANA-141010, PUNJAB
T: +91-161-2228943-48
F: +91-161-2601048, 2222616, 2601040
E: secretarial.lud@vardhman.com

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BSE Limited, New Trading Ring, Rotunda Building, P.J. Towers, Dalal Street, MUMBAI-400001. **Scrip Code: 534392**	The National Stock Exchange of India Ltd, Exchange Plaza, Bandra-Kurla Complex, Bandra (East), MUMBAI-400 051 **Scrip Code: VSSL**

SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN SPECIAL STEELS LIMITED – Q3 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 2nd February, 2023 to discuss the Company's operational and financial performance for Q3 FY23.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN SPECIAL STEELS LIMITED

SONAM TANEJA

Digitally signed by SONAM TANEJA
DN: c=IN, postalCode=141010, st=PUNJAB, l=LUDHIANA, o=Personal, serialNumber=b09c707fc4f741fb18f54bfbc84b1ffe97be24b137d8dbbb3f7f1edb86e95c74, pseudonym=d66b298d776a4a32bca80afb10234151, 2.5.4.20=53ace98660da7d7f91b5dbf8bb23eabcfe0c921575933b925e673687fb584ff1, email=SONAMTANEJA32@GMAIL.COM, cn=SONAM TANEJA
Date: 2023.02.06 17:13:59 +05'30'

(Sonam Taneja)
Company Secretary

"Vardhman Special Steels Limited Q3 FY '23 Earnings Conference Call"

February 02, 2023

MANAGEMENT:	**MR. SACHIT JAIN – VICE CHAIRMAN AND MANAGING DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED** **MR. SANJEEV SINGLA – CHIEF FINANCIAL OFFICER – VARDHMAN SPECIAL STEELS LIMITED** **MR. REWARI – EXECUTIVE DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED** **MS. SOUMYA JAIN - VARDHMAN SPECIAL STEELS LIMITED** **MS. SONAM TANEJA – COMPANY SECRETARY – VARDHMAN SPECIAL STEELS LIMITED**
MODERATOR:	**MS. DEEPIKA MURARKA – CHOICE EQUITY BROKING**

Moderator: Ladies and gentlemen, good day and welcome to Vardhman Special Steels Q3 and 9 Months FY '23 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be opportunity for you to ask question after the presentation concludes. Should you need assistance during the conference call, please signal an Moderator by pressing star then zero on your touchtone phone Please note that this conference is being recorded.

I now hand the conference over to Ms. Deepika Murarka from Choice Equity Broking. Thank you, and over to you, ma'am.

Deepika Murarka; Thank you, Sanghali. Good afternoon, everyone. On behalf of Choice Equity Broking, welcome to the Q3 and 9 months FY '23 post earnings conference call of Vardhman Special Steels Limited. I also take this opportunity to welcome the senior management team. On today's call, we have with us Mr. Sachit Jain, Vice Chairman and Managing Director; and Mr. Sanjeev Singla, Chief Financial Officer. This conference call may contain forward-looking statements, which are based on the beliefs, opinions, and expectations of the company as of the date of this call. These statements are not guarantee of future performance and involve risk and uncertainties that are difficult to predict. I now invite Mr. Sachit Jain for the opening remark, to be followed by a question-and-answer session. Over to you, sir.

Sachit Jain: Thank you. Good afternoon, everybody, and welcome to the Vardhman Special Steels call. In addition to the names mentioned, I have with me Mr. Rewari, Executive Director and Chief Executive Officer, Sonam, our Company Secretary and my daughter Soumya. So, when this year began, I had said that this year we will make no forecast because there have been so many evils in terms of ups and down in commodity prices, which were way beyond anything we have ever experienced and that continued.

In Q3, we have had a decent performance, but we have also been got the benefit of the past government levies, the subsidy that is due to us of GST, so that has come in, as well as for the 9 months of this year we recorded it from this quarter. What I will do is, I'll ask Mr. Singla to go through the numbers and then we are available for Q&A. So, over to you, Singla.

Sanjeev Singla: Thank you, sir. Good afternoon, everybody. During the quarter, we achieved in total 46,358 tonnes of sales, which is higher by 3.5% over the corresponding quarter of last year. In terms of rupees, it is exactly INR 400 crores as compared to INR 360 crores in the corresponding quarter. EBITDA is INR 49.74 crores in the current quarter as against INR 40.76 crores in the corresponding quarter of last year, registering 22% increase.

EBITDA per tonne, including other income stands at INR 10,700. Similarly for the 9 months period, we achieved a total sale of 150,000 tonnes, and this is in line with our overall target of 195,000 tonnes to be achieved in the current financial year. In terms of revenue, it is INR 1,312 crores, registering 28% increase over the corresponding 9 months period. And 9 months period, EBITDA stands at INR 10,000 a tonne, so which is also well within the range as guidance given by the management from time to time from INR 7,000 to INR 10,000 a tonne. So that's all on the performance of this third quarter as well as 9 months period.

Now, I request further question-and-answer session. Thank you.

Moderator: The first question is from the line of Ritwik Sheth from One-Up Financial.

Ritwik Sheth: Sir, I have two questions. Firstly, would it be possible to share the split of the electricity incentive and the GST in the other income?

Sanjeev Singla: In other income, is about INR 7.7 crores is GST, and rest is electricity duty exemption.

Ritwik Sheth: So that is about INR 3 crores?

Sanjeev Singla: Yes.

Ritwik Sheth: Sure. And my next question is on the potential greenfield project. So, would you like to comment, Sachit sir, anything on this? Any update? Anything that you would like to highlight as to ?

Sachit Jain: Nothing to report. Discussions with Aichi are continuing, and we're going to have another visit from Aichi in April, where the top management is coming. In fact, there's a management change, which was due has been announced. The President of Aichi, Fujioka-San is retiring. And from 1st of June, he will become the Chairman and a new President, Goto-San, be taking over. So, both Fujioka-San and Goto-San will be coming here in April, where we would be celebrating 50 years of the steel business of Vardhman Group, not Vardhman Special Steels, but the steel business because it started in March of 1973. So that is when these people are coming.

Ritwik Sheth: Sir, one more question on the export progress, last quarter, you mentioned that exports is gradually picking up for the approved products. So, is it on track? And what kind of volume are we expecting in FY '24 and '25 for exports?

Sachit Jain: So yes, it is on track. And every month the exports are increasing. So, as we said, '22-'23, deposits will start, '23-'24 will pick up a little bit of steam, '24-'25 will be the first year you should look at us for in terms of a substantial exports towards Aichi. So, in '24-'25, we will be anywhere between 15,000 to 25,000 tonnes.

Ritwik Sheth: 15,000 to 25,000 tonnes?

Sachit Jain: Yes, if all goes well to Aichi. In addition, there are other exports which are taking their own pace. Our target is from '25-'26 is 30,000 tonnes. And this target is limited primarily by capacity.

Ritwik Sheth: Right. And would you like to quantify the exports in this quarter volume-wise?

Sachit Jain: Those are still small.

Ritwik Sheth: Sure. Okay, sir. I'll come back in the queue if I have anything else. All the best.

Moderator: The next question is from the line of Harshit Toshniwal from BU Research.

Harshit Toshniwal: Yes. So, am I audible, sir?

Sachit Jain: Yes. Clearly audible.

Harshit Toshniwal: So, sir, I wanted to get some sense of the business, I'm new to your company's investor call. So, what I can understand is that these are specialty products in steel, is that used in automotive, engineering, etc. But if we can help me segregate that, is it more like steel casting businesses, which we see? And is steel casting also a part of our business?

Sachit Jain: Sure. No. So we make forging quality steel only. We make alloy steel bars, which goes into forging process, which goes into various moving parts of the vehicle. So, it is going into the rod, connecting rods, crankshafts, pin, piston-pin, gears and primarily a car which is our biggest segment, 2-wheelers our second biggest segment, together these 2 segments is roughly 70% of sales and our business is almost 98% is automobile, maybe 1% to 2% on and off we may sell to some kind of bearings, not maybe the sub-class bearings, but some of the different levels of bearings. So that is our business model. And one point I want to make everybody aware, ESG, if that is important to use because that is becoming important globally. As far as carbon footprint is concerned, we have just measured our carbon footprint. Our carbon footprint as a company is at 0.85, Scope 1 and Scope 2.

Most of our competitors will be in the range of 2.5 to 3. So that most of the competitors are all from blast furnace route. So, their carbon footprint is significantly higher than ours. And we are already announcing a plan that by 2030, our carbon footprint will be below 0.5 and by 2050, which is well ahead of India's target, India target is 2070 for net 0. But our partners Aichi, their target is 2050 to be net 0. So Vardhman Steels has also targeted 2050 to be net 0 on carbon footprint, Scope 1, and Scope 2. Okay.

I want to bring to the notice, since you are new. And on this factor, we have not yet commented, so this the first time we are coming out because we just got the carbon footprint measured. It was presented to our Board, only this meeting for the first time. So, we are getting ready with this. And the other interesting thing for all investors and analysts out here that customers are being to talk about it. They're talking about several economy. In fact, as we speak today, there is a major auto OE for an audit here in our plant and the top technical man in the morning told me about the economy and how carbon footprint is becoming an issue for them.

So very clearly, this is going to become a bigger and bigger issue. And Vardhman Special Steels amongst all the major steel companies in our segment is best placed by far to take advantage when this becomes a customer requirement. As of now, let me also put in a caution, it is not a customer requirement. It is not even a customer preference as of now, but people are talking about it. So, this is one.

And the second issue I wanted to bring to the notice of everybody out is, under the PLI scheme, Vardhman Special Steels' expansion plans have got approved under the PLI scheme and the people who have been here in the call earlier would remember, I had said probably I said on this forum that we were not sure whether we will get approval under PLI. But we went there and applied, and we got approved. So, we are expecting about, if all goes well, if we meet on the targets, roughly INR 30 crores in the next 5 years will accrue to us and starting from 2 years from now. So, between 2 years from now and 5 years from now, we should get about INR 30 crores under the PLI scheme.

Harshit Toshniwal: Okay. Got it. No. But one more aspect which I wanted to touch upon. So, for the sake of comparison and a little drawback, for example, we also supply to players like Caterpillar, JCB. And many of these require steel casting components, standardized casting.

Sachit Jain: We are not in the steel casting business. We are only in the alloy, forging quality steel that is our only segment.

Harshit Toshniwal: Okay.

Sachit Jain: We have no plans. We don't foresee the future to get into that casting segment. This is the primary segment we intend to remain in.

Harshit Toshniwal: Got it. Sir how does enthusiastic is one thing. So, when we look at the EBITDA per tonne number, right? So many of the casting players in India, they make around INR 40,000, INR 50,000 per tonne versus our product at INR 10,000. So, I just want to understand that does that is it practically very difficult for us to expand those stance? Or how should we look at it? Is it very niche segment?

Sachit Jain: Our public stance has been that our range is INR 7,000 to INR 10,000 EBITDA per tonne. At present, this year also, we are at the higher end of our range. So please do not expect anything more than this. However, we have said that '24-'25 onwards once we get the full benefit of Aichi volumes kicking in, we will like to target up to INR 12,000. So, we would like to up the range from INR 7,000 to INR 10,000, the range would be upped to INR 10,000 to INR 12,000. This is what we hope, but we have not yet said that. So please, for all practical purposes, evaluate us as from INR 7,000 to INR 10,000 EBITDA per tonne.

Harshit Toshniwal: Understand. No. I completely take that point. But I just want to understand that maybe a separate vertical like steel casting, why is it so difficult for us to...

Sachit Jain: We are not interested, and we don't look at any other segment than our segment. We've got a blinkered view, we only look at our segments and not interested in even evaluating, looking at the margins or other things, there's no point in doing that because those areas are not of interest to us.

Harshit Toshniwal: Got it. One last thing that our capacity, if you can give some colour on the expansion plans or what utilizations we are at today?

Sachit Jain: As of now, our capacity is 200,000 tonnes of rolled products. And we are taking our rolling capacity to about 230,000 tonnes in the next 2 years, capacity, we will take our melting capacity to 250,000 to 260,000. So, you may please assume that our capacity will be 230,000 tonnes of saleable material in 2 years' time. So actually, in the year '25-'26, somewhere in the end of '24, we will get this full capacity of rolled product.

Moderator: The next question is from the line of Udhayaprakash from Value Research.

Udhayaprakash: Yes. Sir, this is regarding a plan something that you said in the last con call, you said that you are planning to approve a brownfield expansion of INR 250 crores to INR 300 crores. So, can you give the timeline on that expansion plan?

Sachit Jain: So, this is part of this capacity enhancement. So, this will take next 3 to 4 years. So, all is not linked to just capacity. Some is linked to quality. Some is linked to quality assurance, some R&D testing, some environmental expenditures, some more land, some buildings, warehousing, which is total of all of that.

Udhayaprakash: And the financing for this would be from internal accruals? Or are we planning to take any debt for this?

Sachit Jain: It will be internal accruals and some incremental debt. And our partners, Aichi have also indicated that at some stage, they may increase the stake, their stake in the company from the current 11.5%. So, at some stage in the next 2 to 3 years, they may increase their stake to around 20%, 22%, something like that. But these are all nebules numbers. This is all if and when it happens. Their interest is there, and we had discussed it in the past. So, at some stage that may happen.

Udhayaprakash: Okay, sir. My second question relates to the power cost.

Sachit Jain: Sorry, let me clarify this. We do not need that equity for our current foreseeable plans. So, our plans will not change...

Udhayaprakash: This is from Aichi side only. That is not our intention to raise the equity.

Sachit Jain: This is the only equity infusion in the next 2 to 3 years, that will happen, and that will happen only if Aichi decides that they want to increase their stake. Vardhman Special Steels does not need any more equity capital at this point with the current announced expansion plan.

Udhayaprakash: Okay, sir. My next question is pertaining to the power and fuel cost. Sequentially, it has marginally decreased. But will it stay at the same level for the next couple of quarters? Or is there any scope for reductions here?

Sachit Jain: The fuel costs are likely to decrease because we have our gas pipelines being laid by GAIL, which should come in, it was supposed to have come in by January. It should come in by April or so. And once it comes in, our gas cost will technically be lower, assuming the current level of international prices of gas. So, everything else remaining same, our cost will come down from 1st of May maybe April, all depends on the pipeline of GAIL.

Moderator: We'll take the next question from the line of Nikhil Chandak from JM Family Office.

Nikhil Chandak: My question was on the capacity expansion. So, as you said in the beginning that there is enough demand from Aichi going forward, but we will be capacity constrained. So, I'm just thinking, is there or why is the company going more cautious on the capacity expansion? Is it that the brownfield or the greenfield plant is getting more delayed, is not being pencilled in together? What exactly is the issue? Why you're not being aggressive on the capacity expansion because the demand opportunity is clearly there. But are we missing out the opportunity to fasten the capacity expansion?

Sachit Jain: I think it's a very, very important question you've asked. And supposing it was only one month, see, there is no Aichi, this capacity expansion would have happened, okay? We would have taken it to 3 steps now. But please understand the benefits that we get from Aichi's working is their systematic planning and their ability to look at each step before you take the next step because please understand our exports to Aichi has just started.

Let them reach the customer, let them get the customers use the product, let feedback come in and then setting the production processes, the way the Japanese work and this is something more and more Indian companies need to learn, how to make sure that you make sure that everything is going smoothly before you take the next big step. And please understand that for us, the next plant is going to be roughly double the size of the existing plant. So, one, it requires a lot of capital. And two, we don't want to dilute unnecessarily. They might have to raise capital for that.

So as the company's balance sheet becomes even stronger, the need for outside capital will be very, very low. That is one. And two, once we had established completely with Toyota Group, and they trust comes in that, yes, we can deliver, then the task can be opened for further business. So, I guess, we are all waiting to see that establishment of the business with them come in. The plans they are already planning on our expansion. So, it's not that they are very tight. But when to sign, when to signal that we are ready to start, that is the question mark. So, this is the reason why seemingly there is an opportunity, why we are not getting it quick straightaway.

Nikhil Chandak: Understood. But would that mean that you know and by the time you say the capacity comes on stream, it will be, it will take a couple of years. So, would that mean in the interim, from a growth perspective, there could be some kind of, say, softness or maybe not a very high percentage growth because you would be full up on capacity utilization?

Sachit Jain: So, we have a Plan B and a Plan C. But I'm not at liberty to share those plans as of now.

Moderator: We'll take the next question from the line of Prolin from GMO.

Prolin Nandu: First question would be on to understand your EBITDA per tonne slightly better. Now you include other income, and I know that there is a GST benefit there, plus the power cost benefit there. Now in the past call, you have mentioned that both of these each are somewhere close to INR 8 crores to INR 10 crores and GST is going to be there for another 7 years, 6 to 7 years if

I'm not wrong. In terms of power bid that you get, what is the sunset clause here? Is it for certain years that you are going to get the benefit?

And additionally, sir, for this year's number, if I look at the other income, it's quite high compared to what you have reported in the past. And I think there are some past overdue which are part of current year's number. So, if you can help me understand, so what are those past overdue so that I can remove those from the 9-month number and look at.

Sachit Jain: So, about INR 9 crores.

Sanjeev Singla: Other income includes this incentive includes INR 7.7 crores of the GST benefit for the 9 months. So, this INR 7.7 crores is for the 9 months. And out of this, about INR 5 crores is for the previous 6 months and INR 2.7 crores pertains to the quarter 3. So only INR 5 crores is pertaining to the previous 6 months.

Prolin Nandu: Okay. So no, sir, I was looking at the 9-month number. In that, is there any number which pertains to the previous?

Sachit Jain: I'm just saying from this quarter, if you remove the INR 5 crores, the other part is sustainable for the next 7, 8 years. Yes.

Prolin Nandu: Okay. Understood. Other part is sustainable for the 7, 8 years?

Sachit Jain: Yes, every quarter.

Prolin Nandu: Okay. So, if I remove the INR 5 crores from the current year's number, our EBITDA per tonne for the

Sachit Jain: No, for the current quarter.

Prolin Nandu: Current quarter, sorry, current quarter's number, the EBITDA per tonne is close to INR 9,600, right? And which is the sustainable number is what you are highlighting. Am I correct, sir?

Sachit Jain: Correct.

Prolin Nandu: Okay. So, a broader question would be you have always maintained this INR 7,000 to INR 10,000 EBITDA per tonne kind of a range and you just answered that. Let me move to...

Sachit Jain: No, no, no, no. No. We have not always maintained. If you will, if you have been attending our company's numbers, 4 years, 5 years ago, we were INR 4,500 to INR 6,000. Then we upped it from that to INR 6,000 to INR 7,500 range. And then we upped it further again. So, it is as the company is having better grip on its operations, as it is expanding, as it is developing a better product with a combination of all of these has led to the range. So, 5 years ago, we were INR 4,500 to INR 6,000, In the last 4 years, we have upped this INR 4,500 to INR 6,000 from that to INR 7,000 to INR 10,000 and the guidance that our target will be INR 10,000 to INR 12,000.

Prolin Nandu: Right. So, I'm looking at the EBITDA per tonne for the last 9 quarters. And the number for me, I mean, my calculation is somewhere close to INR 10,000 on a mean. And even if I look at median, it's similar kind of a number, INR 9,800. So, is there a need to probably narrow down this guidance further because these last 8, 9 quarters it seems to be volatile?

Sachit Jain: We don't have that confidence. Please look at our company at INR 7,000 to INR 10,000 as of now.

Prolin Nandu: Okay. That's fair. And I mean, whatever might be the EBITDA per tonne level, sir, my question would be that apart from the export element, is there any product mix change which will help you move higher in the EBITDA per tonne kind of a thing? I assume that there are some imported the steel that we are supplying, India and Indian manufacturers or some of the Korean manufacturers import fair bit of that steel as well. So, is there also a case of import substitution? And if you can give us some colour on how is that going?

Sachit Jain: So those are all under development, discussion and so on, but you are right, if we are going to be under the capacity crunch, then some of the lesser profitable products will go out of the basket and some better products would come in. So clearly, we should be able to maintain this. And once we have the confidence that we can beat this, only then we'll be up the range.

Moderator: The next question is from the line of Mohammed Patel from Care Portfolio Managers.

Mohammed Patel: Sir, what explains the slow growth in volumes Y-o-Y and degrowth in volumes quarter-on-quarter?

Sachit Jain: So, one thing, please do not look at us from quarter-to-quarter sequential levels. Please look at us annually because not depends, we are not a primary demand company. We are a secondary and a drive demand. So, demand as comes from the auto companies. So, a lot of it also depends on the inventory in their systems and so on. So, December and shutdown. So, December second half, many of the auto companies took shut down, they always take shutdowns. And therefore, suddenly, we had a drop in sales compared to what we were expecting.

And January sales have caught up. So we are back on track, and we are on track to meet our 195,000 to 200,000 tonnes, what we had given a guidance in terms of sales for the full year. Okay. What you will see is, you will see inventory levels rising because we have a shutdown in our rolling mill in June for our expansion in preparation for our rolling mill expansion. And therefore, we're building up stocks, finished good stocks that our customers don't suffer. And you will see a build-up, already in the 31st of December figure, Q3 figure there is a build-up of inventory. And as we further built-up inventory in Q4. And then in June, in the shutdown, we will be using most of this excess inventory. And 30th of June, end of Q1 of next financial year, we should be back at close to normal levels of inventory.

Mohammed Patel: There is also an improvement in EBITDA per tonne. So, if this is explained by the percentage of products or volumes, which is value-added?

Sachit Jain: Can you repeat the question, please?

Mohammed Patel: EBITDA per tonne, excluding other income also improved. So, what explains this? And what percentage of volumes are value-added as of today? And how this percentage will look like going forward?

Sachit Jain: Any changes in, minor changes between the INR 7,000 to INR 10,000, we will not be expanding, okay? Because this is a normal range and there is a fluctuation keeps happening because a little bit of raw material prices going up or down. And little bit of product mix change between quarter-to-quarter, some, every product is not running continuously. Some products once in 2 months and once in 3 months depend on sales. So, within this performance of INR 7,000 to INR 10,000, we will not be explaining. And if we see some things changing, we will signal that in advance provided we see it.

Yes. One thing it is important for everyone to understand that till now Q3 prices with OEs have not been settled. So, we have gone ahead with the assumption because all invoicing is that the prices which are prevailing till 30 September. So Q3 has been at the same prices as Q2. And if there is any change in those prices as settled with the OEs. That will change the numbers. This will have an impact in Q4, either positive or negative.

We have asked the OEs for an increase in prices in Q3, and the OEs are all asking for a reduction in price in Q3. So, this is where we are at. One OE has already given an increase in Q3. So, the OE that has given an increase that has been incorporated, for other business, we have maintained the same prices. So, for all purposes, please assume that there is that a little bit of uncertainty. And whatever is down or up, will get factored in, in Q4.

Moderator: The next question is from the line of Dewang Sanghvi from ICICI Securities.

Dewang Sanghavi: Am I audible now?

Moderator: Yes, sir.

Sachit Jain: Yes, you are audible.

Dewang Sanghavi: My question is regarding the volume guidance for next year. What we are targeting for next year in terms of volume for FY '24?

Sachit Jain: We are, again, not going very aggressive in volume because, as I told you, next year, there will be more of a stabilization mode with the Aichi business increasing. So, and these are very high-quality requirements. We want to make sure that those products run well. And so, next year is more of a consolidation mode as a company. We expect maybe and I'm making a guess just now. We have not made our numbers for next year, but I would expect around 210,000 tonnes would be the sales for next year. That figure when we have the call after Q4, that is then we will have precise better forecast. As of now, this is what I think we should be targeting.

Dewang Sanghavi: Right. But the product mix will improve next year from current year? Is that a good understanding?

Sachit Jain: I mean, the impact will be minor. As I said, any impact of Aichi business as of now is negative because of the costs which are associated with making those products, with the fees we pay, everything. The real benefits of Aichi businesses start coming from '24-'25 and '25-'26. And please I want to, let not be misunderstood. There are enough positives in Aichi. I'm just talking about the financial part of the number of positive we had this association is absolutely fantastic. So, this is the best thing that has happened to Vardhman Special Steels.

Dewang Sanghavi: Yes, I absolutely agree, and I understand that. My second question is, can I have the movement of the cost like scrap and electrodes in this current quarter in Q4 compared to the Q3 average?

Sachit Jain: Almost similar. It's very difficult to put exact numbers because the fluctuation, but it is -- changes are minor, if at all. And we have taken a position on electrodes, graphite electrodes, at one time, we had built up a stock of 1 year worth of electrodes. And those stocks have come down to normal levels now. So, it was a position we took, I don't normally take positions, but at that time when the prices were really low, we took a position and now prices are stable. So, we have cut down to normal inventory levels.

Dewang Sanghavi: Right, sir. And sir, in the capex, how much we have done in 9 months for the current fiscal year? And what is the target for the full year FY '24 and '25?

Sanjeev Singla: Not material.

Sachit Jain: It's not very significant this year up till now.

Moderator: We'll take the next question from the line of Jay Ketan Shah from Capital PMS.

Jay Ketan Shah: Congratulations, sir, for a great set of number. Sir, I wanted a macro background, I mean, how the demand is shaping up? And if you can even tell us within the automobile sector, like where do you see more traction, whether it's more in the commercial space or in the car space or the light or the medium commercial space? If you could throw some light, there? And even geographically, where do you see the demand has been resilient even in such scenarios, such global environment that we have. If you could just throw some light on there?

Sanjeev Singla: Sachit?

Sachit Jain: So, I am very optimistic about the demand scenario. I will not be able to speak that quarter-to-quarter or even next year. But as of now, I think India is sitting on a phenomenous opportunity and that positivity has just about begun. So that is one. Second, specifically about our industry, very clearly, the car seemed to be on a roll, and that demand continues to be strong. And further to that is the announcement by the government that 1 million older vehicles are going to be scrapped.

And clearly, when you're going to scrap 1 million old vehicles, then there will be demand -- maybe a further spur demand for newer vehicles. So that is really going to happen. Now, whether it happens next year or the impact of that will happen after that? But clearly, demand is increasing. 2-wheelers seems to be subdued. So that part is little subdued. Commercial vehicles, anyway, doesn't make much of an impact to us because we don't much serve the commercial vehicle business. So, for us, the most important segment is the car segment, which is robust and going strong.

Management: Okay. And sir, second part, just taking clue from what you said that you had some OEM or inspecting and visiting your facility. So, sir, I want to understand that even for external OEMs like the European and US OEMs, we are supplying to them. What is it that is driving them to approach Vardhman Steels, is it like a China plus one this or is it because of our quality and our needs, that we are able to attract customers?

Sachit Jain: So, with Europeans, I don't think we have many European customers that stable. So, I think if any vehicle, any steel going to European vehicle even indirectly, I think it would be less than 10%, maybe even 5% of our steel, right? I don't recall any European OE as a customer. So, what the split is miniscule. So but the other customers who are coming to us is, one, our quality. More importantly, our service and responsiveness.

And now the new customers coming to us is all because of once they know that Aichi is our partner, they know that the quality, servicing, testing, R&D, latest products, everything will be available with us. So, we will have a massive advantage compared to all our competitors in the next 3 to 5 years. And in addition, now, which I shared in response to another question earlier, as the carbon footprint becomes a bigger and bigger issue across the world, more and more people are going to be coming to steel people like us. And I don't think as I see across the country today, amongst all our major competitors,

I'm not saying against all steel players, against all our major competitors, we stand almost alone in terms of the low carbon footprint that we have and plans to lower it further. So, I'm seeing in the next, when does this impact happen? I don't know. Will it happen next year? Will it happen 2 years from now? But it is clearly a trend which is happening. We are seeing that in a textile business. In a textile business, sustainability is the first issue, all customers come and ask, what are your sustainability plans.

So ESG, as it becomes important, it's going to become very, very, it's going to drive in our segment also. The other thing I wanted to share with everybody out here, it's not a direct response to your question, but we have planted a 5-acre forest, Miyawaki for 52,000 trees. We'll be sharing some photographs when we write the annual report. But this forest has come off very well. And all customers who come and visit this forest in the heart of industrial area are very happy with this.

And we will be planning that is 5 acres this year, we plan to plant 10 acres of forest. And in the next 15 years, my target is to plant 1,000 acres of forest in Punjab. So, this is my own personal mission that we'll be doing this to improve the environment out there. And hopefully, at some stage when companies and customers start valuing this, it will add value to for our attractiveness and the company to buy steel from.

Moderator: The next question is from the line of Vipul Sanghvi from Systematix.

Vipul Sanghvi: Sir, my question is on the capacity. Like we are at 220,000, right, as of now?

Sachit Jain: 220,000 tonnes of melting and about 200,000 tonnes of rolled.

Vipul Sanghvi: Correct. So, sir, are we on track to get to 250,000 tonnes...

Sachit Jain: Melting, yes, we are on track. In 2 years', time, we'll be there.

Vipul Sanghvi: So, by end FY '25, we'll reach there, right?

Sachit Jain: 250,000 to 260,000. Again, very difficult to be very, very precise about this, but 250,000, yes, would be safe.

Vipul Sanghvi: And our investment target of 5 years of putting in a capex of INR 250 crores to INR 270 crores is also on track, right, sir? That is.

Sachit Jain: Yes. Maybe a bit delayed because the machinery availability is all lead times of machines have become much longer than we had anticipated. So, this will take a bit longer. But still, by '25, FY '25, we would be done with a large part of our capex.

Vipul Sanghvi: All right. And that will be good for getting us to 300,000 tonne capacity, right?

Sachit Jain: No. As of now, we are not saying anything beyond this 260,000 tonnes melting.

Vipul Sanghvi: All right.

Sachit Jain: And the rolling mill capacity would be higher because the investments we are making, the rolling mill should give us a bigger capacity, which will give us a possibility of getting billets from outside to roll within the plant. So, all those possibilities could come up, but we will explore those areas after '25.

Moderator: We'll move on to the next question from the line of Anshul Mittal from Care PMS.

Anshul Mittal: Sir, I wanted to ask the presentation mentions that Vardhman will do forward integration into specialized forging plant. If you can explain this better? Is this part of the greenfield expansion right now?

Sachit Jain: No. This is not, When we are speaking Greenfield, we're talking about a steel plant. This is a directional statement that we intend to get into that area. There is no timeline, which has been put out there. We're just sharing, we believe our shareholders are partners of the company, so they should know what the thinking of the management is. There are no concrete plans at this point. But suffice it to say, Aichi Steel, our partner company, they are one of the largest forging companies in the world, and they make large part of the forgings for Toyota Group. And intention is to have a specialized precision forging operations in India.

Now, whether it will happen in the next 2 years or 3 years, as I said, I don't have any timeline. So, for any practical purposes, for any valuation purposes, please ignore that statement. It is just a directional statement that we will intend to get in that area.

Anshul Mittal: Okay. Understood, sir. Also, sir, I wanted to understand what are the terms of royalty payments with Aichi?

Sachit Jain: I'm sorry, what do you mean by terms?

Anshul Mittal: With Aichi, what are the terms and agreement in terms of royalty payment as well?

Sachit Jain: It's a 3-year agreement. But beyond that, we don't share any specifics about the agreement that we have. But I can tell you it is all encompassing any area that we have an issue in, our Aichi people are there to support us. Three members are either posted with us full-time, and there are 7 to 10 members in the head office who are at backup who are supporting us. And in addition, any expert in some other areas that is required is available to us.

They are further, they are approaching customers on our behalf, and they are marketing our products to Japanese OEs. So, beyond that, any fee that you're paying is less than the value that is getting exhibited to the company. But beyond that, whatever information is there, is there in the balance sheet, anything other than that we will not be discussing on the terms and conditions. As regards the product that they are buying, there will be always at arm basis because that is a commercial transaction of business.

Anshul Mittal: Okay. So, FY '23 is the year of manufacturing of trial orders for Aichi. And so, how was the shipping as of now?

Sachit Jain: That has all begun. And already, our products have started reaching some of the Aichi forge factories, is already reached. They've already used that product and Indonesia is on the way. So, all that process is on track.

Anshul Mittal: So, this Q3 and Q4 involves Aichi contribution?

Sachit Jain: It's miniscule. So please, those numbers are so small, it doesn't make any sense to look at these numbers. Next year, you'll see a little bump, but '24-'25, and as we're saying for the last 2 years, please look at any contribution of business from Aichi only from '24-'25.

Anshul Mittal: Okay. Understood, sir. Sir, last question from my end. What percentage of our volumes will be value-added as of today? And what are you expecting going forward?

Sachit Jain: We don't share those numbers because everything is value-added. There could be some big products with a value-added customer, there could be a value-added more complex product, which makes low margin. So, this is a whole basket of products. Auto industry is all value-added. So, we are already stayed away from the tractor segment, which is a low value-added. Stayed away from the commercial vehicle segment, which is low value-added. So anywhere where quality and service is not a requirement, we stay away from such business.

Moderator: The next question is from the line of Prolin from GMO.

Prolin Nandu: I just want to congratulate you on having such great numbers in terms of the carbon angle, Scope 1, and Scope 2. Sir, my question is on PLI. What kind of capex would you require to get this benefit of INR 30 crores per year from 2 years from now?

Sachit Jain: No, no, no, no, no. It's not INR 30 crores per year. It is INR 30 crores total, which is why we have never looked at it very seriously. The impact on the company is not too big. It is INR 30 crores total.

Prolin Nandu: INR 30 crores total. But what kind of capex will this require because this would be on incremental capacity.

Sachit Jain: There were capex plans that we have already announced, improves this. We are not making any additional capex because of the PLI scheme.

Prolin Nandu: Okay. So, the new capex.

Sachit Jain: We were not expecting to get approved. So, this was not part of our factoring anything into this. It's just this came as a bonus.

Prolin Nandu: Understood. And staying with this PLI and you have Plan A, Plan B, Plan C for your expansion, does this PLI changes everything in terms of, anything in terms of probability of any plans or...

Sachit Jain: PLI has changed nothing. It is just INR 30 crores coming into our pocket, which we very gladly accept because it will help us that initially the extra costs that we pay for making these high-quality products, we will get some cushion. So, we are thankful it was required, but we have not factored this into our calculations earlier. So, this is a welcome addition.

Moderator: The next question is from the line of Chaitanya Rao, an Individual Investor.

Chaitanya Rao: Actually, I'm a new investor in your company. And recently researching about your company, like I got to know of the fact that you are into melting the old steel which you get from cars and other this thing, that contributes to our main raw material. So, can you just give your insights about the recently introduced 15-year scrap of the scrapping policy of the old vehicles? And how will this affect your company? How will it affect your cost and import cost and profitability?

Sachit Jain: So, one, this is a very welcome move, and this is something the industry has been asking the government for, and it's there in every other country, and we have to have a healthy scrap industry. So, scrappage of old vehicles is very, very welcome step that the government has taken. This has 3 benefits: of course, reducing overall pollution; second, generating scrap, so which means we should have more scrap availability, as more and more companies demand more scrap usage, the scrap availability will help to maintain prices; and third, it'll be a demand for new vehicles because I don't make the step off the road when the demand for that many more vehicles, which means there will be more demand for our products.

Chaitanya Rao: Good. And sir, lastly, just wanted to reconfirm about the PLI scheme that INR 30 crores, I just missed that point. So, can you just repeat that for me?

Sachit Jain: The INR 30 crores is, roughly INR 30 crores the total benefit under PLI that Vardhman Special Steels will get in the next 5 years, and nothing will kick in before '25. So, it will be INR 30 crores in '25-'26, '26-'27 and '27-'28. So, in those 3 years, we should get this roughly INR 30 crores if everything goes as per plan.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital Advisors.

V.P. Rajesh: My first question is just trying to understand how your contribution to 4-wheeler versus 2-wheeler will change as the new capacity comes online that you talked about earlier on the call?

Sachit Jain: So currently, it's about 38%, it should jump to about 45% or our target will be go up to 50%, passenger vehicle. From 38% to, I would say, up to 50%, 45% to 50%.

V.P. Rajesh: Okay. And relatedly, are you seeing any turn in the 2-wheelers in India right now? Or as the OEs came out with their numbers, it looks pretty subdued. So, what's your sense of when sort of the demand will start coming back?

Sachit Jain: I think they're talking a little bit, but as of now, nothing significant that we are seeing.

V.P. Rajesh: Okay. And then lastly, on the Aichi partnership, you talked about the benefits that will accrue to us. Could you why this partnership, what are they getting out of it?

Sachit Jain: Sorry?

V.P. Rajesh: My question is that you talked about the benefits that will come to our business in the Aichi partnership. So, what is your sense of the benefits that they are getting from this partnership?

Sachit Jain: So, they are also getting significant benefits. One, they are getting steel at a cheaper price than Japanese steel. So that will help, because it goes largely to their own forging company. So, some of the profit will come to them and some of the profits will be passed on to Toyota, I'm sure. I don't know their internal, so Toyota will benefit by getting a little cheaper product. Second, they are running at near full capacity. So, they will get additional capacity from India, which will enable steel availability for Toyota's growth. And third, they will develop a second source of steel making that tomorrow, it reduces a risk for Toyota, if something goes wrong in one plant, there is another plant from where steel could be made available.

So, this is an ideal partnership and what I call a true win-win. There is enough benefits for Aichi, which is why they are in this business with us, and enough benefit for us. And also, please understand Maruti Suzuki is a very important customer. All of you are aware, it is in the public domain, Toyota and Suzuki are under strategic relationship, joint R&D, joint platform and so on. So, supporting Maruti Suzuki is an important part of this strategic plan of Aichi, and we become the vehicle for doing that.

V.P. Rajesh: Got it. That's extremely helpful. And lastly, who are your main competitors?

Sachit Jain: Our main competitors would be Mukand and Sunflag.

V.P. Rajesh: Sorry, what's the second name you said?

Sachit Jain: Sunflag Iron & Steel.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Sachit Jain for closing comments.

Sachit Jain: Ladies and gentlemen, thank you once again for showing continued interest in the company. We are aware that we have had an operational dip in numbers based on what we've had last year. So, one, last year, we kept saying those are unsustainable numbers. But two, because once you achieve those numbers, a dip is something that nobody likes. So, our team is working extra hard to save costs, including our Board has given us directives to see where all operational costs could be improved further that next year, other than the operating income, even the share, the other income, we have our operating performance improve further from the current level. So that is the directive. I'm not saying we'll be able to do it, but that is what we'll be attempting to do.

I'm extremely happy with the ESG approach, which is going on across the world. And we stand where to take an advantage of that as our customers become more and more aware. Circular economy of the steel economy is something that we are working with. We did not discuss it this time, but in an earlier call I've already shared, solar, putting in a renewable power is part of our plan. The next 2 years we'll be doing that, too, to reduce our carbon footprint further and may also reduce our cost. So, there are several areas working on, and I remain optimistic about our business and look forward to seeing you all in April. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Vardhman Special Steels, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.