Vardhmān

Delivering Excellence. Since 1965.

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

Ref. VSSL:SCY: MAY: 2018-19 **Dated: 07-May-2018**

The Deputy General Manager, Corporate Relationship Deptt, Bombay Stock Exchange Limited, 1st Floor, New Trading Ring, Rotunda Building, P.J Towers, Dalal Street, Fort, **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: COMPLIANCE UNDER REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.

We refer to our letter dated 27th April, 2018 regarding the intimation of Analyst / Investor Conference Call on the audited financial results of the Company for the financial year ended 31st March, 2018 Scheduled on 3rd May, 2018 at 12:00 noon.

In this regard we herewith enclosed the transcript of the conference call as required under Regulation 30 read with Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

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

(Sanjay Gupta)
Authorised Signatory

VARDHMAN SPECIAL STEELS LTD.
A COMMITMENT TO QUALITY

"Vardhman Special Steels Limited Q4 FY2018 Earnings Conference Call"

May 03, 2018

VARDHMAN SPECIAL STEELS LTD.
A COMMITMENT TO QUALITY

IIFL Institutional Equities

CHORUS CALL®

ANALYST: **MR. URVIL BHATT - IIFL INSTITUTIONAL EQUITIES**

MANAGEMENT: **MR. SACHIT JAIN - VICE CHAIRMAN AND MANAGING DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED**
MR. SANJEEV SINGLA – CHIEF FINANCIAL OFFICER - VARDHMAN SPECIAL STEELS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Vardhman Special Steels Limited Q4 FY2018 earnings conference call hosted by IIFL Institutional Equities. 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 you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Urvil Bhatt from IIFL Institutional Equities. Thank you and over to you Sir!

Urvil Bhatt: Thank you Raymond. Ladies and gentlemen, good afternoon and thank you for joining us on the 4Q FY2018 post results conference call of Vardhman Special Steels Limited. I am Urmil Bhatt from IIFL and it is my great pleasure to introduce the senior management team of Vardhman Special Steels Limited. We have with us Mr. Sachit Jain, Vice Chairman and Managing Director and Mr. Sanjeev Singla, Chief Financial Officer. We will begin the call with an overview of the financial performance followed by commentary on the business by management. Post this we will open up the call for Q&A session. I would now like to hand over the call to Sachit and Sanjeev to take it forward. Thank you and over to you Sachit!

Sachit Jain: Thank you Urmil. Ladies and gentleman, good afternoon and thank you for joining us on our earnings call. We are now going to make it a quarterly event and we also hope to have a physical investor meet sometime after our first half results. Since we are new to the capital markets after this raising last year, so many of you may be for the first time, so very quickly I will give you brief overview of the Company and then talk about the results.

The steel business began in 1973, a small unit in Faridabad and then organic growth and then there was an acquisition in 1987-1988, which led to the current location where we are present today becoming part of the steel business. Later the old unit in Faridabad was closed and this Ludhiana unit was upgraded and modernized to start making alloy steels and it continued to be part of Vardhman Textiles and it was hived off in 2011 and 2012 this Company got listed as a separate entity in 2012 roughly May. I have been involved in the steel business from 2010 and became MD of the company in 2011 and earlier I was giving almost half my time to the steel business for the last one year. I am giving about 90% of my time to the steel business.

Over the years, our steel Company has emerged among India leading steel bar producers for automotive applications. We have state of the art manufacturing facilities in Ludhiana and our total installed capacity has now reached 200000 tonnes of steel melting and 180000 tonnes of rolling mill and 36000 tonnes of bright bar. Now we are fully balanced as a plant. Earlier melting capacities were lower than our rolling capacity. This year we are fully balanced and overall we plan to continue growing.

We are currently having an expansion plan, which will take our melting capacity to 240000 tonnes, which should get implemented by January or February this year, so we should enter the next financial year that is 2019-2020 with a capacity of 240000 tonnes of melting and rolling hopefully we will get some more debottlenecking done and we will be able to improve our

capacity from 180000 tonnes to maybe 200000 tonnes; however, overall we have an investment plan of roughly Rs.200 Crores over the next three year, which includes upping the rolling mill capacity also to 230000 to 240000 tonnes. So the increase we are expecting in the next one-year is going to be with incremental benefits without much capex. The capex for the rolling mill will come later.

Overall over the year's consistent quality, efficient service and strong customer relationships are what sets us apart from our competition. We have amongst the widest set of customer approvals. Our business is 100% linked to OEM approvals and our largest four customers as far as OEMs are concerned are Hero, Maruti, Hyundai and Bajaj. We were I think the first company approved by Toyota. Small quantities from our company go into such iconic brands Porsche, Mercedes Benz, Volvo cars and Jaguar. In fact, we have also exported a very small quantity of steel to Germany for Mercedes. Now these are all very small quantities, but it does shows that the quality that we have is accepted in global markets.

Overall our exports are just about 4% to 5% of our total volume, but it goes to sophisticated customers. Thailand is our biggest market for exports. The other markets are Germany, Turkey, little bit in Taiwan, little bit in Russia and Italy and once in a while in Spain.

As far as this quarter is concerned, we had sales of Rs.231 Crores and EBITDA without other income Rs.17 Crores and net profit was Rs.7 Crores. For the full year, we had a 16% increase in volume, 252000 tonnes of sales and revenue was Rs.859 Crores, a growth of 27%.

EBITDA has not grown much and this was something that we were disappointed because overall EBITDA per tonne for the year has been about Rs.4400 a tonne whereas we are saying moving forward we should be between Rs.4500 to Rs.6000 a tonne EBITDA. The main problem of last year was almost like a black swan event, which was the graphite electrode prices, which went up almost six times and which really hit the first quarter very hard and of course the price setting with the customers happens every six months, so every April 1, and October 1, so on October 1, we could get the prices increases from the customers, which is what you will see the third quarter results were far better.

The second half our EBITDA per tonne was north of Rs.5000 roughly around Rs.5300 and the first half was around Rs.3300 to Rs.3400 a tonne. What happens in our company is in a rising raw material scenario we will always have an EBITDA squeeze because the raw material costs keep changing. Some material we are buying on a day-to-day basis and some materials we will have some stock, but overall in a rising raw material cost scenario, the margins will get squeezed because the price adjustment happens only after six months.

In a falling raw material price scenario, we will see margin expansion. Unfortunately, the raw material prices continue to rise even now. Again as we see this year, we have got a price increase from April 1, of about Rs.4100 from most of the OEMs; however, the raw material prices will be rising further, which means October again we will get another price increase, so again we will

see second half would be better than the first half as far as this year is also concerned; however, we expect the first half of this year to be better than the last year.

Moving ahead as I said we are seeing Rs.4500 to Rs.6000 is what we would expect EBITDA per tonne in normal circumstances. In a rising price, raw material price scenario it will be at the lower end of this and the falling raw material price scenario it will be the higher end of this.

Last year, we also had two capital rising. The first was rights issue of Rs.68 Crores and the second was QIP of Rs.50 Crores. We got two anchor investors, Sundaram Mutual Fund and DSP Blackrock. Of course, our approval from the shareholder was to raise up to Rs.175 Crores, but market conditions were tight at that time and we decided to go ahead with a Rs.50 Crore raising and debt equity of course has become very comfortable now at 0.65 on March 31, 2018.

Considering we were at 2:1 debt equity about three and a half years ago, we have improved significantly since then. With this capital raising, our current expansion plan, which is on the Greenfield site, which includes the land that we have just purchased, which is part of the Rs.200 Crores that we are talking about all this can be funded without any further dilution requirements; however, if we look at any acquisition or some such opportunity comes in, we may need some extra capital from outside.

The reason for the QIP, the reason for two equity offerings in quick succession were rights issue of course was to strengthen the balance sheet and then the QIP was to basically impart with the liquidity to the company and get institutional shareholding, so after this we do have two stronger institutions as well as the intention was to improve liquidity in the company in terms of trading liquidities for share visibility in the market as more and more investors were talking to us that they wanted share and shares availability was a problem, so that was the reason and as of now our rating is AA minus by CRISIL, but that rating is of course there is a letter of comfort from the shareholders, letter of comfort from the group promoters for Vardhman Special Steels, so based on that we are AA minus rated company with the positive outlook.

The unfinished agenda from the past continues to be we are still looking for a strategic partner in our automotive steel business. We are looking for a possible JV in a downstream value this business of bright bars and we are now seriously looking for a partner for getting into high alloy steels of more specialized steels, which go to this route of steel manufacturing. Those kinds of products of course will get into business segments like bearings or looking at tool and die those are under study at this point. Over the next year or so the study will continue whereas the continued look for a partner in that area.

Overall, we have a strong team and our cost come under control with the increase in production. The biggest advantages we now have are two, in addition to our own operations. Punjab government lowered cost of power tariff has kicked in from January 1, 2018, so power tariff today is now roughly around Rs.5.70 paisa per unit, which was around Rs.6 40 paisa per unit, so that is one element of power and second element of power is there is an incremental power

consumption over last year is at a lower tariff, which is why there was a bump up in the fourth quarter because of power.

Operating EBITDA was lower because of the continued increase in raw material prices, which has got adjusted partly with the Rs.4100 price increase what we got in April 1, 2018. The second unfinished agenda from the government was the government incentive. We are happy to announce that the government has cleared 31 Crores of past incentives on an interim basis pending final status from the government, so which means we are going to get this 31 Crores. The government has accepted up to 62 Crores worth of incentives; however, as per the policy that the government has taken out, which we are disputing, the incentive overall is going to be about 26 Crores over the next eight years, which includes the two years gone by we will get pending arrears. We are of course contesting that in as per us the incentive has to be higher because of a flaw in the interpretation of the government policy, but at least this part of the incentive is now come out in terms of a notification from the government.

So this is all and I would like to of course thank our team, all our stakeholders, our customers have been very supportive, banks have been supportive and we now have a new investor relations firm Bridge and they are also on the call with us. We hope they will be of course communicating this more of you on a regular basis and our CFO, Sanjeev Singla who is on call and Jasmeet, Group Head of Finance is also on the call, Purva, Investor Relations Advisor she is on the call and Sanjeev will start visiting the capital markets and next trip to Mumbai. He will visit me, so he will be getting exposed to the capital markets as per as Vardhaman Special Steel in concerned. So this is all I have to say and we are now open for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Dhruv Agarwal from Crecsita Investments. Please go ahead.

Dhruv Agarwal: Good afternoon Sir. Congratulations on a good set of numbers. Sir, my question is regarding the volume estimate for the coming year FY2019 and FY2020, for FY2018 you have done a total of 152000 around metric tonnes of volumes, so what can we expect for FY2019 and FY2020 going forward, any percentage growth rate or any absolute number if you can tell us?

Sachit Jain: Market conditions continue to be good and demand is robust, so we will still be constrained by our capacity and the capacity additional will come in only later part of the year plus we have a shutdown coming, which will enable the capacity expansion to happen. So we are expecting between 165000 and 170000 tonnes of sales as far as the financial year is concerned.

Dhruv Agarwal: For FY2019?

Sachit Jain: Yes. For FY2020 we expect to get about 200000 to 210000 tonnes.

Dhruv Agarwal: Sorry, around?

Sachit Jain: Around 200000 tonnes.

Dhruv Agarwal: 200000 tonnes and just this present year volume has been from the total capacity of 180000 or 200000?

Sachit Jain: 180000, the capacity of 200000 has just about reached now, so let us say March, April, so it has just now reached, but even now we cannot consistently make 200000 tonnes because this is one off, I mean we have hit that run rate in one month. We need some more balancing capacity to make sure that this can be done on a regular basis that balancing capacity will be coming in by September, October. So really on a consistent basis to be able to get that production through the year, October will be the right place, but one month we have already shown that that capacity of 200000 tonnes has now been met.

Dhruv Agarwal: Sir, one more question is regarding the realization per tonne, for FY2018 your realizations were around Rs.56500 per tonne, so going forward how do you see that growing, what will be traction in that?

Sachit Jain: This is all raw material linked. Already Rs.4100 is the price increase that we have got from April 1, 2018 for most of the OEMs. One OEM is still pending, which would happen in the next 15 to 20 days and by the market trend they should also give the same. So, 4100 is the price increase that we have got from April 1, 2018 and October 1, 2018, it depends on the negotiations at that point in time, but the way we see it, the price increase at that time should be somewhere between Rs.2000 to Rs.4000 a tonne depends on how the raw material shifts further.

Vijay: Sir, this is Vijay here. Just wanted to understand one more thing in terms of the capacity and the growth that you have talked about, so as we are moving ahead with the capacity constraint environment that we have and growth seems to be robust, so how we are looking at a business or we selecting business as per the better margin profile or we are sticking with what all is coming to our plate so is there a scope of margin expansion or realization increase coming in?

Sachit Jain: Yes, there is. Already the process of shedding unprofitable so there are three categories of businesses. One is strategic and profitable, one is unstrategic and not profitable, and one was strategic and not profitable. So the unstrategic and not profitable businesses have already been shed last year. Now, we are concentrating on the strategic, but not profitable business and we have started very solid discussions with on the customers and we have found that wherever we have taken a firm stand, there is a change in the approach from the customers and we have got some improvements. I do feel that moving ahead there would be possibility of margin expansion, which is why for the first time we have even imagine the figure of 6000, I am not saying we have hit the figure of 6000, but I can now visualize the possibility of hitting margin in the range of 4500 to 6000. This is something that we will see overtime.

Vijay: That is great and Sir, just wanted to understand the debt profile now given the rights and the QIP, so how much is the debt currently?

Sachit Jain: Net Debt on March 31, 2018 was 220 Crores.

Vijay: And have we got cost benefit also in terms of the overall debt cost?

Sachit Jain: No, that does not change.

Vijay: That does not change?

Sachit Jain: That will change only when our rating changes, but of course overall in the market there is a little steepening of the yield curve so I am not seeing any reduction in debt cost.

Vijay: So it is around 11% currently or more?

Sachit Jain: No, it will be less than that.

Vijay: Thank you very much.

Sachit Jain: And since we are AA- rated, so we are able to also borrow in the CP markets. Our working capital is borrowed in the CP markets, long-term should be roughly on 10 and short-term would be lower than that.

Vijay: Great Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Mangesh Bhadang from Param Capital. Please go ahead.

Mangesh Bhadang: Good afternoon Sir and just a couple of questions from my side. Sir, firstly for your pricing reset earlier the graphite electrode was not part of the formula, so from the price hike that you mentioned from April 1, 2018, do it include the variations in graphite electrode that is the first question and secondly, Sir when you mentioned that you can do Rs.4500 to Rs.6000 EBITDA next year?

Sachit Jain: No, I am not saying next year and this is the range that we can see overtime. Each year if the raw material prices keep rising then we will not hit that figure this year because we will be paying catch up, but my belief is at least one element of raw material seems to have stabilized, shredded scrap seems to have stabilized, so it seems that within a couple of months or so the raw material price could start stabilizing, so once raw material price starts stabilizing then we hit these numbers.

Mangesh Bhadang: So that is the number basically we can expect in the scenario as you had mentioned in your opening remarks when actually the raw material prices started going down and since the reset takes time probably that is the time you will enjoy?

Sachit Jain: Yes, they are stable. I am saying when the raw material prices are stable then we should see this kind of situation. We do not predict exactly quarter-by-quarter what is the situation is going to be.

Mangesh Bhadang: Basically I just wanted to understand can we hit that 10% EBITDA margin so assuming even the Rs.6000 of realization is it possible to reach 6000 without any, so can we have the pricing power?

Sachit Jain: One thing the EBITDA per tonne will be in this range and as prices keep rising the percentages will keep falling, so a 10% seemed possible at Rs.5500 a tonne .

Mangesh Bhadang: Sir the first question that Rs.4500 it just covers the cost or it still leave us something on the table to add it to the EBITDA?

Sachit Jain: No of course it leaves this much on the table, so we expect an increase in net profit again this year also even at a lower end of the whatever EBITDA we get.

Mangesh Bhadang: Got it. Thanks a lot.

Moderator: Thank you. Next question is from Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Two questions from my side; first on the incentives from the government, can you just repeat you have received Rs.31 Crores out of how much?

Sachit Jain: No, we have not received it. The government has approved it and this includes arrears of two years plus moving forward; however, we are contesting the government figures and we are saying we are due for a higher incentive than this and those discussions are going on, but as per the current approved policy we will get Rs.26 Crores over the next six years including the past two years, so over eight years we will get Rs.26 Crores.

Dhaval Shah: So Rs.26 Crores each year or over eight years?

Sachit Jain: Overall over the eight years' period, but this is as per the government's understanding of the current policy; however, there is a section of the government, which has got convinced that their reading of the policy is wrong and therefore we should get a significantly higher incentive those discussions are going on.

Dhaval Shah: So in terms of your additional cash flow for you in FY2019 this year and FY2020, so from the government side how much you are expecting?

Sachit Jain: I do not know because as I said this is as per what the government has approved. This year we should get Rs.3.5 Crores of pending from last year and Rs.2.5 Crores from this year, so we can easily get Rs.6 Crores straightaway; however, we are contesting this and we believe we should get significantly more than this. Enough is on the table we can take it right now and it is approved by the cabinet.

Dhaval Shah: Okay Rs.6 Crores is on the table, so in terms of – is this reflecting in the margin?

Sachit Jain: This is not reflecting in the margin, this will be over and above what we are talking about.

Dhaval Shah: Now Sir second question is on the industry, I remember two calls back we had discussed about couple of players in industry are not in a good financial state, so this helps little bit, we have the existing players in terms of growth and bargaining power with the customer, so what is the current nature in the nature, how are the competition, has the players started regaining, have they become started getting topper in terms of financial health?

Sachit Jain: The weaker players will continue to remain weak and stronger players will continue to become stronger, so the gap between the good and the weak will I think start increasing.

Dhaval Shah: So you had also named the couple of players also like Modern Steels, Heavy Steel, which were not in a good state, so they all will be going for this some of the other may be acquisition from someone or they might go for liquidation or something?

Sachit Jain: My understanding is Remi Steel the promoters are now trying to revamp the company and investing more money, so then they have strong promoters, so they will be able to revamp it.

Dhaval Shah: Okay, so our addressable market size is annually 5 million tonne am I correct?

Sachit Jain: That is the rough estimate.

Dhaval Shah: So for the demand of 5 million tonne current supply is more than the demand or adequate, how is it?

Sachit Jain: There is an interesting part for the good quality companies everybody is tight on supplies, so all the companies at the top tier are all very tight on capacity and when we increase our capacity ,we should be in a good spot in our ability to service our customers.

Dhaval Shah: Sir when the good companies are short of the supply, so should not there be a better bargaining power and the pricing power with you guys competing, when taking a price hike, so currently you take price hike, so cannot this frequently change?

Sachit Jain: Understand when you are talking to the big boy like a Maruti or Hero; howsoever, strong you think you are you are still a much smaller company, so I will never say that we have a strong bargaining power with any of these customers. We have good relationship with them. We serve them well and we have good discussions and fair negotiations, so to say any day that our bargaining power going to be stronger company to any of these big giants that would be highly, highly unlikely.

Dhaval Shah: Over the next six to eight months to one year you expect the supply side to gets stronger or the market place is growing?

Sachit Jain: It is very difficult because you see what happens is there is a very strong approval process, which takes time, so the entry barriers are very, very high in this business and the business is a sticky business, so it is not so easy to just get in a replacement.

Dhaval Shah: So for example just for my understanding if a weaker player could not supply the required volume because of lack of equipment?

Sachit Jain: They would not be approved by the superior quality companies.

Dhaval Shah: So who are your clients they will not be approving it?

Sachit Jain: They will not be approving, so our competition in the companies where we are approved are the stronger companies.

Dhaval Shah: There would be in terms of number would be 3 to 4 in India?

Sachit Jain: About five players including us.

Dhaval Shah: Including you about five players?

Sachit Jain: Yes.

Dhaval Shah: Okay and Sir just last on the volume side, so this year your rolling production was 162?

Sachit Jain: Yes, so one there is a rolling production all will be higher because we also have this process of bright bars, which consumes rolled production and there is wastages there one. Two, we are building up some rolling stocks now because we have a shutdown in our rolling mill coming up in August, so we are building up some stocks for servicing, so production is little higher than what we have sold.

Dhaval Shah: What is our billet production this year?

Sachit Jain: Billet production was 167000.

Dhaval Shah: So broadly this should also growth should be around 20% in the billet product the next year?

Sachit Jain: Because we have a shutdown coming, as I said 25 days' shutdown, so we will not have that level of production and really the capacity will start going up from September, October then we have a shutdown coming and then again from about February this capacity should go up after stabilizing shutdown, so which is why we are talking of, but we are still talking about an increase in sales to 170 around, 165 to 170, so about 10% increase in sales.

Dhaval Shah: Sir was not this number around 15%, 20% like two quarters back you said the industry given the way industry is growing 15%, 20% growth is what?

Sachit Jain: I said we have a capacity constraint which is why we are talking.

Dhaval Shah: That is right. Thank you.

Moderator: Thank you. Next question is from Ritesh Poladia from Girik Capital.

Ritesh Poladia: Thanks for the opportunity Sir. This Rs.200 Crores capex over three years, so will that utilize the existing facility or the new land, which is acquired?

Sachit Jain: I am sorry I did not get you. Can you just repeat the question, please?

Ritesh Poladia: The Rs.200 Crores capex over three years will that utilize the existing facility or even that takes care of your new 8-acre land?

Sachit Jain: It takes care of the new 8-acre land, so about Rs.40 Crores is the investment in the land just buying of the land, government fees, etc., so Rs.40 Crores goes there, so Rs.160 Crores goes into capex, which is a combination of the expansion of our melting, expansion of our rolling, normal capex some quality equipment, some safety equipment, R&D, little bit of investment in bright bar, so combination of all is about Rs.200 Crores.

Ritesh Poladia: What I want to ask is will this Rs.160 Crores capex would happen on the new land also means new land would be utilized for this capex?

Sachit Jain: New land would be utilized partly. Yes, we will be shifting we plan to shift our bright bars to the new land.

Ritesh Poladia: Okay Sir, both lands put together how much capacity can be setup?

Sachit Jain: Every time I think, I think we reach the ultimate, so earlier we thought 200000 tonnes of billet making was our limit; however, our team works hard and broke bottlenecks and we are now seeing a capacity of 240000 tonnes. As of now the 240000 tonnes is our limit; however, our team murmuring has already begun that we can probably improve this further from this, so I do not know, but as of now 240000 tonne is our limit on this plant.

Ritesh Poladia: In this new land?

Sachit Jain: Including the new land any further capacity will have to go to a new location.

Ritesh Poladia: Sir, one request. If you can give us sales and production volume every quarter that would be wonderful.

Sachit Jain: I am sorry sales and?

Ritesh Poladia: Sales and production volume number every quarter.

Sachit Jain: Sure we will do that.

Ritesh Poladia: Okay and last what is the Q4 EBITDA per tonne?