



Vardhmān

VARDHMĀN SPECIAL STEELS LIMITED



“Vardhman Special Steels Limited
Q1 FY '24 Earnings Conference Call”
August 03, 2023



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

Moderator: Good day, and welcome to Q1 FY '24 Earnings Call of Vardhman Special Steels Limited, hosted by Choice Broking. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Sachit Jain, Vice Chairman and Managing Director of Vardhman Special Steels. Thank you. And over to you, sir.

Sachit Jain: Thank you so much. Ladies and gentlemen, good afternoon and thank you so much for being with us on this call today. Of course, before I hand over to Mr. Singla to take over some of the company performance, I wanted to share a few important things that have happened within the company.

Of course, all of you're aware that we celebrated our Golden Jubilee of steel business not as a company, but as a business in April of this year. And we celebrated by doing a 1:1 bonus with increased liquidity in our shares. Two, with this 50-year celebration, we have strengthened our relationship with Aichi. Three, we have added to our board -- my daughter, Soumya, has joined the Board as an Executive Director in this Board Meeting.

Moderator: Ladies and gentlemen, thank you for patiently waiting. We have the management line reconnected. Sir, over to you. Please go ahead.

Sachit Jain: Yes, my apologies, ladies and gentlemen, there is heavy rain in Ludhiana. So, I guess that's where the line got affected. But anyway, so Soumya Jain, my daughter has joined the company as an ED in this Board Meeting and it leads to continuity from the owner family. She's fully involved in the business and involved in all functions and particularly focusing on HR and Strategy and our relationship with Aichi, which is the most important part of the strategy going ahead.

One key thing, which is really important for our company that we are seeing in the last few months and becoming a bigger trend, is this focus on carbon neutrality, reduction of carbon footprint that we are hearing from global customers, as well as increasingly from Indian customers. This is one area where we have an advantage compared to our competitors in India.

Carbon footprint for most of our competitors will be between 2.5 tons to 3 tons of carbon per ton of steel, whereas in our case, it is now around 0.8 tons, 0.82 tons, and we have plans to bring it down to 0.5 tons in the next 2 years and then down to 0.2 tons. But more on that in the Q&A.

I'm passing the line to Mr. Singla to take up the opening information about the company's performance and then I'm available for Q&A.

- Sanjeev Singla:** Thank you, sir. During the first quarter of FY '24, we have been able to achieve a total volume of 47,400 tons as against 52,000 tons in the corresponding quarter of last year. The decline of 9%, primarily because in the last year, the similar quarter, there were some sales which were on hold in Q4 of FY '23. We were able to do more sales in Q1 of FY '23. And on revenue side, in terms of total revenue, it is INR 409 crores as against INR 469 crores in the corresponding quarter. Then EBITDA is also lower because of the decline in sales prices twice last year, which happened on 1st of July and 1st of October.
- The net -- the total reported EBITDA is INR 36 crores, including other income as against INR 51 crores corresponding quarter of last year. EBITDA per ton, in this quarter, we have been able to achieve INR 7,688 a ton, well within the stated range of INR 7,000 to INR 10,000 per ton, though we are at the lower end. And PAT as well stands at INR 18.57 crores as against INR 30 crores of the corresponding quarter. So that's all on the performance of first quarter. I request now for the questions & answers.
- Moderator:** The first question is from the line of Akshat Mehta from Sameeksha Capital.
- Akshat Mehta:** So, I was asking about this solar power plant that you guys were talking about. So, can you give some colour on by when do you expect this to come around and what can be the potential benefits in terms of power costs?
- Sachit Jain:** So, we are targeting the solar plant to come up by end of next financial year. So, let's say, we'll get the benefit of this in '25-'26. No, by '24 end. So, my apologies, '24-'25. No, '25-'26. '25-'26. Yes.
- Akshat Mehta:** Yes. And any number on what can be the potential benefit in our rough estimate?
- Sachit Jain:** We are calculating, but it'll be a reasonable sum. It'll be roughly 50% of our power, which will convert to solar. That is the plan. Most importantly, there's some financial savings, but more importantly, our carbon footprint will drop by 0.3 from 0.8 to 0.5. We will be roughly 1/5 to 1/6 of all our competitors.
- Akshat Mehta:** Correct. Second question from my side is, can we shed some light on what is our wallet share with some of our larger customers for OEMs?
- Sachit Jain:** I'm sorry?
- Akshat Mehta:** What is our wallet share of the company with some of the larger customers or OEMs, if you can share that?
- Sachit Jain:** So, see, customers are very difficult to say because some split is by OEs, and then some split is with Tier 1s. And there is a double counting of that. So, we don't look at it that way. But our largest customers, together, if I look at just OEs, the 4 largest OEs together will be about 4,000 -- about 4,500 tons to 5,000 tons, the 4,000 largest OEs, larger OEs. Similarly, if you look at...
- Akshat Mehta:** Per month or?

- Sachit Jain:** 4 or 5 larger Tier 1s, which will be again an overlap of the OEs and this will be 6,500 tons. The top 4 would be 6,500 tons, around 6,000 tons to 7,000 tons.
- Akshat Mehta:** And this is per month, right?
- Sachit Jain:** I'm sorry? No, no, this is per month, per month. Yes.
- Akshat Mehta:** Okay. So, another thing that I wanted to ask you about is that during the year, you've already told that we are going to take some voluntary shutdowns since you have to expand our rolling mill capacity.
- Sachit Jain:** We've already taken one shutdown in June. So, one shutdown has happened and then another shutdown is going to happen later, near in October, October or November. November, sorry, not October, in November. So, one shutdown has already happened, which is why we had this build-up of inventory, which has since quite a lot depletion has happened. And by the end of this quarter, the inventories will be back to normal.
- Akshat Mehta:** Okay. So, will the shutdown down have some effect on your cost for the year because of the early shutdown and start-up cost, which will be there.
- Sachit Jain:** They have already been included in the results. And I think one more thing to mention about the results is that our Q1 price settlement with our OEs is still open. Because of cost of raw material increase, we have been expecting a price increase and we are demanding a price increase from our customers, which has not yet been final. One OE has given the price increase. So that has already happened, and we are demanding a similar increase from other OEs in the same fashion. But that since the price increases has not been finalized, so that has not been factored into the results of this quarter.
- Akshat Mehta:** Any sense on what kind of price you are asking for?
- Sachit Jain:** See, we've been asking -- our ask was between -- I think we asked about INR 5,000. The industry was asking INR 5,000 and INR 8,000 a ton. Increase, of course, that kind of increase is not happening. But my understanding is at least on hot rolled coils, the increase has been in the range of around INR 4,000. But the hot rolled coils are big guys.
- So, they can probably negotiate better. We are smaller companies and we'll see what we'll get, but we are holding strong as of now. And second quarter prices are expected to fall after this rise because the raw material prices are falling. Basically, what's happened in our falling raw material scenario purchase, we will find it difficult to give a price increase. That's the problem.
- Akshat Mehta:** I think you always said in our presentation that the steel prices have already fallen higher than what our raw material prices have fallen.
- Sachit Jain:** Yes. But Q1, we are expecting a price increase, which hasn't yet been finalized. So, let's see.
- Akshat Mehta:** That will all come in quarter 2. Correct? So retrospectively also that will all come in quarter 2 now.

- Sachit Jain:** We've closed Q1. So, whatever happens will be finalized. Whatever gets finalized will be second Q2, will be accounted for in Q2.
- Moderator:** The next question is from the line of Radha from B&K Securities.
- Radha:** So, wanted to understand that in Q1, if you see the industry and around 70% of our volumes are coming from two wheelers and PV. So, in PV, we have seen a Y-o-Y growth in the quarter and in two-wheelers also, it has largely been stable. However, in our volumes, we have seen a decline. So, I understand that this is a year of consolidation for us, but still the volume decline is not matching with the industry growth. So, what could be the reason?
- Sachit Jain:** That's an accounting thing, which we said, please do not look at quarter-to-quarter. It depends on some quarter sales may be higher, the previous quarter is lower, and so spill over effects are always there. So as the thing I explained last year, Q1, there was spill over from Q4 into Q1. So Q1 of last year, the sales were higher than normal. As you can see in the previous year, every quarter, subsequent to Q1, the sales were lower than the 52,000 that we got in Q1. So, the other part is in this quarter, the sales were lower in this quarter because some sales have been pushed into Q2 because of normal accounting.
- So, these are all accounting issues, which we don't normally comment on. You have to see full-year basis what the sales are likely to be. On full-year basis, our sales are likely to be similar to last year. It was a little bit up, little bit down, but around the same level.
- Now, rightly mentioned by you, PVs are doing well, but there are certain other segments we are not doing as well. So, motorcycles has not been doing as well, now picking up. So, we should see some impact on motorcycle sales. And third, we also have a component of export of components to which our steel goes. So, because of global economy suffering, there is been a drop in some of our customers usage who are exporting components. So, the sales that we report is a combination of all these factors.
- Radha:** Okay, sir. And sir, secondly, we have seen a cost increase because of a change in fuel mix. So, what was the exact quantum of the cost increase because of the mix and can we have multiple...
- Sachit Jain:** So main reason for cost increase in fuel -- in power, so power tariff went up and fuel, we have shifted to GAIL, the GAIL pipeline, which means the costs will now come down from July onwards. So, second quarter onwards our fuel cost will be significantly lower.
- Radha:** So, when we speak about price increases with customers and given that you indicated that we are asking for a lower price increase vis-a-vis industry, so could you give us some light?
- Sachit Jain:** We asked for INR 5,000 and some other companies have asked for INR 8,000. So, I don't know what is there. We ask for INR 5,000 increase.
- Radha:** Yes, sir. So, I just wanted to understand with respect to that, when it comes to our final product, what is the difference in pricing that we offer to customers versus what other peers are offering to OEs?

- Sachit Jain:** It depends on customer to customer and supplier to supplier. So, at the same customer level, for example, a Maruti for the same product will give a similar pricing, same price to all their vendors, similarly would Bajaj. But if you look at in the market pricing that some of our competitors will be significantly lower than our prices.
- Radha:** And sir, previously we have given a guidance of 2.05 lakh tons for FY '24. So...
- Sachit Jain:** We'll be around that. We'll be around 2 lakh tons, 2.05 lakh tons, around that figure only. We stand by that number.
- Radha:** And how much would be the mix from Aichi?
- Sachit Jain:** We don't share those numbers. But eventually, it'll be 25,000 tons by '25-'26, but it'll be about 8,000 tons to 10,000 tons.
- Radha:** Okay. Sir, when we talk of taking the price increases with customers, so I understand that we factor in the raw material volatility, but we also factor in the higher power and fuel costs and other costs in those -- in that contrast?
- Sachit Jain:** See, we try but it depends on what the OEs give. So OEs are larger companies, much larger than us. They're making good, very good profits and let them see what they pass on to us. It's not in our hands. They're much bigger than us.
- Radha:** Understood. And sir, lastly, by when do we expect the -- so you had mentioned that INR 7k to INR 10k per ton would be a guidance on EBITDA per ton. So, by when do we see it go to on the higher range, or at least still above 8 or 9?
- Sachit Jain:** Very difficult to predict that. If we get the price increase of 2,000 to 3000 or 4,000 that we want, then this quarter itself we'll reach 9,000 or 10,000. So, it all depends on the price increase once it gets settled. If they don't give any price increase, then it will remain at this level. So, it's very difficult to predict what will happen. And we don't give any significant predictions or where it will be in this range. There are so many factors which, affect the PBDIT. So, we would not like to comment beyond within this range will it be -- when it'll be higher, when it'll be lower.
- Radha:** Okay. And sir, lastly, given the current cost structure, is there a more headroom or plans to reduce the fixed costs?
- Sachit Jain:** As volume increase, fixed cost per ton will definitely either remain or will come down a bit or remain stable despite inflation.
- Moderator:** Next question is from the line of Ritwik Sheth from One-Up Financial.
- Ritwik Sheth:** Yes. Sir, a couple of questions. Firstly, on the Aichi material that we are exporting, sir, how has been the rejection rate trending in the last 3 months to 6 months? Has it improved versus....
- Sachit Jain:** Yes, it has improved. Rejection levels are gradually trending downwards, but still there, but trending downwards.

Ritwik Sheth: Okay. And it's as per as our expectation and our plan, what we have built in? And we are expecting to smoothen the process over FY '24, would that be a fair understanding?

Sachit Jain: Yes. By '24, we should be having a far smoother process. Yes.

Ritwik Sheth: Okay.

Sachit Jain: And some equipment that we've ordered, if you'll see our intimation to the stock exchange, some equipment is coming in December. So, INR 160 crores is the equipment we have finalized over the last few months, which has been approved by the Board. So that equipment will lead to some of the quality improvements. But that will happen by -- unfortunately, those equipments have got delayed because of supply chain issues and so on. So that will all be done only by December '24 to March '25. So, the full impact of that we will see in '25-'26.

Ritwik Sheth: Okay. Okay. And you mentioned around 8,000 tons to 10,000 tons of exports to Aichi in current year?

Sachit Jain: Correct.

Ritwik Sheth: Okay. Great.

Sachit Jain: In our books, they come as domestic sales because we deal with Toyota Tsusho, the Toyota Group's trading arm. In our books, they come as domestic sales.

Ritwik Sheth: Sure, sure. Got it. But it's like deemed exports.

Sachit Jain: Correct.

Ritwik Sheth: Right. Okay. And, sir, on the pricing, you mentioned that Q1, we are expecting a price increase and then again, a decline because of raw material prices easing out. So, would that be a fair assessment that if the OEM don't give us an increase, they won't ask for a decrease as well and then....

Sachit Jain: See, OEMs will always ask. It's up to us to agree to give or not to

- Ritwik Sheth:** Yes, no, I agree. Because if we see, despite not getting a price increase, we are at about INR 7,500 per ton, if we adjust for the electricity incentive. And if we get, then we are closer towards our upper end of the price. And that is what I was trying to comment.
- Sachit Jain:** Yes. You are right.
- Ritwik Sheth:** Sir, what is the capex for FY '24?
- Sachit Jain:** Most of this capex will still be rear-ended because orders have been placed and by the time they come in. So, this year about INR 40 crores, except for if we get finalized those land parcels we are looking at, then it'll be higher. Then it'll be close to about INR 90 crores to INR 100 crores. Around INR 90 crores roughly, roughly INR 90 crores.
- Ritwik Sheth:** INR 90 crores, okay. And without the land, INR 40 crores?
- Sachit Jain:** Yes. Without the land INR 40 crores. Yes.
- Moderator:** The next question is on the line of Deep Mehta from Bank of India Mutual Fund.
- Deep Mehta:** Just one clarification. Yesterday, we have announced our one capex plan of increasing our capacity by 50,000 tons. Just want to confirm that, is this over and above the 30....
- Sachit Jain:** No, no, this is part of the original plan. It's just orders have been placed. So, orders have been finalized, I mean, approved by the Board. One order placed, one order about to be placed, but clearance given by the Board. So, it's part of the originally announced plan. There is nothing new happening. Our capacity is not going beyond the current level in the existing plan.
- Deep Mehta:** Understood, sir. And second question, aspirationally, we have target to have our exports to 25%, which is around 60,000 tons. So just want to understand what part of this incremental volume will come from Aichi or Japanese OEMs and what will be over and above that?
- Sachit Jain:** We don't share those numbers apart -- Aichi business, we have said will be about 25,000 tons, but there are other OEs through whom also -- we don't separate all those, how much businesses come through them and so on. So, they're helping us in the entire business. So very difficult to say, they're helping us here and not helping us there.
- Moderator:** The next question is on the line of Anil Kumar as an Investor.
- Anil Kumar:** Sir, my question is how much part of our raw material cost is electrodes. The prices have increased. And how much the cost of raw materials is part of that? And number two, how much of INR 160 crores will go through debt and how much from internal as a whole?
- Sachit Jain:** I'm sorry? The debt. Our debt equity will remain below 0.5 in all stages. So, we don't share out each number how much is from internal accruals, how much is from debt. So, debt equity currently is around 0.2 and it will not cross 0.3 in the near future.
- Anil Kumar:** And sir, how much of the raw material -- percentage of raw material is from electrodes?

- Sachit Jain:** Electrodes won't come in raw materials. So, electrodes is a separate item. It comes in consumables.
- Anil Kumar:** Consumables, yes. So how much is percentage?
- Sachit Jain:** We don't share all those items. At what prices we purchased a particular item are confidential between us and our suppliers. But roughly, prices of electrodes have gone up significantly and then have started falling. So, second quarter electrodes consumption -- yes. Falling. So, second quarter, our prices of electrode consumption costs would be lower.
- As we said, all costs are trending down in Q2, which is why the -- there's a whole trend of lowering price cost, and therefore, the OEs were having difficulty in giving a price increase in Q1. But we are still holding strong and we are hopeful that we would get some resolution in next few weeks because we have a genuine case.
- Anil Kumar:** Okay. Best wishes, sir. As always you are doing your hard work.
- Moderator:** The next question is from the line of Mohammed Hassan from Fairdeal.
- Mohammed Hassan:** Yes. Sir, I actually wanted to know what is so special about our company that while the other players in the same segment are asking for INR 8,000 price increase. We are capable. We are sufficient in even INR5,000 with price increase. So, what is so special about our company? Just want to know that.
- Sachit Jain:** First of all, Mohammed Hasan, thank you for thinking there's something special about our company. There's nothing special in our company except for the name special. Okay. So, we are a normal manufacturing company, manufacturing steel for automotive sector. So, why we are asking for a lower increase than that than some of our other competitors, because we actually face the OEs and our OEs respect Vardhman as a company, which is transparent, which has to be able to justify the cost increases.
- OEs are very smart purchasers. They don't give a price increase just because you're asking for it. So, you have to justify cost item by item, line by line. Why are you asking for a particular increase? If you recall last year first quarter, there was talk of INR 25,000 price increase by some of the steel companies, eventually they settled for INR 9,000.
- So, you are asking, you can ask anything, you see what prices we settled. And Vardhman did not put a number out. We were the only company that did not put a number out because we felt these were outrageous demands. But if they get -- if they are asking 45, when they get 15 or 18, they'll happily take it. But in our view, those expectations, those demands were outrageous.
- So, if somebody is asking for a higher increase, they're fully free to get. That if they get a higher increase than we, because the OEs give the same price to everybody. So, we'll also get as the beneficiaries of the price increase. But we have to justify to the OEs and I personally meet the OEs. And one huge advantage that we have gained over the last few years, the OEs all trust us for our transparency and sharing our data, which has built a far better brand equity with our OEs. And we are very clear as a company, we want to make a good profit. We don't want to profiteer.

- Moderator:** The next question is on the line of Saket Kapoor from Kapoor & Co.
- Saket Kapoor:** Sir, just if you take the breakup of your cost of material consumed, if you could provide in percentage terms what are the key components and how have the trends have been over the last 2 quarters?
- Sachit Jain:** Okay. I'll just pass on to Mr. Singla, CFO. Cost of materials, what are the trends in various components of cost?
- Sanjeev Singla:** In the last 6 months to 9 months, if you will see the trend of all components of raw materials, it's on declining side. Earlier from October 22 onwards, the prices started increasing like ferro-alloys, nickel, moly, vanadium, later part of our second half. The prices, I will say rather, all commodity prices have started declining. And accordingly, some of the inventories which were booked in the later part of the last financial year have been consumed in the current quarter. But accordingly, the full impact of declining prices will start coming from quarter 2.
- Saket Kapoor:** So, sir, when we book the deliverables for the OEs, how do we negotiate the prices? If the trend was declining, what could be -- how could we explain this increase in the price which we have....
- Sachit Jain:** So, we're able to increase the data. So typically, for the quarter increase, they look at the previous quarter costs and indices, which is why we are very confident that we are due for this price increase. And Q2, we are agreeing that there's a price reduction because costs have come down. But the purchase people, when they see the costs coming down, then they want to not give that increase, which is due to us. However, two OEs, one I've forgotten, there are two OEs, have already given us a price increase, which has not been factored in because letters have not yet come in. But one OE is factored in, which is a small OE, but two OEs have given a price increase.
- So very clearly, the trend is they have to give a price increase in Q1 and then a reduction in Q2. But they may say that, okay, because there's a reduction in Q2, maybe they are trying -- no change in Q1 and maybe then Q2, there'll be no change. So, we don't know how they're thinking, that is perhaps what they're thinking. But we are very clear, we need an increase in Q1. But anyways, those are negotiations going on. So, it's not in my hands.
- Saket Kapoor:** But what are the key? In percentage terms, if you could give, what are the key components from out of this line item of INR 272 crores, the key percentage of raw material constitute?
- Sachit Jain:** We don't share our raw material mix because raw material mix keeps changing depending on the relative prices. So, for example, sponge iron, one of the elements out there, which can be replaced by gas-based DRI. That figure can change from 5% to 15%. Shredded scrap can change from 5% to about 15% to 20%, and therefore, other components will come down or increase. So, the factors keep changing and we don't share our mix because it changes depending on market price.
- Saket Kapoor:** Sir, when you -- in your management commentary, you mentioned about this will be a year of consolidation for the company. So, could you please explain what are you trying to explain to us in terms of consolidation? That means utilization levels, profitability, what are we indicating that?

- Sachit Jain:** Consolidation means that we say we would like to not increase production, focus on systems to make sure quality is absolutely okay, any areas of improvement required, improve them, improve our internal audit system. So, we have last year hired E&Y for our internal audit also. So, strengthening all those systems because as the organization has grown a lot over the last 5 years, 7 years, we intend to see that if there any lapses, lacunas anywhere, get them sorted. With the GAIL pipeline, which came in, there was a lot of effort to get it done. And then SAP implementation will begin later part of this year.
- So, all these are part of stabilizing the organization, consolidating the organization, building the culture as per Aichi framework. Some of our members have already been to Aichi earlier this year. Soumya and Mr. Rewari, our other ED, CEO, they have visited Aichi. So, we are adding - the new President from Aichi has come in, incoming President has come and visited us. Then METEC, the steel machinery fair was there. So, there are so many things that are happening. So, we have to all understand and organizations have to pause and consolidate and strengthen themselves before you're ready for the next year of growth.
- Saket Kapoor:** So, we can also assume that this is the groundwork for the Aichi to be on board and for the further investment for them going ahead as has been mentioned in the....
- Sachit Jain:** Absolutely, because lot of action is to happen over the next 5 years to 7 years. And then taking Soumya on the Board also is part of that consolidation, that in the succession plan will gradually become clearer. We are also working on a plan for our capacities in '25-'26 when you show up all sort of capacity. How do we make sure that capacity comes on board? So, there are several things as a manager we will be working on, and that is the time to pause and not push or accelerate on everything and then start delaying the organization.
- Saket Kapoor:** And sir, secondly, you did spoke about replacing this higher fuel cost. You spoke about fuel cost component will be falling.
- Sachit Jain:** We have got the pipeline from GAIL has started, which was supposed to have started in January, which got delayed. So, we were buying much more expensive gas from Think Gas, one of our suppliers who -- because we were dependent on them, overcharged us. And so, we had to pay, we had no option. Now we have shifted to GAIL. We will be saving significantly on our gas consumption.
- Saket Kapoor:** What is our quarterly requirement in value terms?
- Sachit Jain:** We'll be roughly on current cost. We'll be saving over INR 3 crores per quarter, starting second quarter.
- Saket Kapoor:** Okay. INR 3 crores savings. So, INR 12 crores on an annual basis?
- Sachit Jain:** INR3 crores. Yes. We'll be saving over INR 3 crores. Next quarter, we'll have another issue that because of falling costs all around, there'll also be some inventory losses. Last 2 years, we've had some inventory gains as we went along, which added to our EBITDA per ton and took it beyond 10,000 also in some cases because of inventory gains. In the falling raw material scenario

for at least one quarter, if prices stabilized, no further, but Q2, clearly there will be inventory losses.

Saket Kapoor: Okay. So, this will get our fuel and cost, savings will get negated by the inventory losses. It'll be higher, the inventories,

Sachit Jain: Yes. To some extent, yes. And Q3 onwards, we would be at normal level.

Saket Kapoor: Okay. So, we can see the trend below 7,000 also, which is our benchmark.

Sachit Jain: Again, I have said we don't predict on every quarterly numbers.

Saket Kapoor: No issue, sir. I got your point.

Sachit Jain: For the full year, we expect to be between the 7,000 to 10,000 range. And as of now, we expect to be at the lower end of the range of 7,000 to 10,000 as of now. If things change, we will give an update in the next quarterly results con call.

Saket Kapoor: Sir, for the pipeline, how much have been our investment?

Sachit Jain: I'm sorry?

Saket Kapoor: The gas pipeline from GAIL, how much have we invested?

Sachit Jain: There is no investment from us. GAIL has made all the investment.

Saket Kapoor: Okay. And how is the pricing done here? It is an annual contract, a quarterly contract?

Sachit Jain: It's a formula-based contract, which prices change every 15 days. Every month the prices change. So, we are in market price in this Henry Hub, which is the gas index.

Saket Kapoor: Okay. So, the prices for August have been trending lower than what July was?

Sachit Jain: See, the prices have been same, but we were earlier -- I said from Think Gas, they were overcharging us.

Saket Kapoor: Correct. But now as you told....

Sachit Jain: Market prices. So, July, sometime in July is when the line started, early part of July. So, second quarter -- 12 July, sorry, the line started. So, after 12 July, our costs have come down.

Saket Kapoor: Okay. And for the consumable also, I think so, in the notes it was mentioned that for this quarter....

Sachit Jain: Consumables also, prices are falling. So, the cost will come down as we move ahead. Raw material also, prices are falling. So, all around, on commodities with falling prices, costs are coming down and there will be advantage because of that and some disadvantage because of inventory losses.

- Saket Kapoor:** Sir, consumables, can you give an understanding, sir? What was the adverse impact quarterly?
- Sachit Jain:** So, for example, graphite electrodes prices are around 350, were around 350, 360 per kg, right? And they have come down to about 260 -- 260 to 270. So that's the level of reduction which has happened. Scrap prices, HMS, local scrap has come down by INR 4,000 to INR 5,000 a ton.
- Saket Kapoor:** Okay. So, if this trend continues, then for Q3 onwards, we'll be in the normalized margin post this adjustment of inventory?
- Sachit Jain:** Again, I'm saying we do not predict every quarter number.
- Saket Kapoor:** No, I'm just only looking for the trend, sir.
- Sachit Jain:** The trend will be within INR 7,000 to INR 10,000 for the year. Quarter to quarter, very difficult to predict. But in all probabilities, you are right, Q2 should be lower PBDIT. Q1 should be higher to this number. And Q3 should be higher than Q2 in all probabilities. That is the way it should be. But all depends on how price negotiations happen, but you are right Q2 will be -- Q1 will be higher than this, Q2 will be depressed than this and Q3 should be reasonably better.
- Saket Kapoor:** Sir, if you look at the PLI scheme, especially for this value-added steel segment, what is your understanding, how can a company like us going to benefit or what are the key contours in the PLI scheme, if any?
- Sachit Jain:** So, there are 2 main areas. You have to make a particular series of investments, which we're going ahead and making those investments. And the second item is you have to increase the quantity of specified grades of steel, which is for powertrains. And we have full plans to increase the production of those. So, both things have to happen. If both things happen in a predicted annual rate, we should get a figure of between INR 25 crores to INR 30 crores.
- Saket Kapoor:** Sir, can you repeat the first point, sir? Investment point I missed because of some....
- Sachit Jain:** Investment has to be over INR 100 crores.
- Saket Kapoor:** Okay.
- Sachit Jain:** And we have specified -- they have asked us to specify what all investments you're making. We have specified those investments. And second, you have to show an increase in production of specified grades of steel. So, we have already put that in our plan. If we meet those increases in an annual basis as you predicted and if the investment is made, if both these conditions fall true, then we will reach, we should get about INR 25 crores to INR 30 crores in 4 years to 5 years.
- Saket Kapoor:** Every year, we'll be reimbursing?
- Sachit Jain:** No, total. It's a significant amount.
- Saket Kapoor:** Okay. And our capex of this INR 160 crores is aligned to the PLI part also?
- Sachit Jain:** Yes. Yes, it is aligned. It is aligned to the PLI part.

- Saket Kapoor:** So, sir, if we look at a holistic picture, as you have already given for '26, '27, '30, in the realm of space, sir, we would be classifying -- already classified as a special steel by name as you mentioned. But we'll be a key differentiator, sir. What should be the various key differentiator of our company as a supplier to OEMs, then compare them to your nearest competitor?
- Sachit Jain:** I would say there are two main differentiators. One is our carbon footprint is way lower than all our competitors.
- Saket Kapoor:** Right, sir. Next?
- Sachit Jain:** And this is becoming of value more and more to OEs. In fact, yesterday I was talking to a large Japanese trading firm, they are saying within 2 years to 3 years, you should start expecting premiums coming in Europe. In India, I asked their view. They said, in India, you may, may not get premium, but clearly you will become more attractive to OEs. The share of business to lucrative OEs that you want to increase your share, you will get a chance. But this is a view of an external but global trading company.
- Saket Kapoor:** Right. And the ESG rating...
- Sachit Jain:** This is one big advantage. The second big differentiating factor, which has already been discussed in the last 3 years we were discussing with Aichi, our partner and with Toyota Global approval, more and more Japanese companies who want to look at sources of steel other than Japan are coming to knock at our doors.
- So, when that happens, we should be able to attract a better set of businesses than what we are having today, but very difficult to predict all those numbers, what will have an impact. But directionally, we have said that by '25-'26 or around that time, I would like to target an EBITDA per ton figure of INR 10,000 to INR 12,000. But we are not ready to say that we have reached that level, that we'll get that. But that is what we like to target.
- Saket Kapoor:** Right, sir. And here sir, our ESG rating will also -- is going to significantly improve as and when that....
- Sachit Jain:** It will improve. So, I don't know how the ESG ratings are done. We haven't studied that. But we've looked at our carbon footprint and we are telling that to all our customers and everywhere we go, our customers are very happy that you are proactively doing this. And to the best of my knowledge, I haven't come across any of our competitors doing this, but they can't because they're all way behind us.
- Saket Kapoor:** And what -- who are our like-to-like comparison, sir, if you take...
- Sachit Jain:** So, our competitors would be Sunflag, Mukand, Kalyani Steels, in some parts, JSW, in some parts, Tata Long, in some parts Jayaswal Neco. In some parts Arjas. But our direct competitors would be Mukand and Sunflag.

- Saket Kapoor:** Correct. And sir, lastly, the budget also, there was some provision for building up of facility, which I think the Tata Steel is coming up with scrap based, especially in the state of Punjab only. So...
- Sachit Jain:** We are putting up a steel plant, but this is not in our line. We are putting up for construction steel.
- Moderator:** Next question is from the line of Lalit Kumar from LKR Advisor.
- Lalit Kumar:** Just to reiterate on the previous speaker who had asked for, right, two years back, we were roughly in 2021 at an operating margin of 15%, 16%. This quarter and the last two quarters, we have been doing 6%, 7%. So, with all the savings, which is coming via the solar plant, the RM price, you have said that are heading down and will consolidate and the GAIL savings, by when do we see OPM coming back in the range of 12%, 13%, please?
- Sachit Jain:** We don't look at operating profit margin, as I said before also. If percentage don't have value, it is the absolute number which we look at. So yes, when raw material prices increase sharply and prices of steel go up, then operating margin percentages will fall. And when the prices come down, then the margin percentages would rise, of course, adjusting for inventory gains and losses on a normalized basis. So, we are constantly -- so we are never guiding on what will be our EBITDA percentage. We are guiding on EBITDA, absolute numbers between INR 7,000 to INR 10,000.
- Moderator:** The next question is from the line of Faisal Zubair Hawa from H.G. Hawa & Company.
- Faisal Hawa:** Sir, just wanted to know that after this capex of -- through which we'll get the PLI benefits also, say, in FY '26, what would be our peak capacity? And at that time, what is the kind of per ton margin we would be targeting? A lot of those steel prices at that time....
- Sachit Jain:** Our peak capacity will be around 230,000 tons to 240,000 tons saleable quantity. Of course, melting would be higher. The melting would be around 250,000 tons to 260,000 tons. And as of now, we have not changed our guidance. So, we will be INR 7,000 to INR 10,000 EBITDA per ton.
- However, to get satisfaction, I've always said that is my target that I will feel satisfied that I've done a good job if we are able to reach INR 10,000 to INR 12,000. So, that remains an aspirational target. We have not got enough confidence just now to state very clearly that we'll reach those levels. So, for all practical purposes, for calculation purposes, etcetera, please look at INR 7,000 to INR 10,000.
- Faisal Hawa:** Okay. And sir, are we almost every time working at 100% capacity utilization or sometimes we are not able to do that?
- Sachit Jain:** No. So, there's always been -- when the capacity increases in a spurt, then, of course it takes some time for capacity to build up. As happened three years ago, it took us time to build up to our capacity level, but then something else becomes a bottleneck. So, for example, today rolling mill is a bottleneck, and this rolling mill capacity gradually going up in the next year -- 1.5 years,

sorry, then the capacity will go up and then immediately it'll take maybe 6 months, one year for the capacity to get utilized.

Faisal Hawa: And sir, are we the only ones or are we one of the foreigners in getting Japanese business? Because that is always a difficult business to get. And once you're into their ecosystem, it's.....

Sachit Jain: Japanese special steel companies have been present in India for quite some time. Daido has been present with Sunflag, I think for the last 10 years or so. Sanyo Steel is present in India. They had a JV with MUSCO. Then they have taken it over. So, Sanyo Steel have also been present in India for at least 7 years, 8 years or 10 years, I think. I don't know how long, but at least 8 years to 10 years. So, Sanyo has also been present. JFE is present in JSW. So, all the major Japanese OEs are present -- steel companies are present.

The difference that we have is that our JV with Aichi is a very -- is a strong participated JV, where our Aichi people are placed here and together we are selling directly, and we have got approved by Toyota. So, to the best of my knowledge, none of the other companies have got a major approval by a Japanese OE for overseas business.

Again, this is the best of my knowledge. I could be wrong, but to my knowledge, none of our competitors have got approval for overseas business by a major Japanese OE. We have got from Toyota. And we should be getting from another OE in the next 6 months to 8 months, a global approval.

Faisal Hawa: But that would be as big a company as Toyota or it will be much smaller?

Sachit Jain: How can you get a company as big as -- how many companies would be as big as Toyota? So obviously, it'll be a smaller company. But those smaller companies are also big enough for us. We're a small steel company, please remember.

Moderator: Next question is a follow-up question from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: My questions are answered, sir. But only one thing is about the -- are we entertaining also, sir, that planned visit or the facility to understand the processes of investing community?

Sachit Jain: Absolutely. So, Savli, who's our Relationship -- Investor Relationship boss, she dictates when visits are allowed and so on. So, she tells me to be available and I'll be available and our team is anywhere available. And so, you can decide when you all want to come, please contact Savli and a visit can be arranged. Not a problem at all. It's only if I have to be there, then she has to seek my time. Otherwise, not a problem. As long as there's no customer visit on that particular day, we will be open to visitations and not only open, we will welcome.

Saket Kapoor: Right, sir. Sir, on the other income.

Sachit Jain: Our chance for you to get to know our company better.

Saket Kapoor: Sir, for the other income, I think so, there are some decisions pending from the state government. So, if you could give us some more understanding and the quantum also...

- Sachit Jain:** The quantum of parts in other income, one is electricity duty refund, which comes in the monthly bills and therefore, gets adjusted automatically. The second component of other income is GST refund, which we have to pay and apply. So that part is pending and government will eventually pay. The government has to look at their own finances. They're busy giving subsidies on other parts. So, they will soon have to allocate budgetary resources for this and then pay us all for entire industry is waiting for these refunds. So, it will come. It may take a little bit time.
- Saket Kapoor:** So, we are booking the income and it is lying in the....
- Sachit Jain:** Because the income has already come. When the government has given a scheme and as per scheme, we are eligible, then we are booking the income. So, it's coming as outstanding.
- Saket Kapoor:** And what is the current outstanding as of 30th June?
- Sachit Jain:** Just a minute. About INR 20 crores. And INR 7.5 crores is an amount, which is under approval, which we have made a case for that, which has not yet approved, and therefore, it has not been taken into. It has not been accounted. So, INR 7.5 crores has to be accounted between two schemes and therefore, it got left out by the government, which we are made our case. And if it gets approved, there we will book it as income. And then once it gets approved, then it will be in line for when the refund start getting paid.
- Saket Kapoor:** And sir, we're dependent on the state grid for our agency. We don't have power plant -- coal power plant.
- Sachit Jain:** But even if we have our own plant, it has to come to the state grid because we can't put in our own direct transmission lines. So, if solar plant that we apply is put on the group capital scheme, then we put up another location and it's through open access rules. It'll be fed. It'll be feeding power into the grid. And from the grid, the power will come to us.
- Saket Kapoor:** And what have been the cost of power and how are the prices changed? Any price change?
- Sachit Jain:** The prices have changed by about INR 0.50 to INR 0.60, which came in April. So, first quarter of this year has shown a price cost increase because of power.
- Saket Kapoor:** What is the current cost per unit?
- Sachit Jain:** Current cost per unit? Around INR 7.
- Saket Kapoor:** INR 7. Any steps, sir, that we can take to lower this or this has to be...
- Sachit Jain:** That's what we said. We are putting our solar power plant.
- Saket Kapoor:** Yes, sir. And what is the investment envisaged there?
- Sachit Jain:** That's all being finalized. Once it gets finalized, approved by the Board, then those figures will be released. But we'll be putting it as part of group captive, which means we will invest 26% in the equity of this company. To, my understanding, we will be investing between INR 20 crores

to INR 25 crores and this will be roughly 50% of our power will get -- will start coming from solar power. These are the rough numbers we have as of now.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to Mr. Sachit Jain for closing comments. Thank you. And over to you, sir.

Sachit Jain: Ladies and gentlemen, thank you so much for, again, showing interest in our company and being part of our company. We look forward to a long-term journey with you all.

I'm sorry, some of my answers seem abrupt that we don't give quarter-to-quarter explanations, but somehow the business that we run is meant over a longer term and difficult to judge on every quarter. We hope to maintain our numbers and EBITDA on capital employed figures, which I had submitted some time ago. We are close to that, at 20% for that target. We will be close to that figure even this year also. And by '25-'26, we hope to improve these figures to 25%. That will be our aspiration to hit 25% number, EBITDA on capital employed.

Overall, I'm excited about the business. I remain excited. Very big opportunities coming, and especially this low carbon and carbon footprint, this can be a big game changer for us. Anyway, thank you so much for your interest and we look forward to seeing you next quarter. Thanks. Bye-bye.

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