Vardhman
Delivering Excellence. Since 1965.

VARDHMAN SPECIAL STEELS LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN SPECIAL STEELS LIMITED – Q4 & FY 2021-22

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 May, 2022 to discuss the Company's business and financial performance for Q4 & FY22.

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

Vardhman Special Steels Limited Ludhiana

(Sonam Taneja)
Company Secretary

"Vardhman Special Steels Limited

Q4 FY2022 Results Conference Call"

May 02, 2022

ANALYST: **MS. SHREYA MANIVANNAN - IIFL SECURITIES LIMITED**

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 Q4 FY2022 Earnings Conference Call of Vardhman Special Steels hosted by IIFL Securities Limited. As a reminder, all participant lines will be in 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 Ms. Shreya Manivannan from IIFL Securities Limited. Please go ahead Mam!

Shreya Manivannan: Thank you. Good evening everyone. On behalf of IILF Securities I welcome you all to the Earnings Conference Call for the fourth quarter and FY2022 for Vardhman Special Steels Limited. We are pleased to have with us Mr. Sachit Jain – Vice Chairman and MD and his team. We will have the opening remarks from the management followed by a question and answer session. Thank you and over to you Sir!

Sachit Jain: Thank you Shreya. Good afternoon everybody and thank you for joining the call today and it has been a very interesting year. It has been a record year of sorts. We have had all time high sales, all time high production, all time high operating profit, all time high net profit and we have also been able to increase the dividend from Rs.1.50 rupees a share to Rs.3.50 rupees a share. Apart from just the financial performance, it has been a very turbulent year in terms of the rockiness of raw material prices. Raw material prices shot up continuously through the year and then corrected and then crazily shot up again towards the end of the year. We also had the Russia Ukraine war because of that raw materials prices shot up further. There is also a demand turbulence because two wheelers were slow in demand as well as cars where the demand is good, but due to the chip shortage you had a problem in the production and therefore demand has been low so overall basis fourth quarter of the year ended on a low demand, but we were able to more than cover our targeted and our guidance of sales of beyond, we said we will be about 165 to 175,000 tons and we did reach to 173,000 tons. So, moving ahead because of the high-priced raw material, the kind of price increase that we need from April is huge, but we also understand auto companies will not be able to give those kind of price increases especially in view of soft sales. Various steel companies have sent our letter between Rs.22,000 to 25,000 per ton price increase from 1st April, discussions are on obviously no one can give that kind of price increase, but we still are hoping for about 15 to 20, but again whatever we learnt the auto companies are sitting between 10 and 12 and somewhere between this figure and 18 is where the settlements will happen. One OE has already given a price of 17,000. So, one large tier 1 has given a price of 17,500 so those are the kind of levels that have happened. Other discussions are going on, so we do not know where things will settle down. Meanwhile for this year we expect to have sales increase further on our sales from 173,000 last year we hope to be 180 to 185. Again, if the two-wheeler market takes off, of course we will be able to up the target from the current levels.

EBITDA guidance for last year we said was between Rs.7,000-Rs.10,000 per ton will remain this year. Last year was higher and fourth quarter results were better than what we had guided because of two reasons primarily, one we got this past government incentive which has relevance of the previous year which is 2021, 2022 as well as 2021 and small part of 2019, 2020. So, it has some element of annual performance and some element of part and second because of the massive increase in raw material prices, we also had big valuation gains which are part of this fourth quarter. Of course, we could not visualize those things and we gave you guidance for the fourth quarter in our January call. In regards to Aichi our first order with Aichi has come in. It is to be dispatched in May and these seem to be on track in terms of big development orders. As we said earlier again 2022-2023 is the area of trial orders, 2023-2024 we will start getting production orders and 2024-2025 we should get with the current plan that we see which is up to 50,000 tons of export orders. It would be 30 to 50,000 tons of export orders that we can visualize at this point of time. Of course, all depends on reaching the quality levels, establishing ourselves, sending in lot to lot of consistency but there is still a lot of work ahead for us.

The other thing I wanted to share is that the way we will see we will be running short of capacity in the year 2024-2025 till then we have capacity and once our collaborators come in they plan to come in this month itself, we will start serious discussions again for the need for capacity enhancement. The other question you will be asking is overall the capex plans. So, the capex plan which was 250 Crores earlier has been up by 50 Crores. It will be 300 Crores for the five-year period which began a year and half ago so out of that about 40 Crores had already gone in, so about 260 Crores is to be spent in the remaining period. So, I think that is enough for the opening remarks. We remain excited about the business. We kind of insist that our foreign customers who we have with us is increasing. The interest Aichi has in us remains very strong and we have had very serious discussions again this time. In the domestic market also our customers are happy with us. We are generating to make serious in roads into the EV market. This year onwards we will start reporting our sales to the EV segment as a percentage of sales.

Before I hand over to Singla for some very brief numbers, ESG has become a very big area though it is not required mandated to us but we have hired a consultant to measure our carbon footprint. As you are all aware that global customers everywhere have become conscious of the carbon footprint and in steel making very clearly the secondary steel manufacturers people like ourselves who make steel from electric arc furnace route are a much lower carbon footprint than the primary steel producers who produce from the blast route so this is an area we will have a huge advantage. So initially it will be in terms of just preference I would say and later at some stage as Europe has introduced a carbon tax, Singapore has introduced a carbon tax at some stage in the future maybe five years later, seven years later one does not know when, there could be possibility of India also having a carbon tax but one does not know about that. The point is very clearly preference towards electric furnace could go up that seems to be the global trend. That is enough for my opening remarks. So Singla very quickly if you can cover from very key numbers very briefly and then we are open for questions.

Sanjeev Singla: Thank you Sir. Good afternoon everybody. During the quarter ended 31 March 2022 our total volumes stand at 41596 tons and in terms of rupees our total revenue stands at 343 Crores. This is 2.65% higher than the corresponding quarter of last year. This is despite lower volume by 13% mainly because of the price increases which we have received during the year. In terms of EBITDA we ended this quarter about 60 Crores of EBIT as against 55 Crores last year and it also includes electricity duty exemption granted by the Punjab government under its industrial policy amounting to Rs.18.65 Crores, which partly pertains to the current year and partly pertains to the previous one and half year. Quarter four PAT stood at 29 Crores as against 26 Crores with an increase of 10.74% and for the full financial year the PAT stands at 100.75 Crores as against profit of 44 Crores in the corresponding year last year. So that is all from our side. Just one thing we wanted to add to the opening remarks of Jain Sir that during the quarter we have switched over to natural gas in place of furnace oil just as kept towards betterment of environment and in compliance with the requirement of Ministry of Environment. Thank you and now we are open for the questions and answers.

Sachit Jain: And again before the question one more thing. We had said that we will target a 25% EBITDA to capital employed by 2024-2025 and we are lucky this year we happened to have get that figure. I am not saying it is a repeatable figure next year every year but at least I am happy to see once before our targeted year of 2024-2025 you get the figure of 25% EBITDA to profit.

Moderator: Thank you very much. We will now begin the question and answer session. Our first question is from the line of Sudhir Bhada with Right Time Consultancy Services Private Limited. Please go ahead Sir.

Sudhir Bhada: Yes good afternoon Sir and congratulations for good set and very elaborative investor presentation Sir. Sir I missed the figure when you said that our total production and sales would be 1,82,000 to l,85,000.

Sachit Jain: 180 to 185.

Sudhir Bhada: This is the EBITDA figure. What will the EBITDA per ton would be?

Sachit Jain: We expect Rs.7000 to Rs.10,000 a ton EBITDA. We are not changing our guidance.

Sudhir Bhada: And Sir as you say Aichi order will be dispatched this year, trial orders.

Sachit Jain: This month.

Sudhir Bhada: This year would be the trial year and from next year onwards we will be dispatching bigger quantities right. Will that orders come at a higher EBITDA?

Sachit Jain: See we do not discuss too much our pricing across customers but I had a CNBC interview today morning where also they asked the same question so Aichi is an investor and a partner, but all pricing is at arm's length basis. The pricing formulas will be as generated if not better for the company.

Sudhir Bhada: Okay thank you and all the best Sir.

Sachit Jain: Just to add to that as generated in a longer term framework. You see the pricing formulas in terms of when price change are different for different companies. There will be time where Indian market will be more profitable and there will be a time when Indian market will be less profitable and these customers will be more profitable. I am just saying on an overall basis the profitability would be of a similar order or better.

Moderator: Thank you. Our next question is from Dewang Sanghavi with ICICI Securities. Please go ahead.

Dewang Sanghavi: Good afternoon Sir. Thank you for the opportunity and congratulation on good performance for FY2022 as whole. My first question is for demand side Sir. In terms of segment wise how is the demand currently from two wheelers, passenger vehicles, and commercial vehicles can you throw some light on the same.

Sachit Jain: Demand is still low from two wheelers. Cars is picking up. The commercial vehicles is fine. Tractors also seems to be okay and see we are also in a position that we are pushing to take orders because now we have more capacity this year so we are not constrained by capacity. We are pushing to take some orders and I expect first quarter to be reasonable definitely better than this fourth quarter of last year in terms of volumes.

Dewang Sanghavi: We have volume guidance of 1,80,000 to 1,85,000 and in the opening comments you suggested there is up rise if two wheelers rises so how much additional volume can we expect if two wheelers rises.

Sachit Jain: I have no idea but this can go up to 190. It may go up to 195 one does not know, but 190 is something which clearly we see as a possibility. 190 to 195 could be a possibility, but at this point in time it is too early to start guiding on those numbers. Our customers are pretty fixed and ours is derived demand so if our customers segments do well we will do well and we are gaining share constantly in these segments also in a slowly bit by bit manner.

Dewang Sanghavi: My second question is on the pricing side. If you can throw some light on the negotiation part. I just wanted to know we will continue with quarterly negotiation or half yearly negotiation going forward because we shifted to half yearly six months back.

Sachit Jain: You see you need to understand the situation. As steel suppliers we prefer quarterly negotiations. As auto companies they prefer six monthly contracts and they are the more powerful people so the trend will be towards six monthly which is always six monthly. It is only in very crazy situations that has been happening in the last one and half years that we shifted to quarterly. The way it seems now because of the massive volatility in prices nobody will want six monthly contract, so everybody will want a three monthly contract because we have no way of figuring out today there is a massive rise in raw material prices will this correct immediately, will the war end in 10 days time, will there be truce one does not know so nobody wants to take a long term bet and in all probability this settlement will be a quarterly settlement where if they give Rs.20,000 or 22,000 we will definitely go for a six month. If they give let us say Rs.10,000 to 12,000 we will say no way only a three monthly settlement. If they give in between somewhere then we will see at that point in time.

Dewang Sanghavi: Because a big price hike just bunched up, two quarter price hike just bunched up.

Sachit Jain: This is absolutely crazy. I have not seen this kind of times. I have been working 30 years, for steel industry 12 years but this kind of rise in raw material prices, relentless rise, this massive rise is something I have not seen in my career. We had very uncertain times. In fact ideally I should say forecast for this year are off because it can be stupendous year I mean if we get 20,000 to 22,000 price increase. It will be a fantastic year way beyond what we have seen in the past. So, it will be very difficult to make a prediction this year because these are beyond normal price changes.

Dewang Sanghavi: Yes I agree on that. My question is regarding the new capacity coming up, the rolling capacity by what quarter it will be coming on or which month it will be on still.

Sachit Jain: It will come up in the fourth quarter so please expect the impact of it happening only the next year, but again rolling capacity does not matter too much because the main thing is having melting and we will be able to get some jobs from outside if the demand is high and there is need for more production. That will be not constraint in terms of increased rates if the market suddenly picks up.

Dewang Sanghavi: If the demand is there we can kind of do a job work and can cater to the demand

Sachit Jain: Absolutely not for all products but certain products we can. So, we will do all those planing in advance, stock some product, get the products done and job and so this year also you will see inventory of finished goods at a little higher level preparing for our January shut down of the rolling, the inventory levels, one will be higher because of higher value and second the inventory levels will remain higher also because of higher stock preparing for the January shut down.

Dewang Sanghavi: Right Sir and my last question is regarding the movement in raw material pricing as compared to Q4 versus April so how you view it in April as compared to Q4 scrap, graphite and other key raw materials.

Sachit Jain: I do not have those figure with me graphite electrode would have gone up about Rs.40.

Sanjeev Singla: About Rs.30 a kg.

Sachit Jain: Rs.30 a kg graphite electrode and scarp prices are changing on a daily basis very difficult to say. Every day it is different,

Dewang Sanghavi: Thank you very much for all the answers and all the best.

Moderator: Thank you. Our next question is from the line of Vivek Ramakrishnan with DSP Mutual. Please go ahead.

Vivek Ramakrishnan: What is the quantum of capex which is left in the current year in terms of capex spent and at the end of this year would you have completed your full phase of capex that is question number one. Question number two is, in terms of inventory you had said that it would be elevated looking into January shut down next year, so would it be through the year or would you be decreasing it because in the last conference call you had mentioned that it would come down and then go up again and the last question that I have is in terms of power cost and the power situation in your plant, is there any situation of lack of power would that not be an issue at all for industrial users. That is all. Thank you.

Sachit Jain: So let me start with the last question first. So power clearly is a problem, however, so far we have not faced any shut down for the industry and the government has assured us if the monsoon is normal there will be minuscule shut downs and if you recall last year itself we had about 12 days loss of production because monsoons were delayed so I do not think we will have power outages more than last year unlikely, but very difficult to predict this now but destination it will be unlikely versus last year and may actually be better than last year. As regards to capex we have overall about 260 Crores of capex left. One big chunk of capex is regarding our kocks mill which will happen in the subsequent years, but a large chunk of the 260 Crores will happen between this year and next year so there will be some rollover and some spillover etc but the larger chunk of 260 Crores will happen between this year and the next year.

Vivek Ramakrishnan: Sir thanks and then on the inventory as well please.

Sachit Jain: So inventory as you will see. Inventory level did come down and will start rising now in terms of finished goods so on raw material front, the inventory levels will not rise because we are not taking a position on raw material at these levels. Graphite electrodes in physical terms the inventory levels will come down because I do not think we want to take a position much larger based on we have one year stock of graphite electrode and we will bring down this inventory. The finished goods inventory because we have a rolling and shut down it will increase every month till January and then after January once the shutdown happens we expect to run through those inventory levels and you know because you are service industry you will need to have a higher inventory than our sales because there is always fluctuation in demand and a particular customer needs a particular product more than forecast and so on and inventory levels will need to be higher but between February and March there will be normalization on those inventory levels.

Vivek Ramakrishnan: Thank you Sir and good luck.

Moderator: Thank you. The next question is from Falguni Dutta with Jet Age Securities Private Limited. Please go ahead.

Falguni Dutta: Good afternoon Sir. Sir congratulations on very good numbers. I just have a question on the shifting from furnace oil to gas that you mentioned. Just to know at current prices is gas still cheaper than furnace oil.

Sachit Jain: Yes it is cheaper.

Falguni Dutta: And where are working our gas from. Who would be the supplier?

Sachit Jain: The company name is Think. It is a new company funded by PE.

Falguni Dutta: Sir can you just spell it I just mentioned it.

Sachit Jain: THINK when you think something. They want to you think of gas think of them, Think Gas.

Falguni Dutta: Thank you so much Sir. Congratulations once again.

Moderator: Thank you. Our next question is from Ritwik with One-Up Financial Consultants Private Limited. Please go ahead.

Ritwik: Hi good evening Sir. Sir congratulations on great 2022. Firstly, is it possible to quantify the inventory gain in Q4 as we have mentioned in the press release.

Sachit Jain: It is possible, but we do not share those numbers. We can exactly quantify.

Ritwik: Sir on the capex you mentioned that capex has increased from 250 to 300 Crores so what would be the primary reason of this. Is it because of cost overall?

Sachit Jain: The kocks mill. It is a sizing block which is used to replace a couple of stands in our rolling mill and replace is with a precision block. The whole idea of this precision block is you will be able to reduce the change over time and give very, very fine quality as far as the diameter is concerned so currently let us say we have size 34 mm and then 36 mm and 38 mm and 45 mm and so on. With this you can do 36.1, 36.2, 36.3. It is very very precise. The change over time is 3 minutes otherwise change over time is 1 hour within one family of change, so we will save change over times. One we will improve quality; we will see change over time which we can give better services to customers as well as we should be able to reduce our finished good inventory by the time it goes to the customer. This is pretty standard equipment; it is not as if there is some R&D about it. This sizing block is well known thing. Our partner Aichi also has it.

Ritwik: It is a tested technology. Sir you mentioned on the demand of two wheeler on a couple of front so if you look at two wheeler demand in the financial year gone it was down 10 to 11% and generally you have mentioned that two wheeler is about 30% of our sale despite that we have grown and I believe EV must have at least compensated for that and so is it possible to give some split between EV you mentioned it is 5 to 6%, our supply to rails.

Sachit Jain: It is still small. The percentage is small.

Ritwik: Okay so it would be less than 5%.

Sachit Jain: I would think so yeah. We intend to increase this so we have more focus on this so we will be increasing it.

Ritwik: So, what would be your aspiration in terms of over the next three years from the EV segment and the rail segment? Can we reach double digit in the next three years say by FY2025?

Sachit Jain: For rail, no way we will be reaching that level. EV all depends on how fast the market grows. We have positioned ourselves pretty well and again as I said earlier, we are steel supplier. It does not matter to us which segment does well or not as long as we are in the segments which are growing fast and we will participate in the growth so if EV grows we will grow. We are pretty well positioned in that state.

Ritwik: Just to follow up our EV supplies would be for four wheelers or for two wheelers?

Sachit Jain: I think largely four wheelers but we do not know where all our customers are supplying because some of our customers are one who have the flexibility to source for various customers. For example when you say we are approved by Maruti or we are approved by Hero so then we know where that material is going but there are certain customers, large customers who have established very well, they have the flexibility from the OE that they have the flexibility to source the steel, but largely it will be for the four wheeler segment both domestic and export. You see domestic market is still very tiny. This is a component export.

Ritwik: So, we would be supplying to tier one.

Sachit Jain: We would be supplying the steel tier 2 or tier 1 who will supply to the final OE. Bigger chance is for exports so it is largely four wheelers. The domestic market I do not know. There is much smaller part so I am not aware of the split between four wheelers. On an overall basis it is much larger proportion for the four wheelers.

Ritwik: That is encouraging Sir. Okay Sir that is it from my side all the best and thank you.

Moderator: Thank you. Our next question from the line of Anil Kumar Sharma an individual investor. Please go ahead.

Anil Kumar Sharma: Good afternoon Sir and congrats on the good number always and giving the increase dividend also. Earlier also I have asked you. Recently there was a news that PLI scheme has been revised for special steel are we in the revised scheme we are eligible for PLI scheme.

Sachit Jain: The scheme which came out in fact excluded most of the special steel producers so which is what have been protesting with the government that this scheme is not meant for us.

Anil Kumar Sharma: Recently there was a circular that they have revised it?

Sachit Jain: They have revised it but we have not seen the revised scheme so once the revised scheme comes they have extended the time by one month more so hopefully the revised scheme will be out very soon and we are told that our concern has been addressed and will be met so let us see when the scheme comes out.

Anil Kumar Sharma: We are not still aware of it?

Sachit Jain: So, some of the products that are covered in this scheme are part of our strategy to develop. As the scheme come out which makes to eligible to apply we will definitely be applying strongly and we will be beneficial.

Anil Kumar Sharma: Right Sir and best wishes for your great effort.

Moderator: Thank you. Our next question is from the line of Aniket Redkar an Individual Investor. Please go ahead.

Aniket Redkar: Good afternoon Sir and congratulations on the good set of numbers? I have a couple of questions. Sir my first question is there any addition in PPE?

Sachit Jain: I am sorry PPE.

Aniket Redkar: Property, plant and equipment?

Sachit Jain: Yes, every year we are continuously investing in that.

Aniket Redkar: Okay and Sir the next question related to the capex, that expansion plan which we are planning so is there any equity dilution?

Sachit Jain: So, let me answer that question in two ways. Is there any need for equity dilution, no. There is no need for equity dilution because our debt equity is below 0.25 and with the cash accruals and incremental debt rating capacity we will be able to fund this capex so there is no need for any dilution. Now second but the question is will there be any equity dilution, it will depend on when our partners will likely increase their stake because there is an understanding between them and us that at some stage they will raise their stake and so depending on when they decide to raise their stake there will be some dilution, but that could happen this year. It could happen next year. It could happen two years down the line. It is difficult to say, but it is a clear understanding between then and us that at some stage they will increase their stake. The probability is that we will not sell our stake and any stake increase will happen with some dilution but let me share that with all our investors of the call. In case there is a dilution and they invest this will be seen as a very big positive by our customers because currently their stake is at 11.5% which is a foothold in our company. I have been sharing on the con calls that our relationship is very, very strong. It is very, very strategic but to give more confidence to the customers we are talking about the global customers Toyota Group and Toyota various suppliers like JPAC, etc., and other Japanese OE. A stake increase from this level will show that Aichi is showing more confidence in the company than when they started with us so this offer to increase the stake comes as management we will be recommending of course it is a board decision, but as a management very clearly we will welcome it and we will strongly recommend to our board and then of course if all these things come to the shareholder for approval so I will be urging whenever such a proposal comes I will be urging the board as well as the shareholders to approve this kind of proposal.

Aniket Redkar: Got it. Sir there is decrease in the interest so is this due to the part payment of long term borrowing so kindly help us to understand which loan which has been repaid?

Sachit Jain: Singla if you can answer that question. With the cash accruals clearly we have a lot of money available with us so loans have prepaid so Singla if you can answer that question please.

Sanjeev Singla: It is mainly because of the accruals due to which our overall utilization bank borrowings came down and secondly last year the interest rates were also lower than comparatively corresponding previous year so these are the two major reasons due to which our financial cost is lower by Rs.2.5 Crores.

Aniket Redkar: One more question Sir? How do you see the industry look like at this moment and how do we anticipate the demand keeping in mind as the slowdown in the auto industry?

Sachit Jain: I am sorry please repeat the question. I could not hear that.

Aniket Redkar: My question is how do you see the industry at this moment look like and how you can anticipate the demand keeping in mind that slowdown in the auto industry?

Sachit Jain: So, let me share with you that when last year was it when a somebody like Rajiv Bajaj of Bajaj Auto said I have no way of predicting where the industry volumes are going to be and so on. He made some such similar statement. Now we are a derived producers so there is no way we can predict that but having said that, we have said very clearly in the past we have one and a half year of demand uncertainty where we are dependent on the domestic market. After that when the export demand kicks off from 2023-2024 we do not see this uncertainty and from 2024-2025 we have the other problem. We are going to have a problem of not having enough capacity so if there is a demand slowdown in India we will welcome it with folded hands if there is demand slowdown in India.

Aniket Redkar: So, Sir one more question Sir the gas which you are saying the Think Gas so right now the prices of gas has also started increasing so what would be our major gas, which you are sourcing from Think? Is it in control or the price which they are giving us is very reasonable?

Sachit Jain: The price is reasonable but the price is in their control and they will as their cost is going up it is very difficult to continue to sell gas with all the substantially lower prices in the market so those prices also keeping going up. We are small outlet. We are not negotiator. We are a small, tiny user compared to their volumes, but as of now since the gas has been put in we have saved substantial money every month.

Aniket Redkar: Got it. Thank you so much and this is from my side. Thank you so much.

Moderator: Thank you. Our next question is from the line of Ritwik from One-Up Financial Consultants Private Limited. Please go ahead.

Ritwik: Sir thanks for the followup. Two questions what is the maximum output possible at current capacity for us?

Sachit Jain: Current capacity just now till we get the environmental approval which we expect we will get by September or so, till that time our maximum capacity licenced capacity is 200,000 tonnes of billets which translates to about 180,000 tonnes of rolled and with the capex which has already gone in the furnace our capacity will arise to about 250,000 to 260,000 tonnes so from capacity point of view we are ready to do about 240,000 to 250,000 tonnes, so the moment we get the environmental approval this should happen with some capex that we are doing which will get commissioned by July. Then we will apply to the Environmental Ministry as well as Pollution Control Board that we have already done all these things and they should give us the approval and from September or October we should be ready. From capacity point of view then we can say that our rate capacity has gone, but till that time our rated capacity will remain at 200,000 tonnes even if we can produce more. We cannot produce more because our licensed capacity is more at risk.

Ritwik: So just to reiterate and whether I have I understood it right, right now the billet capacity is 200,000 tonnes. After we receive the environmental approval where we are doing some environmental related capex this billet capacity will increase to 250,000 to 260,000 tonnes and then the ruling mill will come subsequently which will increase the capacity output it about 240,000 per annum?

Sachit Jain: 230,000 tonnes.

Ritwik: Right and even then we can outsource and take our volumes if the demand is there?

Sachit Jain: No this will match our requirements and then beyond that we have to source billets for some products and roll products for some products.

Ritwik: Okay Sir and one book keeping question what is the net debt as of March 2022?

Sachit Jain: Again, Singla will answer about I think Rs.130 Crores.

Sanjeev Singla: It is Rs.122 Crores exactly.

Sachit Jain: My apologies Rs.122 Crores.

Ritwik: This has gone down despite the higher working capital on absolute terms?

Sachit Jain: Yes. My CFO is reserved so I do not know how he keeps the books and does these things but fortunately we have KPMG as auditors so I have full faith in the numbers.

Ritwik: Sir what will be the FY2023 capex?

Sachit Jain: Roughly Rs.100 Crores Singla.

Sanjeev Singla: This year it will be yes close to Rs.100 Crores.

Ritwik: So Rs.100 Crores and possibly around Rs.80 Crores to Rs.90 Crores for the next year as well.

Sachit Jain: Yes.

Ritwik: Thank you Sir. Thanks for answering all the questions.

Moderator: Thank you. Our next question is from Radha from B&K Securities. Please go ahead.

Radha: Thank you for the opportunity Sir. Just two questions from my side. Could you give us the breakup of our customer mix in 4Q FY2022?

Sachit Jain: Customer mix we do not give. We do not give customer mix.

Radha: The next question would be you mentioned that you were expecting some price hikes in April and you were saying that various steel companies have sent out letters for these price increases? Now which second would you think that it would be easy to pass on the price hikes to, will it be two wheelers or four wheelers?

Sachit Jain: No segment, this kind of price increases is not easy with any OE.

Radha: That is it from my side. Thank you Sir.

Moderator: Thank you. Our next question is from the line of Namish Gupta from Namish Gupta & Co. Please go ahead.

Namish Gupta: Thank you Sir for giving me the opportunity and congratulations for the good set of numbers. Sir I have like two questions. First, I think I meant that you said that it will be welcome for more equity state purchases so will that dilution like going forward it will be from the existing promoter's stake or it will be from the market?

Sachit Jain: As of now, it is very difficult to say exactly. First of all, where will they come with the proposal? Now I expect this in the next two to three years they will come with such a proposal. Whether it will happen in this year, next year or the year after that I do not know at this point but very clearly there is an understanding between us that at some stage they will increase their stake that is one. Two increased stake can happen by sale from promoters or it can happen by dilution when the company issues new equity. In all probabilities the issuance will be from new equity by the company but again at that point in time it depends on the market situations and Vardhman Textiles capex plan. I can say about myself. My stake of roughly 14% that I have is my present stake, I will not be selling any stake.

Namish Gupta: Great Sir. Sir my second question is like in previous like conference calls you told that like in year 2024-2025 they will in fact you will be sitting on a much lesser capacity and the demand would be much more so Sir any like significant thinking or like planning at that level when you are deciding to expand out of the current facility also?

Sachit Jain: Left to me it is high time we start the process of putting up a new plant. However, it is not my decision alone. It is a decision that has to be taken in conjunction with our partners and when they are sitting far away in Japan we are still left with three years in our relationship. It is not very easy to take a decision on a new capex. A new plant will be much bigger than the existing plant so capex requirements are also going to be much larger, so discussions will start. When they come in they are going to be here in two weeks' time. We will be discussing very seriously about the need to put us a new plant, then with state, timing, etc. With the Japanese it is a process. It does not happen. You say okay we decide to put up a plant and we agree and we start. It does not happen there, but the point I have said very clearly is we need to put up a new plant is very clear and evident. Second as part of a long-term strategy putting up a new plant is part of the long term strategy so before the year 2030, the new plant will be up and running but when before 2030. Will it be 2026, will it be 2027 or 2028 it is very difficult to say at this point in time, but the fact is we have now started discussing the need immediately to thinking of a new plant.

Namish Gupta: Sir you have given a guidance that till 2025 you will be able to like at least this RoCE of 25%

Sachit Jain: This is not a guidance. This is a target. It is very difficult for me to say I will achieve that particular financial numbers, but it is a target for myself and for my management team that by 2024-2025 when our capex is fully utilized, we should hit a figure of about 25%. This year was

Namish Gupta: Preferably by this year?

Sachit Jain: This year was I am not saying this is repeatable performance but a figure of 25% EBITDA to capital employed is something that we would like to target. This is something which will make us feel that we have done a decent job.

Namish Gupta: If you can just throw one thing on this like currently like this steel prices are like going forward and normally we have like heard that like the commodity cycle runs for like four to five years normally so either considering that kind of run up in this prices if we like assume these like sustained for the next three to four years then even you would be able to achieve like on account of cost efficiencies like you mentioned that you have switched to the natural gas like I just want to ask on that?

Sachit Jain: Please understand that we are not a commodity steel producer so in fact when steel does very well that is not a very good sign for us. For us, the ideal time is steel sector is doing okay and auto sector is booming because please understand it is a negotiated price. The steel producers sell as commodity so long products which go into construction steel the prices change on a daily basis in the market. HRC also the prices change so they go up way higher and auto companies also give the swing in price that give to the HRC is way higher than they give to non-products like us which means when the boom time is coming, currently it is a steel boom time our results are not as good as steel companies. When the bad times come our result are not as bad as the steel companies so there you will see a much higher volatility in numbers. In our case, you will not see that higher volatility.

Namish Gupta: In that sense we can say for the next one and a half year these prices are so much rising or sustainable so your results will be much more volatile on that account since the raw material prices will be much higher?

Sachit Jain: One does not know. Today it is high, but will they remain at these levels it is very difficult to say. If the war comes to an end, moment the supply chains settle down a bit there will be some massive availability of scrap because so much scrap would have been generated in the war. That scrap will come to the markets and certain other segments. It is very difficult to make those kinds of predictions at this point.

Namish Gupta: Thank you Sir. Thanks for giving the opportunity.

Moderator: Thank you. Our next question is from Dewang Sanghavi from ICICI Securities. Please go ahead.

Dewang Sanghavi: Sir thank you for the followup. This is a book keeping question. We had Rs.18 Crores of one time gain due to past government incentive and part of it which has recurred in nature? I just want to know what is the quantum of recurrent in nature.

Sachit Jain: Singla if you can answer that.

Sachit Jain: Because this is pertaining to the electricity duty exemption and on this account on recurring we will be getting about Rs.9 Crores per annum on the current consumption of ours.

Dewang Sanghavi: That is very helpful. Thank you Sir and all the best.

Moderator: Thank you. We have the next question from the line of Rohan Mehta an Individual Investor. Please go ahead.

Rohan Mehta: Congratulations on a good set of numbers. Sir most of my questions are already answered, but just had a couple of more questions? So revenue realizations seemed to have improved in Q4 so assuming that of course the price increase for our products are here to stay and if the volatility in raw material prices stabilizes then will it be safe to assume that these realizations will continue down the coming quarters?

Sachit Jain: So, from April as I said at the minimum we are expecting Rs.10,000 to Rs.12,000 further increase from the current levels, so current average for the year was around Rs.80,000 figure?

Rohan Mehta: Yes Rs.80,000 a tonne.

Sachit Jain: The current average for the last year Rs.80,000 on this Rs.80,000 you are expecting minimum Rs.10,000 to Rs.12,000 and could be Rs.15,000 to Rs.20,000 so one does not know, but assuming at the lower end if you get Rs.10,000 we are getting a 12.5% increase in realization from April 1, 2022, and if we get Rs.15,000 that much more. These numbers are like crazy. This kind of increase and earlier we used to get Rs.1000 or Rs.2000 up or down. Last year we saw these big numbers of Rs.4700 and it looked like massive numbers and suddenly you are saying Rs.10,000 to Rs.12,000 as a minimum. These are insane figures, but that is the reality.

Rohan Mehta: Sir our other expenses have reduced so is it switch to natural gas or other areas also we have saved expenses?

Sachit Jain: There is always constant cost saving going on but in some areas, cost had gone up. In some areas cost has gone down, but the big area of cost saving has been with clearly gas but that is a very small amount has gone in the last year because this gas came in February so we have got one and a half month of saving of last year's so it is not that big a chunk but basically what happened when then volumes goes up the cost per tonne will comes down.

Rohan Mehta: Got it. Fair enough Sir, but effect of this switch to natural gas it is benefit on the margins is likely to be felt in the coming quarter's right Sir?

Sachit Jain: If the current pricing differential remains. We are price takers furnace oil is concerned. We are priced takers as far as gas is concerned so we have no way in determining what the prices will be so what prices we get, we buy, we use and if the prices are attractive we save money compared to furnace oil but very difficult to predict all those things.

Rohan Mehta: Just one last question, I was curious about you mentioned that Aichi may increase its stake in the company and that it would be a good step for us as well so do you see any sort of a timeline where that might happen and a sort of a rough ballpark figure of what kind of stake would be transferred to them?

Sachit Jain: I have no way of giving a timeline but I said within the next two to three years if this should happen and two very clearly there is a trigger I think at 45% as a trigger for open offer 24% to 25% that is the number for open offer so very clearly any increase will below that number. At best it will be up 25% but I would say somewhere between 20% to 24%. Currently they own about 11.4% so the stake whatever the increased stake after a proposed valuation would be in the range of 20% to 25%. I would like it to be lower because we really do not need that much money. We need zero money as I said and in terms of need of money there is zero need of money so yes there is zero need of money. I would like to keep it as low as possible but it has to be reasonable. You cannot say we will value it and we will tell by 4%. It does not make sense. That is one. The other thing I want to bring to the notice of all investors of the call. We will be shifting to a lower tax regime from this year so from the earlier 33% we will be shifting to the 25% tax regime. All our past, etc., has been dealt with. The mat credit minor amount was still there, which has been adjusted and written off whatever you call it or account it or what you call it, but that has been done away with. We shifted to the new tax regime on this.

Rohan Mehta: Okay great Sir. Just one last strategic question I had with the involvement with Aichi increasing and the relationship building stronger are we going to sometime down the line see substantially more revenue coming in from our exports overseas market?

Sachit Jain: Sure, our target is 20% to 25% on the current 5%.

Rohan Mehta: Right I was going to ask that right. Alright thank you so much. Thanks Sir and all the best.

Sachit Jain: Hang in there. This all depends on our reaching. This will be our target and it has to be on reaching those quality levels and so on. It is not a done deal that you will just decide and it will happen. The quality stringency in the export markets especially Toyota's requirements are way higher than the Indian market.

Rohan Mehta: It depends on all the factors?

Sachit Jain: Yes, and since it is Aichi themselves will be buying our material and they are working with us so the target is to achieve those numbers and they keep constantly to achieve those numbers.

Rohan Mehta: Is their consumption of our production likely to increase?

Sachit Jain: That is what it is zero.

Rohan Mehta: Right Sir, but our agreement with them would be that they will buy back some finished goods?

Sachit Jain: There is no such agreement of buyback. That is the plan. The beauty of dealing with Japanese and the beauty of having a long-term relationship, a friendship and understanding these two do not need to be there in any agreement and so on. What is the point of a buy back agreement if you say market conditions have changed and so on? There are enough waves of getting out from a buyback agreement.

Rohan Mehta: Sure Sir.

Sachit Jain: We do not have any written agreements in terms of how much quantity, but we know the developments coming in. We are keeping track of the developments coming in. This particular grade of steel is going to be used in this part, in this vehicle from the year 2024, from the year 2023, from the year 2025, so 2025 is the year of a major platform change in the Toyota system. 2025 and all this preparation is for the 2025 platform change and once our steel gets input at 2025 platform change then we are home secure for the good 10 years, eight to 10 years till the next platform change happens. This is a very important product to achieve those numbers, the timelines.

Rohan Mehta: Fair enough Sir. That was all from my side and all the best Sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand the conference over to the management for closing comments.

Sachit Jain: Ladies and gentlemen, thank you so much for your interest. I have not seen so many questions. This is the longest call I think in the last few years that we have ended. It just shows that though we are a small company we seem to be attracting and I see several regulars out here so it is nice to have a family because we are an old fashion company. We believe in long term relationships. We also believe in long term relationships with the analysts trying to cover us and shareholders who remain with us and hopefully gain in the dividend that we share out as well as this acquisition in terms of the value of the holdings going up over time. We have repeated again and again that we are a long term oriented company so we should be looked at as an investment for the long term perspective with a short term very difficult to be partners with us, but once again thank you all for your support. All the best.

Moderator: Thank you. On behalf of IIFL Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.