



# Vardhman

## VARDHMAN SPECIAL STEELS LIMITED

Delivering Excellence. Since 1965.

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The Deputy General Manager, Corporate Relationship Deptt, Bombay Stock Exchange Limited, 1 <sup>st</sup> Floor, New Trading Ring, Rotunda Building, P.J Towers, Dalal Street, Fort, <b>MUMBAI-400001.</b> Scrip Code: 534392	The National Stock Exchange of India Ltd, “Exchange Plaza, Bandra-Kurla Complex, Bandra (East), <b>MUMBAI-400 051</b>  Scrip Code: VSSL
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**SUB: COMPLIANCE UNDER REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.**

Sir,

We refer to our letter dated 13<sup>th</sup> June, 2020 regarding the intimation of Analyst/ Investor Conference Call on the Audited Financial Results of the Company for the financial year ended 31<sup>st</sup> March, 2020 scheduled on 16<sup>th</sup> June, 2020 at 02:30 p.m.

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

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

Thanking you,

Yours faithfully,

FOR VARDHMAN SPECIAL STEELS LIMITED

  
(Sonam Taneja)  
Company Secretary

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# “Vardhman Special Steels Limited Q4 FY2020 Earnings Conference Call”

June 16, 2020





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**ANALYST: MR. VISHAL CHANDAK – EMKAY GLOBAL FINANCIAL SERVICES**

**MANAGEMENT: MR. SACHIT JAIN - VICE CHAIRMAN AND MANAGING DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED**

**MR. SANJEEV SINGLA – CHIEF FINANCIAL OFFICER - VARDHMAN SPECIAL STEELS LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Vardhman Special Steels Limited Q4 FY2020 Earnings Conference Call hosted by Emkay Global Financial Services. 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 Call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Chandak of Emkay Global. Thank you and over to you Sir!

**Vishal Chandak:** Thank you Raymond. Good afternoon and welcome everyone to the fourth quarter of FY2020 earnings call with Vardhman Special Steels Limited. We have the senior management of the company with us, Mr. Sachit Jain – Vice-Chairman and Managing Director and Mr. Sanjeev Singla - CFO with us. Without delay I will handover to you Sachit Sir!

**Sachit Jain:** Good afternoon everybody and thank you for joining our call. We just closed very difficult year as you all know our entire production goes to auto industry. Auto industry has had a very tough year 2019-2020 with volumes down across all segments of the auto industry whereas two wheelers, cars, trucks and tractors and so on, so everywhere business is down, so in line even our business is down. However, our fourth quarter has been a decent performance.

Sales have been down because of the similar reason. Last year the prices have been lower and we have had a profit in this fourth quarter and as a result we had a profit. Last year we have seen very significant for two primary reasons. One is that we have completed what I would say 10 years of phase 1 of my growth, my part of the steel business. I joined the steel business in 2010 and in January 2020 I have completed 10 years and I have also completed phase 1 of our business strategy which was to get in a technical partner, we were lucky that we were able to get Aichi Steel Corporation which is part of the Toyota Group to become our partner.

So, they have invested in our company, they have become a technical partner and their head of the steel business Mr. Takashi Ishigami has already joined us, which strengthens relationship which we have with them and we have a long term journey planned out. So, this is the biggest development of last year.

In addition to that we have also completed our planned upgradation of our Steel Melting Shop which happened in the first half but the stabilization continued into the third quarter so fourth quarter really, I would say the first quarter of full performance of the new furnace, so it is performing well, minor hiccup still remain which will get sorted out in the coming months. Overall, we were expecting a good year this year when we started 2020-2021. However, we were not expecting the huge impact which happened has COVID-19 and with the shutdown



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which happened in April we were totally shutdown, May we had very small phase, June little bit more, so first quarter is going to be a very, very difficult quarter where very low sales all our fixed costs are present and therefore we will be having a major loss in this quarter.

We examined our balance sheet, we look at the stress test for balance sheet, we have looked at in April we said if we have zero revenue for the full year even then can be survived as an organization, we came to the conclusion, yes we could survive, so we took a decision of not cutting any wages or any salaries for any of our employees. Also, we said there will be no lay off. However, what we have done is we have become most stringent on performance appraisal and if people are not being able to pull up and act to the expectation that we put to them, we will take a couple of applications were required but we decided not to do that. What has happened is that we have used this lockdown to upgrade our organization. Of course, because of low production we will be suffering a loss, but in this period, we have invested a lot on our people. I will take the next four to five minutes to share what we have done in this period.

I personally connected with all our people during this period on Zoom calls or on concalls including our workers. We used this opportunity to train our entire workforce on these Vardhman Aichi, Aichi is our partner, the new way of working we claimed all our people in that way of working.

Second, we identified all kinds of problems anywhere in the organization from cross functional teams and all those teams are working on these problems. As a result, we have got a very interesting solution coming in.

Third, we had used the term which you learnt from our partner's the 3R approach which is reduce, reuse and recycle. We have received over 2000 suggestions under this scheme, all those suggestions are getting evaluated and many have already got implemented once the plant has been started.

When we look into this, we have also asked people to write essays, which improve their written skills, improves their thinking skills, improve their communications skills, we have used them to write think if they were two levels up, if they were the bosses' boss, how will they think, we had this opportunity on metallurgy training, on 3S training as well as TPM training. So, we have used this time for employees to bond with each other, to bond with the organization and the very fact that we have not cut any wages or salaries that has increased the motivation level of the team dramatically.



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Across the country we are hearing that companies are facing shortage of people because migrant workers have left and gone back to their villages, you will be happy to note that at Vardhman Steel we are not facing any such problem. So, we are equipped to work and to serve our customers. Our partners have been strongly connected with us. Of course, they are working on a remote basis, we have sent back the three members who are placed here we have sent them back, moment the lockdown was announced and they have been working on a remote basis from Japan. The kind of support we are getting from our partner is tremendous.

Their approach is 1) to improve our quality that we are able to meet their requirements, 2) to reduce our cost so that we can be competitive against Chinese and Korean Steel and 3) we are working on our approach on safety. So, I have seen in this period the safety consciousness in our organization goes up dramatically, 4) They are working with us to help us on our problems solving approach so that we do not face those same problems again and again and they are also working on developing markets for us so that once we reach quality levels and reach the cost levels, the market is ready for us and we would be able to increase our sales in terms of exports in Southeast Asia as well as substitute imported material coming into India. On the whole the COVID situation is going to set us back a bit that the company is a strong situation to way out to handle this and we will emerge stronger from this.

I will ask Singla, our CFO to continue with the financial to clarify financial issues and after that I am ready to take your questions.

**Sanjeev Singla:**

Good afternoon everyone. Starting with the financials, on profit and loss accounts our revenue for the quarter in terms of volumes is at 35715 tons of sales as against last year's 34,000 odd figure there is an increase of 4% and revenue side in terms of rupees it is 205 Crores though it is lower by about 15% mainly because of two reasons, one is because of reduction in prices and secondly, due to some small change in the product mix from the bright bar to the black bar.

Then coming back to the other income side, other income is on higher side because we have accounted interest income on FDR of 50 Crores which the funds which we have received from Aichi Steel towards participation in the equity, so those funds are lying with the bank and understanding that these funds will be used for the capital expenditure as mutually agreed between the parties. So, as a result, the EBITDA during the quarter is 17.27 Crores.

Year-to-year increases 54% of that so mainly because of below reasons, one is because of the reduction in prices of the Scrap and consumables mainly electrode prices, the last year electrode prices were ranging in the range of Rs. 700 or Rs. 800 per kg whereas in this current



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quarter it has come down to their original level of Rs. 150 per kg. So as a result profit after tax it is 3.57 Crores and in this quarter also there is a deferred tax liability which has been created so after that the net profit stands at 3.57 Crores and for the full financial year our sales is 137,192 tonnes which is a decline of 15% mainly because of the slowdown in the automobile industry and on sales front it is 846 Crores of sales as against 1120 Crores last year, in this there are two –three reasons, one is last year there was 37 Crores of traded goods sale where as in the front it is only 4 Crores and there was a sales of raw material also which happened during the last year but there was no sales of raw material which happened in current year and thirdly it is because of the reduction in sales prices. So, as a whole for the full year total EBITDA stands at 49 Crores as against 69 Crores in the last year, 29% decline.

On the balance sheet side, there are few major changes in the balance sheet, one is equity participation by Aichi Steel Corporation about Rs.50 Crores and secondly there is a decline in inventory level. Last year it was 303 Crores as against this year it stands at 151 Crores, there is a major decline in inventories because you must be knowing that last year we were building up the inventory of billets to meet our customer requirements during the shutdown period so this year during the shutdown period this inventory has been eaten up and accordingly our inventory declined and with this effect the realizations from this inventory had been used towards repayment of term loans, short term borrowings and also repayment of our creditors.

I think as a whole our balance sheet size if you see it was 890 Crores as on March 31, 2019 now it has come down to 770 Crores mainly because of liquidation of this inventory. As a result, our debt equity ratio has improved to 0.62 as against 0.92 as on March 31, 2019. So, we are quite comfortable as far as debt equity is concerned and during lockdown also we have been able to get good collections from our customers because OEMs were making payment to the Tier I and Tier I was making payment to us also so our debt has further reduced.

That is all from my side on the financials. I request in case anyone has the questions, we are open for the questions.

**Moderator:**

Thank you very much. We will now begin the question and answer session. We have the first question from the line of Mr. Vishal Chandak. Please go ahead.

**Vishal Chandak:**

If you could help us with what is your plan for the next year in terms of volumes and how do you look at the auto industry going forward for the next year that would be very helpful?

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**Sachit Jain:** Thank you, Vishal. At this point, to say what are our plans, for this year it is very difficult, our plan is to take whatever comes our way and service that order. What we are hearing is that because of this COVID situation there is likely to be higher demand for two wheelers as well as lower priced cars because people will like to move away from public transport to use their own personal transport but since we are primarily in the lower price cars as well as two wheelers if this segment does well as was anticipated the probability that we will also do better, the probability is higher because in the auto segment we believe that heavy commercial vehicles will be the last to recover, tractors are anyway doing well and two wheeler and the cheaper cars will do better, so if that happens we should be better than what we are anticipating. However, we need to understand that the auto companies had inventory as well Tier-I had inventories of finished goods as well as steel, therefore first sales pick up will happen for the autos and then the demand for the components and then will the demand for steel come up. Already we are seeing in the month of June the demand is better than what we were expecting in April, so clearly there seems to be a pull; however, we are still going to be significantly lower than last year and we are expecting despite this still first quarter we will have a major loss. Every quarter is likely to be better than the previous quarter.

**Vishal Chandak:** Thank you very much Sir. I will join in the queue for the next.

**Moderator:** Thank you. The next question is from the line of Ratish Varier from Sundaram Mutual Fund. Please go ahead.

**Ratish Varier:** Couple of questions. First is that you mentioned that you have seen recovery if you can talk about what kind of utilization will be running and whatever you are talking to the OEMs how are you seeing in the next quarter that is Q2, any kind of dialogue with them that is my first question near term demand has been can you just give us understanding on that? Second I just wanted to understand when you are talking about the import substitution in this kind of a pandemic scenario whatever we had earlier assumed pre-COVID whenever that import substitution happened has that program got changed anywhere or it is again subject to have market recovers, volumes come back etc., or even if let us assume volumes in the earlier period will slowly recovers but can we once collect our processing etc., can be get on kind of inputs substitution orders etc? Thanks.

**Sachit Jain:** First of all, we do not declare monthly utilization numbers but the first quarter is very low, April was almost zero, May is really better and June is really better still despite been very better we will be below 50% utilization for the first quarter. Second quarter is likely to be better than this because the indication we are getting from our customers is that yes the schedules for July onwards they are getting better, so I hope in the second quarter we should



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be able to be around 50% or cross 50% if there is a chance we can cross utilization in the second half. That is important. As regards the imports substitution I do not think the COVID impact imports substitution part that all depends on reaching the right quality levels and getting the approvals from the OEMs. So, any process of substitution takes 1.5 year to 2 years, so it is not a question of months that in two months – three months we will get the order, it is a long process. The advantage of being a long process in a sticky business is once you enter it is equally difficult to dislodge you. The advantage that we have is the OEM in this case for all the substitution is keen for the substitution and two the amount of faith we have with our partners is very high. So, these two factors work in our advantage and we believe that in a couple of years we stand to have a huge advantage. The problem we are having just now is all the technical fees that we are paying to our partners all gets captured in the current cost some benefits are coming but most of the benefits are really long-term benefits. So, the benefits will come in over time whereas the cost is coming in immediately. I hope I have answered your question or is something?

**Ratish Varier:** Sir at what utilizations do we breakeven?

**Sachit Jain:** I am just saying we do not report utilization figures in advance what is expected. But the first quarter is going to be below 50% clearly and even June is going to be below 50% so each month is better than the previous month and second quarter we expect to cross 50%.

**Ratish Varier:** Thank you.

**Moderator:** Thank you. The next question is from the line of Vineet Maloo from Birla Sunlife. Please go ahead.

**Vineet Maloo:** Good afternoon. My question is about if clearly you are running very low utilized and your fixed cost absorption is very poor and if you highlighted from the technical fees into P&L. But let us say if I just focus on the variable cost side and if you were to compare your contribution margins versus what they were may be three months or six months and twelve month ago. If you could give us some sense how they are moved in the current as we stand today, it will be useful?

**Sachit Jain:** Variable costs also are not strictly variable, they are semi-variable so for example; manpower cost, wage cost is actually a variable as per strict costing but if we decided we are not going to lay off any worker that will be a fixed cost. Similarly, power cost is a semi-variable cost, oil cost is semi-variable cost. So strictly speaking all those costs the contribution is going to be definitely lower than what they were because at these low levels of volume your power

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cost per ton is going to be higher, the oil cost per ton is going to be higher because we are starting up furnace shutting it down, we are starting a reheating furnace shutting it down, we do not have long runs. So, all costs are higher than what they should be.

**Vineet Maloo:** Okay and obviously you are not corresponding prices for them?

**Sachit Jain:** No way. Infact we were expecting a price increase. We were scheduled for a price increase from April we had written to our OEM's in February for a price increase but in this current time when OEM's are bleeding, everyone is having a tough time so it is difficult to get the price increase. So, this is indeed a very, very tough time but I expect that by the time we move to the second half we should be far more comfortable than what we are going to be in the first half. But still overall this year is going to be a very tough year unless the recovery is a very, very sharp recovery.

**Vineet Maloo:** You do not exporters and outlet to increase your utilizations?

**Sachit Jain:** No, it is difficult. We are working on that with our partners but that will take time. So clearly in other two-three years' time we should have much better export business. We have export business even now but that is still very small. But to reach into substantial exports we have because our partners are the key suppliers to Toyota, and they have their own forging. So, their own forging companies in Southeast Asia they have a forging company in Philippines, in Thailand, in Indonesia all are waiting to use our material once we reach the quality levels as well as the cost levels. All that will take may be a couple of years to reach.

**Vineet Maloo:** If I were to strictly compare the movement of your raw prices versus actually the final product prices have they move in tandem or is there discrepancy there also not your other input for the steel and steel scrap etc?

**Sachit Jain:** I am sorry?

**Vineet Maloo:** I mean not your other consumables, oil etc., I meant only let us say steel scrap etc?

**Sachit Jain:** Yes, I am saying that based on raw material cost we were expecting price increases from April; however, because of this current situation and overcapacity everywhere and the OEMs themselves are having a tough time. So, in this situation to ask for a price increase even if it is due becomes very difficult so let us see how things shape up but as of now it seems that they are going to be squeezed on that account.

**Vineet Maloo:** You work on quarterly pricing is that how it works?

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- Sachit Jain:** Six monthly.
- Vineet Maloo:** Six months okay understood.
- Sachit Jain:** Discussions are going on OEM pricing is concluded but looks difficult that we will get the price increase or even if you get the price increase it will be lower than what is due to us.
- Vineet Maloo:** Raw material prices typically move on regular with spot basis right that is how we procure so is that saving the timing?
- Sachit Jain:** Yes, that is right it is spot basis.
- Vineet Maloo:** Alright thank you so much for answering my questions. Have a good day.
- Sachit Jain:** Yes let me also share that we have done is over the last few months we have shifted more and more to domestic scrap so we have reduced our dependence on imports which means that reduces the riskiness of our long-term booking because imported scrap normally we have got 100 days of coverage in terms of goods covered and lying at the shredder, goods on ship, goods at port, goods in transit local and goods in the factory premises. So, the riskiness of imported scrap is much higher than local scrap. So, over the last few months we have reduced our dependence on imported scrap and shifted more to local engineering scrap and that is given us some advantage.
- Vineet Maloo:** Thank you.
- Moderator:** Thank you. The next question is from the line of Mr Anil Kumar Sharma. Please go ahead.
- Anil Kumar Sharma:** Good afternoon. Sir what we think about this whole year actually my question was regarding exports that has already been covered. But what about this whole year any estimation will be at par or some loss will be there or some profit total. What do you expect though it is very difficult?
- Sachit Jain:** It is difficult question to answer but as of now we are expecting a loss for the full year; however, in April we were expecting a much bigger loss and in June we are expecting a smaller loss than what we were expecting in April and the way the volumes are increasing I think the quantum of loss may be keep coming down and may be remain moving to zero situation near zero situation something like that. But all depends on volumes. As I said earlier that we have retained our entire workforce we have not cut any wages or salaries, we are paying all our interests, and in fact we have pre-paid some loans. So, we are comfortable in

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cash and as far as I am concerned what I am telling all our people and this is a strategy for us this year, the strategy of survival and having cash and not having a problem with cash, the profitability not the objective for this year. If we are able to reach a profit situation or zero profit situation we will be very, very happy.

**Anil Kumar Sharma:** Okay Sir one more question, what is the percentage of the supply to two wheelers?

**Sachit Jain:** I am sorry can you repeat that?

**Anil Kumar Sharma:** Supply to two wheeler percentage Sir?

**Sachit Jain:** Supply to two wheelers is about 30% odd around 30% a little over 30%.

**Anil Kumar Sharma:** Right Sir. Thank you very much Sir. Good day.

**Moderator:** Thank you. The next question is from the line of Anita Gandhi from Arihant Capital. Please go ahead.

**Anita Gandhi:** Good afternoon Sir. I appreciate your efforts during the challenging times that all of us are facing especially for retaining jobs of so many employees. One of my questions has already got answered. I just joined the after it started so want to know something about inventory sale that you mentioned?

**Sachit Jain:** When we started last year, we had a very high inventory because we had a shutdown coming to replace our furnace and since we are in the auto business we cannot afford loss of sales because for many of the customers we are the only suppliers so we cannot afford a disruption in supplies. So, we had very high inventories since the beginning of the year. So, over the year after the furnace has got installed, established and stabilized in this period the excess inventory has got eaten away so that is what happened. However, on March 31, 2020 the inventory that we had was assuming sales of about 13,000 tons a month and suddenly the sales have dropped and so even now we have excess inventory compared to what we expect the sales to be for this year. But every month the inventory will keep dropping and which is why we have enough cash to handle any exigencies as inventories and the outstanding gets liquidated.

**Ankita Gandhi:** Thank you.

**Moderator:** Thank you. The next question is from the line of Vishal Chandak. Please go ahead.

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- Vishal Chandak:** Sir could you please help us with the net debt and net cash numbers for the year end?
- Sanjeev Singla:** Yes, total debt as on March 31, 2020 is Rs 260 Crores which is lower than the previous year March 31, 2019 it was Rs 333 Crores.
- Vishal Chandak:** This is the gross debt number right Sir?
- Sanjeev Singla:** Sorry.
- Vishal Chandak:** Rs 260 Crores is the gross debt or net debt?
- Sanjeev Singla:** This is total debt.
- Vishal Chandak:** Total debt and what could be the net debt Sir?
- Sanjeev Singla:** Because we do not have any investment as of March 31, 2020. There is FDR of Rs 50 Crores that has not even subtracted so net debt will be Rs 209 Crores as on March 31, 2020.
- Vishal Chandak:** This amount is primarily the investment made by Aichi to be used for a specific purpose?
- Sanjeev Singla:** This is the investment of the point which we have received from Aichi towards participation in the equity. So as far the understanding between both the parties these funds have been kept in FDR which will be utilized for capital expenditure as mutually agreed between the parties.
- Vishal Chandak:** Just a strategic question, once your quality ramp up to the international standards would you be barred from exporting into countries where Aichi has already has presence is there kind of an agreement to this effect?
- Sachit Jain:** No such agreement. In fact the whole purpose of Aichi is to develop us as a source to service the Southeastern Asian markets. So, the strategy is to be able to compete in Southeast Asia against the Chinese and Koreans and we are seeing a good potential in fact yesterday Aichi gave us a presentation in our Board Meeting and shared the potential business provided we reach the quality levels and provided we reach the cost level the business potential is pretty big. All of us are quite excited that all of us are very excited with this opportunity.
- Vishal Chandak:** Thank you so much Sir because generally in such investments the investee is not allowed so that very is good to hear. Thank you Sir.

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**Sachit Jain:** Let me also share just now that working with Aichi, we have spent six months as of March 31, 2020 and as we speak today, we have spent eight months working together. I must share here publicly that the first eight months of working with them has been fantastic, the understanding of each other has been very good in these period we have had a visit from their Chairman, we had a visit from their President, visit from their Head of Marketing and of course the main technical people who were working with us and there is a strong level of positivity and a strong level of trust between the teams. Our people are learning Japanese and the Japanese people are trying to learn some Hindi, the kind of culture integration that is happening is positive and I am very excited with the way things are going. Of course, as I said the results of this will start coming in about two years' time as far as business is concerned but in the areas of cost and quality improvement which will impact our domestic business also, we have already the results coming even now so results have already started coming as an improvement that we are seeing in our production process.

**Vishal Chandak:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Venkatraman from Orion Securities. Please go ahead.

**Venkatraman:** Thanks for the opportunity. I want to know what is the status of the Mega Project Policy Incentive from the state government which was expected?

**Sachit Jain:** So, we have received Rs. 4.8 Crores last year as some more is expected in this year as part of the phase 1. The phase 2 we should start getting towards the end of this year we shall start getting that. So, we have already applied for those and under process.

**Venkatraman:** How much is the approximate amount?

**Sanjeev Singla:** It all will be depending upon the volumes that the benefit and the new policy 100% exemption from the electricity duty and also 25% in our case it will be about 25% exemption from the payment of net GST including IGST, CGST and SGST. So, it all depends upon the volume because as of now it is difficult to calculate the volume.

**Venkatraman:** Second question was, we have brought down our inventory levels to Rs. 160 Crores on March 31, 2020 and I believe subsequently in April and May, the raw material prices have come down which means when you calculate price revision for the next maybe next revision with OEMs will be taking hit in terms of the price realizations?

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- Sachit Jain:** We have no idea what will happen in October. In fact, if we are asking our OEM customers that in case if we are supporting in the first half you have to support the second half so all that is the subject of discussion and negotiations. At this point we cannot share what is going to come and there is not significant decrease in raw material cost anyway.
- Venkatraman:** That is from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Abhijit Vara from Sundaram Mutual Funds. Please go ahead.
- Abhijit Vara:** Thanks for taking my question. Thank you for elaborate comments from the current situation. We appreciate the transparency. Just couple of questions from my side. First one is the incentive which you just mentioned, Mega Project Policy how many years is it eligible?
- Sanjeev Singla:** In the earlier policy of 2013 we are eligible for eight years starting from January 2016 to December 2023, so it is for the eight years and in the new policy we will be entitled for benefits for seven years maybe starting from last mid financial year to next seven years.
- Abhijit Vara:** Second, if you could please help us understand the raw material pricing trends, you did mention something about scrap, electrodes if you could mention what you are seeing in the near term next six months let us say in terms of the pricing trends for the raw material?
- Sachit Jain:** So, graphite electrodes are going to be below Rs. 100 per kilo and other raw material is going to be stable or marginally rising so it is going to be stable we are not seeing any major changes of course shredded scrap seems to have gone up a little bit in the last couple of days.
- Abhijit Vara:** Graphite will be about 5% to 10% of the raw material cost?
- Sachit Jain:** I am sorry can you repeat this question?
- Abhijit Vara:** Graphite electrodes will be about 5% to 10% of the raw material cost?
- Sachit Jain:** No, graphite electrode is not part of raw material it comes as consumables.
- Sanjeev Singla:** As of now at current prices it will be approximately close to 1% of the total cost, earlier it had gone up to 5% to 6% last year but this year it is in the range of 1% to 1.2% of the total cost.

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**Abhijit Vara:** Just one more question, in the current situation where many companies are unable to arrange for working capital facilities, can Vardhman Special Steel grab some the market share in the industry is it possible that even if the industry is declining much higher you can gain for market share and show some lower volume decline, is it possible?

**Sachit Jain:** We are going aggressively to grab business wherever it is possible and you are right since you are financially comfortable cash, we have no problem of cash so we are able to capture customers in terms of extending credit where required so we are definitely doing better than what we were anticipating a month and a half ago.

**Abhijit Vara:** But will it be visible in the current year itself or it will take some few quarters?

**Sachit Jain:** We are still expecting a decline from last year so I do not know. It is very difficult to say what is visible.

**Abhijit Vara:** Once we are able to improve your market share, will that be sustainable or will it again depend on pricing, credit trends and all those things will come back once things will stabilize, how the sustainable will be the market share be?

**Sachit Jain:** One this is that we are making a good progress on our capacity enhancement so we are reasonably confident that by the time this financial year ends we should have got the approval to increase our capacity so once we get the approval to increase the capacity we are clear whatever business we have taken we are not going to be in a hurry to let it go so as our regular business comes up we will retain this business what we get so which means our utilization should be better once full volumes comes back.

**Abhijit Vara:** Okay, so the new capex details you will share it once the plan is finalized?

**Sachit Jain:** First of all, for increasing the capacity we do not require too much of capex. As you would recall that we made the change in furnace and we have made the furnace able to increase the production so the increased capex to increase the capacity will not be too much; however, with Aichi they may need other capex to come in for quality reasons and we will increase the capacity further so the new capex plan is going to be finalized with our partners and will be declared, I Hope by the end of first half. So, maybe in the November board meeting we may be announcing the next capex plan.

**Abhijit Vara:** Right. Just one last question if I can squeeze, what portion of your credit limits, bank lines limits are unutilized, are we comfortable just wanted to understand and liquidity front how comfortable we are?



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- Sachit Jain:** We have very comfortable liquidity. As I said we have prepaid certain loans and we are also negotiating with certain banks where we are not happy with the interest rates we are going to prepay those loans so on liquidity front the company is careful and comfortable and CRISIL has retained AA rating though albeit it was in a negative outlook that will still be retained.
- Abhijit Vara:** Appreciate your efforts.
- Moderator:** Thank you. The next question is from the line of Neha Jain from Ortega Wealth. Please go ahead.
- Neha Jain:** Good afternoon Sir. After our tie up with Aichi, have we been approached by any of the OEMs which might indicate as to how the players have been?
- Sachit Jain:** They do not need to approach. It is a mutual thing but what I am seeing is India is still dominated by Japanese OEMs as well as Southeast Asia is dominated by Japanese and we have seen very clearly that because in our opinion Aichi is probably the best Automotive Steel Producer in the world and as they are part of Toyota Group. So, the kind of access that I have seen after they joined us I have not seen that kind of access any time before. So, I am very excited with reaching up to the highest decision-making levels where the decisions are going to be taken about using our steel. So, I would say we are in a pretty strong position, once we reach the quality levels and the cost levels the targets are set we should see what impact on better quality business, not only business will increase but I would say a better quality business will come up.
- Neha Jain:** Sir, one more question, do we have any update on any scrapping policy as to have we been in touch with any of the players who might be planning to get into scrapping business?
- Sachit Jain:** Yes, we are in touch with the people there and we are in touch with the government I am also the co-chairman of the CII Steel Committee, we are constantly talking with the government and we need to come out of the scrapping policy so once that comes in I think that will be a big positive for our company.
- Neha Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rohan Mehta, an individual investor. Please go ahead.

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**Rohan Mehta:** Sir, just wanted to ask you had mentioned earlier that two-wheelers and small cars are likely to pick up momentum gradually as more and more people would avoid public transport but if that is in the shorter or medium-term more in the long-term do you feel that a more conservative discretionary spending might be a trend that might affect our market because especially with lot of industries and sectors like IT having encouraging work from home, if in the longer term people are tighter with their pockets in terms of spending on transport related things, could that affect us?

**Sachit Jain:** Rohan, first of all, what I said was this what I have heard so I am not an expert in these forecasting and what I am repeating to you is what I read in the newspaper and what I hear from some experts. So frankly for us the key is that we have got our partner. The partner feels as part of their strategy to be able to sell steel in Southeast Asia so over the next one year to two years, once moment we reach that quality levels our biggest focus is going to be on selling steels to the market in Southeast Asia, one and two, working on import substitution of high quality specialized steels coming into the country, still getting hold on the country. So, those two are going to be our areas so even if there we increase in two-wheeler or etc., eventually comes down by that time we would have pick up the other business. One thing to note is rural India is doing very well, the winter crop has been very good and tractor sales are good so the demand from the rural area is going to be strong. So, the indication that we are getting at least from the two-wheeler manufactures is that they are looking at reasonable volumes going ahead as a combination of rural sales as well as urban sales and there is also the other area of railways we are also looking at the diversifying away from auto into railways so that is the other area we have started in this past one year and we hope to develop this business further.

**Rohan Mehta:** Just wanted to get your view on that. Thank you.

**Moderator:** Thank you. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

**Sachit Jain:** Ladies and gentlemen I know we had a disappointing last year and this year turns out to be even worse, but I think in this cloud I see lot of silver lining of hope. I believe this lockdown period has made our company much stronger than it was and we have covered up one year's worth of work in last one and half months in terms of getting the teams closer and aligned to what you want to do. I am pretty positive that once the economy reaches back to the normal levels we will have a disproportionate gain from that opportunity and by that time we hope to see the benefit coming from our partners so I am very excited about the long-term but this year is going to be a very tough year. Thank you so much.



**Moderator:** Thank you very much. On behalf of Emkay Global that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.