Vardhman

Delivering Excellence. Since 1965.

VARDHMAN SPECIAL STEELS LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN SPECIAL STEELS LIMITED – Q2 FY23

Sir,

Pursuant to the provisions of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call of the Company held on 2nd November, 2022 to discuss the Company's operational and financial performance for Q2 FY23.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN SPECIAL STEELS LIMITED

SONAM TANEJA

Digitally signed by SONAM TANEJA
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(Sonam Taneja)
Company Secretary

VARDHMAN SPECIAL STEELS LTD.

Vardhman Special Steels Ltd
Q2FY23 Earnings Conference Call

Event Date / Time	:	02/11/2022, 14:30 Hrs.
Event Duration	:	54 mins 02 secs

CORPORATE PARTICIPANTS:

Mr. Sachit Jain
Vice Chairman

Mr. Sanjeev Singla
CFO

Q&A PARTICIPANTS:

1. **Bhavesh Chauhan** : IDBI Capital
2. **Ritwik Sheth** : One-Up financial
3. **Nilesh Doshi** : Green Lantern Capital
4. **Rajat Setiya** : ithought Financial
5. **Dishant Jain** : Quasar Capital
6. **Saket Kapoor** : Individual Investor
7. **Aditya Khandelwal** : Simpl
8. **Rohan Kamat** : Finterest Capital
9. **Parin Jhaveri** : JNJ Holdings

Moderator

Good afternoon, ladies and gentlemen. I'm Pelsia, moderator for the conference call. Welcome to Vardhman Special Steels Ltd Q2 FY23 Earnings Conference Call. We have with us today, Mr. Sachit Jain, Vice Chairman and Mr. Sanjeev Singla, CFO. 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 the date of this call. These statements are not guarantee of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants 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 * and 0 on your touch tone telephone. Please note this conference is recorded. I would now like to hand over the floor to Mr. Sachit Jain, Vice Chairman, thank you and over to you.

Sachit Jain

Thank you. Good afternoon, ladies and gentlemen. Thank you once again for showing your interest in our Company. Along with me in my call, Sanjeev Singla, our CFO, also my daughter Soumya is on the call. We've had Adfactors our Investor Relations Company. We've had an interesting year. So far, the Q2 has also been equally interesting and challenging. As we shared with you as the year began, that this time, it's crazy times with prices, commodity prices fluctuating like nobody's business. We've set all kinds of records in terms of price rises and the price falls in raw materials. And as a result of that volatility, it was difficult to set the prices in Q1 and Q2.

In Q1, we got a price increase much less than what was legitimate and what is expected by us. And there was a trend for a price reduction after that. And it was a difficulty we settled to that price. So Q2 prices were lower than Q1, whereas costs were not much lower and therefore operating margins came down in Q2. However, we got a little protection from past committed incentive which came through of Rs. 9.4 crores, which is GST refund and that has been accounted. This is GST refund up to the year 21. For the year 2021-2022, we still haven't got the approval that has not been accounted and also the GST refunds which are relevant for this year has not been accounted.

Of course, this is income, which is accrued, the cash will come in in due course when the government sanction the release of that cash. Apart from that volumes have been good. We are on track to meet our revised target of 195,000 tons for the year. We might even try to see if we can exceed this figure and touch to 200,000 tons. But anyway, as of now, our target figure 195,000 stays. I will leave Sanjeev Singla, our CFO to take you to some of the financials. And then I'm available for a Q&A.

Sanjeev Singla

Yeah. Good afternoon, everybody.

Sachit Jain

Ladies and gentlemen, we are also joined now by our Executive Director and CEO Mr. Rewari, he is also joined the call now. So, yeah, Singla all yours.

Moderator

Participants kindly stay connected while we connect the management team back on the call. We welcome the management team back on the call. Yes Sir, please go ahead.

Sachit Jain

Am I audible?

Sachit Jain

Okay, right. So, we just invited Mr. Rewari who made a thunderous entrance and disconnected the call. So, our ED and CEO, Rewari welcome please meet the investing community who have shown interest in our Company.

Mr. Rewari

Thank you very much Jain Sir and let us enjoy the talk.

Sachit Jain

Singla, please take them through the financials. And then now I'm there to take to-- answer your questions.

Sanjeev Singla

Thank you, Sir. Good afternoon, everybody. During the Q2, our volume stands as 50,961 as against 43,283 tons in the same quarter last year. YoY increase is 17.74%, revenue from operations stand at 443 crores as against 335 crore in the same quarter last year. We have seen a growth of 32%, primarily due to increase in volume and also because of the price increase which we received in the 2nd half, last year and price increase of sales in the current first half. Our other income, there is an increase as Mr. Jain, has already explained, we have accounted for Rs. 9.4 crores GST refund under the industrial policy of the State Government.

And this benefit is for one & half year and for 1 more year is pending for approval. The same will also be accounted once we will get necessary approvals from the competent authorities. As a result, our EBITDA, including other income for the quarter stands at 49 crores as against 48.55 crores, marginal increase of 1%. EBITDA per ton is Rs.9,600 and Q2 PAT stands at 28.01 crores as against 24 crores in the same quarter last year, there is an increase of 15% mainly, because in the current year we have switched over to the new tax regime. And this new tax regime is the effective rate of tax is 25% as against 35% in the old tax regime. So, that's all on the financial performance. And I now request for the question answers.

Sachit Jain

And before the questions come in again, EBITDA to capital employed is above 20%, which is what we have said that our target is to consistently meet the figure of above 20% EBITDA on capital employed and hope to raise it to 25% on a sustainable basis by the year 25. And we seem to be on track to achieve those milestones. But now, over to you all, and we can start the Q&A session.

Moderator

Thank you, Sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1, on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing * and 1, again. Ladies and gentleman if you have any question please press * and 1, on your telephone keypad. We will wait for a moment while question queue assembles. Ladies and gentlemen if you have any question please press * and 1, on your telephone keypad. The first question is from the line of Bhavesh Chauhan from IDBI capital please go ahead.

Bhavesh Chauhan

Hi Sir, my question is with regard to the strategic alliance with Aichi Steel that we have done. if you could share what is the kind of offtake have their assured, has Toyota assured of any offtake that will happen from this and what is the kind of steel that we will be making and what is the market potential for that kind of steel going forward?

Sachit Jain

So, thank you Bhavesh, for asking this question. I think there is echo coming.

[call echo – disconnect and re-connect]

Sachit Jain

So the 1st 3 years of this agreement with Aichi have been completed. And we have signed the agreement again for the next 3 years. And with Toyota the approvals have started coming in and part production has already started for some parts and mass production has started for some parts. So, there is a series of parts which needs, is about to get approved and this is in sequence again that is the echo coming and am I either disturbing too much or shall I continue like this?

Moderator

Thank you so much Sir.

Tushar Pendharkar

Not much disturbing. Hello?

Sachit Jain

Yeah.

Tushar Pendharkar

Not disturbing please continue.

Sachit Jain

Okay. So, this year we should do about 3000-4000 tons and the next 3 years this figure should rise to about 30,000 tons and beyond that, the potential is huge because eventually Southeast Asia business of Toyota, which is coming from Aichi Steel, our partners large part of that is likely to shift to India. So, the potential is huge it depends on our ability to serve the requirements and Toyota does not give any assurances and no other Company gives assurances. So, they give ideas, they give tentative possibilities, tentative quantity and it is for the companies to work towards achieving goals. But let me say we have reasonable confidence of achieving those numbers.

In addition to this numbers, there are other Japanese customers who are coming into us because of Aichi not through Aichi, but because they know Aichi is here and therefore, quality levels will reach the Toyota standard and therefore, other Japanese customers in Southeast Asia are also gravitating towards us. So, from business point of view, we are expecting shortfall in capacity in the next 2-3 years. Bhavesh that answered your question.

Moderator

Sir I am sorry to interrupt, he got dropped from the call, Sir.

Sachit Jain

Okay, right.

Moderator

Yes, Sir.

Sachit Jain

Anybody else?

Moderator

Any more questions? Yes, Sir sure. Thank you. And the next question comes from Ritwik Sheth, from One up financial, please go ahead.

Ritwik Sheik

Hi, good afternoon, Sir. And thanks for the opportunity. Sir, I have few questions. Firstly, Sir, this incentive that we have received from the government, how long and what would be the quantum which would be pending? You mentioned that GST is pending for another year and is there any electricity benefit or any other benefit which we are expecting?

Sachit Jain

So, this benefit is going to last for about 7 years. And we are expecting about roughly 7 -7.5 crores for 1 year for previous year, which will, one only way to get the approval will we get it and going ahead it will be roughly about 8 to 10 crores per year.

Ritwik Sheth

Okay. So, this covers everything.

Sachit Jain

This is GST, on electricity duty, we got benefits last year of the pending plus annually we are already getting the benefits of electricity duty which are part of our P&L.

Ritwik Sheth

Right

Sachit Jain

This will be reported separately because it's a prior year income and come into the lump sum therefore getting reported.

Ritwik Sheth

Right. So, any figure for year, for the electricity benefit?

Sanjeev Singla

It's also about 8 to 10 crores per year we will be getting in.

Sachit Jain

But that is already accounted in every quarter results.

Ritwik Sheth

Yeah, that is also reported in other income right.

Sachit Jain

Right.

Ritwik Sheth

Okay. Thank you for the clarification. Sir, my next question is on the scrap prices, you know, we have been reading that, because of lower production in the West, material is coming into India.

So has it benefited us in terms of lower scrap prices, if you can throw some light and what would be the scrap prices currently versus the last quarter average?

Sachit Jain

So prices are headed a little downwards. But domestic prices are higher than international prices. And we were largely relying on domestic scrap. But as the international prices sustained at a lower level, we have increased the purchase of imported scrap. And so the prices keep changing. There's no point in talking about a number at this point, but currently around 400, the prices are fluctuating between $440 and $460 per ton landed in Nhava Sheva.

Ritwik Sheth

Okay. So what would be the premium of domestic scrap prices over international?

Sachit Jain

Varies, but currently is between Rs. 2,000 - Rs. 4,000. It varies between that. So it's a constant dynamic taking a view, in my time in the steel business, I have not seen a situation where international prices have remained that much lower than domestic prices. So, this is an unusual kind of situation. And this arbitrage, which is going on the other way, may not continue for long, but these are unusual times, so, we cannot say what is driving the prices.

Ritwik Sheth

But directionally current quarters scrap prices will be lower than Q2 averages, right? I'm not directionally, I'm trying to understand.

Sachit Jain

They would be a bit lower. But then also depends on what is the price settlement from October, because the OEs are asking for a price reduction. Whereas we are not prepared to give any price reduction at this point in time.

Ritwik Sheth

Okay, so, what is the quantum that they're looking for?

Sachit Jain

Those are negotiating numbers, I can't share those numbers.

Ritwik Sheth

Sure, and Sir, my next question is on the Greenfield project, you've been mentioning, repeatedly, you know, wanted to if there's any update on the same?

Sachit Jain

No, at this point, there is no update, we are clear as the Indian side of VSS, that we need the capacity as soon as possible. And our partners Aichi are also agreeable that we need this capacity. The question only is what is the trigger to start work on that? So we are discussing that and hopefully the next few months, we'll have clarity on that.

Ritwik Sheth

Okay, sure. And Sir, you mentioned that 3 to 4000 tons of exports we will doing to Aichi customers. So, you know, that means that most of the product approval has come through, would that be a reasonable understanding?

Sachit Jain

No, that would be incorrect. As I said the product approvals are all in process, there are several products to be approved for and the approvals are coming in every quarter we are getting some more approvals because it's a slow process of sending material, making parts, testing those parts and getting those approvals and this what is happening is at super-fast speed. So no other Indian Company can replicate what we are able to get. So what the approvals you're getting from Toyota are at super-fast speed, but super-fast also takes time because automobile and material change is a massive safety issue. So, a lot of testing has to be done to, absolutely everyone has to make sure that nothing possibly can go wrong.

Ritwik Sheth

Sure. And sir, just a follow up on the incentive bit, is this incentive amount fixed, 8 to 10 crores irrespective of the electricity prices?

Sachit Jain

This is electricity duty. So if the prices increase then the incentive will also increase but then the cost is increasing. So this has got nothing to do with this figure will change depending on as we increase our production and as consumption goes up, this amount will go up. So this is a percentage of the power. Basically, in effect, it is a reduction in the power tariff.

Ritwik Sheth

Okay and would you like to share you know, what would be the mechanism you know, if what if.?

Sachit Jain

It comes in the bill. It gets adjusted in the bill every month.

Ritwik Sheth

It gets adjusted in the bill. Okay, so as we use more power, we'll get a higher refund something like?

Sachit Jain

There's no refund we pay less.

Ritwik Sheth

Okay, we pay less. Okay. So, would that amount.

Sachit Jain

Electricity duty there is no refund we pay less to the government and the GST part we get a refund. So there are two legs to this incentive.

Ritwik Sheth

Right. So just wanted to understand on the electricity, so if the electricity bill is Rs.100, we will be getting a percentage of reduction on the expense and the entire expense we bill it in the P&L line item in the expense side and the lower the.

Sachit Jain

Incentive part comes.

Ritwik Sheth

[Inaudible 00:19:53], that is my understanding.

Sachit Jain

Correct.

Ritwik Sheth

Okay.

Sachit Jain

Correct.

Ritwik Sheth

Okay. Sure, Sir. I'll get back in the queue.

Sachit Jain

Thank you.

Moderator

Thank you, Sir. And the next question is from Nilesh Doshi from Green Lantern Capital. Please go ahead.

Nilesh Doshi

Thanks for taking my question Sachit. First is, you said about new products development, you know, you mentioned that it's happening at a very good speed. Technically what these are different grades of steel which are developing for them, or it is, how do I understand it?

Sachit Jain

These are unique products to Toyota, it may be the same grade, but the quality specs would be different in some cases. In some cases, they may be unique grades also but mostly it is existing grades, but much tighter quality specifications.

Nilesh Doshi

So, in terms of manufacture.

Sachit Jain

This product cannot be sold to anybody else.

Nilesh Doshi

But does it call for changes in the manufacturing process? Or?

Sachit Jain

Of course, it does.

Nilesh Doshi

I see. Okay. 2nd is what are you really observing on a global framework that structurally why these companies are looking at India after I mean, many years they have always remain sourcing within their own country or maybe so.

Sachit Jain

Not really? That would be incorrect to say, at least I know our partners Aichi have been scouting India since 2006.

Nilesh Doshi

Okay.

Sachit Jain

I think the first contact with our Company was made in around 2006 or 2007.

Nilesh Doshi

What's the latest digging like, for a decade to develop more and more products, right?

Sachit Jain

You see, the point is that to find the right thought process to find the right partnership and to operate in India is very difficult. So, to just give you an example, there are 3 special steel companies in Japan, Daido Aichi, and Sanyo. Aichi was the first of the block to look for a partner they couldn't find the right partner, Daido partnered with SUNFLAG in 2011 or 2012. And Sanyo partnered with Mahindra, Ugine or MUSCO and eventually has taken over MUSCO, but they are all having their own difficulties in operating in India. So, India, sadly is a difficult market for many of the foreigners to work in. So, Aichi is also.

Nilesh Doshi

Is it changing now?

Sachit Jain

No, so, again, let me complete. Aichi also partnered with another Company called Usha Martin in 2014. They failed in that Company. So, after four years of struggling with Usha Martin, they finally dropped out of that agreement and started with us in 2019. So, there always has been intention from them to produce in India and source from India. And I think somewhere Indian entrepreneurs and Indian organizations have to understand to meet international requirements we have to change our approach and they ask for stuff, which many Indians say why do you need this this is not required and so, when the customer wants it, you have to give it. So, that kind of customer orientation is largely lacking in Indian manufacturing organizations.

Nilesh Doshi

Yeah, but with the kind of digital world in which we are and so many process are changing.

Sachit Jain

I, again, this is not the topic of this discussion, but I'm survival to say Vardhman group, in Vardhman group, Aichi has found a partner which is very responsive, which has the same ideology, same philosophy, and they are finding and so many all customers who come thanks to Aichi, other customers who are coming in, are repeating that. So, we are very hopeful that in the next coming few years, we have, we are going to have massive growth in terms of requirements of product from us.

Nilesh Doshi

Thanks for clarification, just one last question is on the pricing with this OEM, So, you know, like, earlier I remember we used to have yearly pricing then it moved to 6 months now it is probably quarterly. But as the India's industry is maturing and the kind of volatility, we are seeing across in every aspect of life today, especially last 2 years, are the industry not maturing towards some kind of formula based pricing to avoid all these haggling and all?

Sachit Jain

People are not talking about it, but it's very difficult to get a formula-based pricing because in India, there are two routes of steelmaking, there is a blast furnace route and there is a, otherwise there is an electric arc furnace route and the cost structure and movement of these two are very different. So very difficult to get a formula-based system, everyone wants that. So, we have that with Hyundai. So, it is possible for one Company but then we are the only supplier from India in Hyundai. So, we have that formula, but with the other companies that is, everybody wants it but it is difficult.

Nilesh Doshi

I see because otherwise, you know, it will give us good visibility in terms of margins, you know margins from clients.

Sachit Jain

I agree, that makes sense. But unfortunately.

Nilesh Doshi

Yeah. Thanks Sachit.

Moderator

Thank you, sir. And the next question is from Rajat Setiya, from I Thought Financial, please go ahead.

Rajat Setiya

Thanks for the opportunity. Sir, what is our wallet share with most of with our major clients?

Sachit Jain

Rajat, it will be different for different customers there are, and we will not like to share for any customer what is our share of their business, but we have up to 70 to 80% in some cases and we would be 15 to 20% in some cases, but very rarely would be below 20% for any customer.

Rajat Setiya

Okay.

Sachit Jain

And in some customers again depends on one customer may have, we are serving a few OEs. But since we are a more sophisticated quality supplier and more expensive, it's the same customer for a particular OEs maybe using even 100% of our material is from us.

Rajat Setiya

They may be taking material from ours?

Sachit Jain

From other steel suppliers at cheaper prices for some other OE's which are less quality conscious of a parts which are less stringent in quality requirements.

Rajat Setiya

And where, I mean, with the clients where we have lower market share, like 20, 30%, do you think there is a possibility increase in?

Sachit Jain

Again, we are not just now because we have, we are going to have a shortage of capacity. We are not trying very hard to increase sales where their customer doesn't value our product and services. We are going to have a shortage of capacity in next 2 years. So we are holding on to any further push, aggressive push in marketing

Rajat Setiya

Okay. On this capacity point. So, it's clear that till the time we will be limited going for 2025. How much can we really think without the Greenfield plan?

Sachit Jain

Those are questions because there is a big assumption of here that, there is no plan B between fully utilizing this capacity and having a Greenfield. So, that assumption perhaps may not be correct. So we have a plan B and a plan C, we do not intend to allow sales opportunities to slip by. So we'll see how those plans shape up in the next coming years.

Rajat Setiya

Okay, thanks for the Greenfield plant. But how much time will it take? And what will be the kind of capacity that we will see?

Sachit Jain

So again, all that has to be discussed with our partners, but the way I see it, so it takes, it'll take a roughly 5 years from when we decide.

Rajat Setiya

Okay. So, 5 years to set up.

Sachit Jain

Yeah, because it will take time to figure it out to purchase the land, get the environmental approvals. Then the civil project and construction, so it's between 5-6 years. For the investment horizon, for any of you I think this is beyond the investment horizon, of any of you.

Rajat Setiya

And when it comes to agreement with the renewal of agreement with the Aichi, so is it as per our expectations or has the terms changed from the previous agreement?

Sachit Jain

So, terms have changed from the previous agreement, but this is all as per our expectation and understanding of full acceptance because, I still believe the fees they're charging us and the kind of values we are getting, we have the better end of the deal.

Rajat Setiya

Sure.

Sachit Jain

They have been more than fair, and we are getting way beyond what we're paying them as fees.

Rajat Setiya

Sure. Have you disclosed that terms or would you be disclosing them?

Sachit Jain

No, we don't disclose the term, but some parts will be visible in the annual report when you see the detail expenditure statement, but we don’t on our, from our side reveal any parts of the agreement.

Rajat Setiya

So, what are the sustainable margins for our business, be it in like EBITDA per ton basis?

Sachit Jain

We have said that we believe Rs. 7 to 10,000 EBITDA per ton is a sustainable number and beyond 25, we will be targeting the figure of Rs.10 to 12,000 EBITDA per ton.

Rajat Setiya

And Sir prior to 2021, were we also operating in the same range or back then there are.

Sachit Jain

Earlier, our figures have been changing upwards, earlier the first set of guidance we were giving was between 4500 to 6000 then we change it to 5 to 7 and 6 to 8 then 7 to 9 and then 7 to 10.

Rajat Setiya

And Sir, what has led to this change of, I mean, there are work moment in our margin

Sachit Jain

Constant operational improvement, costs reduction and production increase and product mix, better product mix, so combination of all factors.

Rajat Setiya

Okay. Sure. And with Aichi we have.

Sachit Jain

Shareholders are giving me a good salary. So, I have to justify my existence if we are getting the same Rs. 4500 to 6000, the shareholder would have kicked me out by now.

Rajat Setiya

Of course, Sir. Can I ask one or two more questions?

Sachit Jain

It depends on the queue. If there's no others in the queue, please ask, otherwise come back in the queue.

Rajat Setiya

Operator, please, let me know if I can ask.

Moderator

Sorry Sir, can you please join back the queue again?

Rajat Setiya

Alright. Thank you so much. All the best, Sir.

Sachit Jain

Yeah, thank you Rajat.

Moderator

Thank you, Sir. And the next question is from Dishant Jain from Quasar Capital. Please go ahead.

Dishant Jain

Hello.

Sachit Jain

Yes.

Dishant Jain

Yeah. Thank you, Sir, my question is related to CAPEX. So, like we're increasing our capacity from 2.00,000 to 2,50,000 tons with the CAPEX of around 300 crores. So, if I calculate that incremental CAPEX per ton comes to around 60,000 per ton. So, is my understanding correct or am I missing something in this?

Sachit Jain

See, it is difficult to correlate exactly that by several investments away for environmental approval, there are investment going in for quality, there are part of the investments some of the investments are normal CAPEX, which are replacement CAPEX is a combination of all factors. And we will be announcing I think at the next board meeting, the next quarterly earnings will announce the next set of CAPEX plans. And some of these CAPEX plans also have cost saving associated with them. So, there's a payback individually because of that. So, it's very difficult to look at it as CAPEX related to capacity.

Dishant Jain

Okay. And Sir is it possible to share the CAPEX per ton like if any? If it possible? So that's what I am asking?

Mr. Sachit Jain

What we're doing?

Dishant Jain

Yeah, like for incremental CAPEX, that's an increase from 2 to 2.5.

Sachit Jain

No, it doesn't make sense something as the figure. We have the total CAPEX, we are doing and you can, you have the for production increases, that have been made, some of it is going for a product mix enhancements, some of it is going for safety, some of it is going for environments some of it is going for cost reduction, some of it is going for replacement, the way I would see it is please look at total capital employed and the EBITDA on capital employed which we have said our guidance that we will be targeting above 20% EBITDA on capital employed.

Dishant Jain

Okay Sir, that's quite helpful. Thank you.

Moderator

Thank you, Sir. And the next question is from Saket Kapoor an Individual Investor, please go ahead.

Saket Kapoor

Yeah, Namaskar Sir. Sir firstly just a small clarification. The other income has two components, one is the reduction in the power cost because of the power subsidy and other is the GST and GST component is the one which is first getting approved by the government and then being accrued, whereas the power will be on a continuous basis depending upon our production.

Sachit Jain

Correct.

Saket Kapoor

Okay, and this quarter, there is approval from the government on GST to the tune of Rupees 9 crores.

Sachit Jain

But which is related to the past period up to March 21.

Saket Kapoor

Okay.

Sachit Jain

So, 2021-2022 is pending, which is not yet get approved and 2022-2023 is the full amount is not yet approved.

Saket Kapoor

Okay. So, every quarter we can expect this approval, the process would be on what, how is this going to be?

Sachit Jain

We have to apply to the government depends on the government to give the approval. So, it's not in our hands.

Saket Kapoor

Okay. It's a new government in the incumbent government, I think so, a 1-year-old. So, is that the reason why the process is taking long or why?

Sachit Jain

I would say perhaps this government has become being more efficient than the previous government and at least clearing this investment that we made was made in the previous government and if they had any such intention, then they would have delayed this process further. So, we have got the approval now of an investment made in the previous government.

Saket Kapoor

Correct Sir. Sir currently our capacity is 2 lakh ton and I think what we have done for the H1, we are at the optimum utilization level. So out of this quantity produced around above 1 lakh, how much is attributed to the Aichi part Sir?

Sachit Jain

Aichi sales is negligible in the first half.

Saket Kapoor

Okay. So, the 2nd half, Sir, what is the plan?

Sachit Jain

This year 3-4000 tons roughly will be the sales which go into Aichi, I have already said that, gradually increasing sales 2024-2025, you will notice the sales from Aichi, which are expected to be around 30,000 tons, I mean 20-30,000 tons. So 2025-2026 it will cross 30,000 tons.

Saket Kapoor

But that will happen only from when the capacity moves up from 2,00,000 to 250,000 that increment Sir.

Sachit Jain

The capacity will move up well before that.

Saket Kapoor

Okay, but that is what Sir, the incremental capacity will be attributable to the Aichi deliverable.

Sachit Jain

Correct.

Saket Kapoor

Okay. Sir, if you look at your raw material basket, if you could give the granular detail, what constitute the crack percentage and the other materials Sir?

Sachit Jain

We don't share that with others, we keep varying that depending on the price dynamics, availability and so on. But the key raw material inputs that we use, we use heavy melting scrap, we use shredded scrap, we use PIG iron, we use beach iron, we use sponge iron, we use DRI and we use MSTB which is turning and boring. So, we use a mix of all of these.

Saket Kapoor

Right Sir, just the EAF root electric arc furnace, what component goes up the graphite cost in the total steelmaking?

Sachit Jain

See again, if you have specific costs

Saket Kapoor

No, Sir, I just only wanted to understand the cost component percentage. I have no other aspect there too, as you get the detail about the variety of scraps.

Sachit Jain

Let say 1%, it's less than 1%.

Saket Kapoor

That is the only question I had. And Sir were looking into the Sir, as you have told that the OEMs are looking for a reduction in the finished product prices because of the reduction in its scrap prices, then what is our visibility in terms of we maintaining this?

Sachit Jain

No visibility. I have already said in the beginning of this year, this year no forecasts are valid.

Saket Kapoor

Correct Sir. So, this EBITDA per ton of 9,800 depending upon the situation, it will shake off we cannot plan out a transitory as per today's conditions.

Sachit Jain

The OEs have been not very fair to the steel companies, you have already seen the steel companies results that have come out, Tata Long Products has already declared a loss, JSW is in loss and Tata Steel profits are majorly down. So, in this scenario, we are a very small Company. So, we have to understand that our negotiating and bargaining power with the large OEs is very low. And this year, the OEs have not been late, I mean, you can see the profits of all these large OEs. They are making very strong profits and they are much more, much stronger and bigger than we are.

Saket Kapoor

I got your point, Sir.

Sachit Jain

At this stage, for us to make any comments as what will it be difficult to say?

Saket Kapoor

Difficult to say. And the line item of other expenses. If you could comment on.

Moderator

Thank you, Sir, I am sorry to interrupt you.

Saket Kapoor

Yes, ma'am.

Sachit Jain

Can you comeback in the queue, please?

Saket Kapoor

Yes ma'am.
There is an echo again.

Moderator

Yes, Sir, its from Sachit Sir's line. Thank you, Sir. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. I repeat, ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. Ladies and gentlemen, if you have any question, please press * and 1 on your telephone keypad. And the next question is from Aditya Khandelwal from SIMPL. Please go ahead.

Aditya Khandelwal

Hi Sir, thanks for the opportunity, I have recently started tracking your Company. So my question is, might be a little cliché. So

Sachit Jain

No problem at all, Aditya. We are happy you're tracking our Company.

Aditya Khandelwal

Okay, thank you Sir. Sir when I look at your EBITDA, I'm not including other income it has seen a decrease from around 8,700 to 6,800 per ton QoQ. So, what are led to the decrease?

Sachit Jain

So, first of all, other income that you're talking about is part and parcel of our business. So, the electricity duty is that cost which has been taken into account as our cost and yes, the GST refund this year, this quarter is a substantial increase, but otherwise it is lower. But yes, for the point suffice it to say the EBITDA per ton is lower it is because the OEs are pushed through a price reduction that was not due.

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Aditya Khandelwal

Right, Sir I wanted to understand how.

Sachit Jain

And we supply only to the auto industry. So, it is all linked to the auto industry.

Aditya Khandelwal

Right. So, if I wanted to understand how the pricing of steel will affect you? If a steel prices decrease, is it detrimental for a Company or?

Sachit Jain

No such standard answer because all depends on how raw material price movement happens and steel prices happen. So, if raw material prices, steel prices reduce and raw material price reduce more than the steel price reduction, then it's to our advantage.

Aditya Khandelwal

Right, and Sir lower steel prices are also the lower adoption of fixed cost, so that could also be detrimental to us?

Sachit Jain

I'm sorry, can you repeat that question please.

Aditya Khandelwal

So, lower steel prices will lead to lower realization per ton so that will lead to lower absorption of fixed cost for us?

Sachit Jain

See the fixed costs per ton depends on volume, not on pricing.

Aditya Khandelwal

Okay, right.

Sachit Jain

So, if our volumes get maintained, then the fixed costs per ton will remain the same. And as you can see our volumes have been constantly increasing and therefore fixed cost per ton has been maintained or reduced.

Aditya Khandelwal

Right, and when I research your Company history, so our gross block has almost increased by 6 times from FY11 to FY22, while a production volume has increased only by 2.5 times from 80,000 to 2 lakhs. So just wanted to understand, but the Company have high requirements of maintenance CAPEX because our cash flows are pretty weak.

Sachit Jain

No, the last 10 years between 2000 and 2010 there was no CAPEX made, because this business was seen as a defunct business with the group and there was no investment into this Company. After I took charge in 2010, we have been investing continuously. So that has led to increase in CAPEX as well as modernization as well as replacement CAPEX. So, it's a combination of all of these plus safety was neglected, environment was neglected. So, many other investments had to be made which had not been done by the previous management and manager mean the operating management because they never met put those proposals forward, management remained the same, the group remains the same.

So, again, the way to look at it is the return on the total capital employed which includes the gross block. So we don't track gross block, we track total capital employed which is net block plus the net current assets. And investments will continue to be made required, which are required by the business. Let me give an example a full NDT line which was put up as part of the previous CAPEX, it does not increase your production but that is an essential part of being in business. The fume extraction system costing us Rs. 14 crores when we put it up into the 2014, zero impact on PBDIT.

It in fact a negative impact on PBDIT but required for environment management. Those investments were not done in earlier.

Moderator

Thank you, Sir, the question has been withdrawn. The next question comes from Rohan Kamat from Finterest Capital. Please go ahead.

Rohan Kamat

Hello, thank you for the opportunity. I'm just trying to understand your vision, I was just going through the presentation like you know that the new cars are transiting from gas to hybrid to EVs

Sachit Jain

I'm not able to understand your question, can you be precise about your question? Can you repeat your question you want to understand our vision, our vision is to be the number one special steel Company and be a world class Company to reach an appropriate size of 800,000 to million tons. And in getting there, we want to be partners with a global leader, which we have succeeded getting Aichi as our partner. And we want to be in the domestic market, as well as in the export markets, primarily Southeast Asia. Eventually, we plan to be also perhaps in Europe and in Africa over time.

We plan to be environmentally conscious; we have and lower our carbon footprint. So, the electric arc furnace where we circulate, when we use scrap, and be a part of the circular economy, our carbon footprint is way lower than any of our competitors, as ESG becomes a bigger and bigger part of investment, which drives investments. And as customers start driving carbon footprint, we as a Company will stand to get tremendous advantage from that. That's on the overall vision. Does that answer your question?

Rohan Kamat

Yes. Sir my one more question. I have one more question.

Sachit Jain

Please go ahead.

Rohan Kamat

As you said, that is OEs to get into the industry wide level so, there are, as you said there are 3 competitors mainly but for many it is different, they are not using electrode graphite so are, they are better position, or we are in the better position in that scenario?

Sachit Jain

There is no such thing as who's better and who's not better. Every Company has their own advantages and disadvantages. And we are positioned well. And we don't compare ourselves to other companies. We look at our own performance and how to continuously improve and sustain our performance.

Rohan Kamat

Thank you, Sir.

Moderator

Thank you, Sir. Ladies and gentlemen, if you have any question please press "* and 1" on your telephone keypad. We have a follow up question from Rajat Setiya, from I thought financial, please go ahead.

Rajat Setiya

Right, thanks for this. Sir with regards to Aichi business better revenues or better margin Sir?

Sachit Jain

Again, Rajat, those are internal matters of the Company suffice it to say, since they are investor. It's all at arm's length basis. If it makes sense for us to do business with them, we will do business with them. And we've already said that by 2024-25 or 2025-26, we are targeting to up our EBITDA per ton levels Company-wide to 10 to 12,000 Rupees. So, it's for you to draw your own conclusions.

Rajat Setiya

Sure Sir, it was helpful. Last point with Toyota which will begin in 2025, will it be hybrid or

Sachit Jain

Can you repeat? Will it be hybrid or what do you think?

Rajat Setiya

Electric vehicle?

Sachit Jain

See, we don't disclose what each of our customers is doing. We have already started reporting our percentage of sales which are going to the EVs sector. Last year we sold 6% of our steel to the EVs sector, which is higher than the percentage of EVs vehicles sales to total vehicle sales in India. So, we are well positioned when poised for taking a disproportionate share of the increase in EVs. At the same time, Toyota our partners are global leaders in hybrid. So, we will be supplying eventually to the hybrid sector also. We are developing steel for the EV sector and also for the combustion engine also. So, all areas we supply steels in the future.

Rajat Setiya

Understood, thank you so much.

Sachit Jain

Please understand that as a steel supplier these things are irrelevant. The key is the future trend is towards cleaner stronger lighter steels, which means to move towards clean steel technology, and again as our partners Aichi, as suppliers to Toyota, they have the technology to make any of these steels. So, we have through Aichi access to all know how for steelmaking for the automotive sector.

Moderator

Thank you, Sir. And the next question was from Parin Jhaveri from JNJ HOLDINGS, please go ahead.

Parin Jhaveri

Thank you so much for the opportunity.

Sachit Jain

Yeah, Parin go ahead.

Parin Jhaveri

Sir in one of the segments you were mentioning. Hello?

Sachit Jain

Yeah, Parin go ahead.

Parin Jhaveri

So, Aichi in somewhere in 2025 or 2026, will it be somewhere about 25-30,000 metric tons, at that point of time we will have 15% of our steel supplied to them but what would be that contribution.

Sachit Jain

It's a tiny percentage of what is their requirement.

Parin Jhaveri

So, in the bigger picture where do you see ourself with Aichi when our capacities are 8 lacs to 10 lacs per annum, I am able to connect the dot.

Sachit Jain

See just now, it's a slow process to increase the gain the trust and to get into any auto Company. Please understand, once Toyota approval comes then the ability to enter into any Japanese OEs becomes very high. So there is benefits of selling to Toyota and spin off benefit to be able to sell to other Japanese OEs and a large chunk of our 800,000 to million tons that we hope to be producing in the next 10 years. So a large chunk of it would be going to our overseas business.

Parin Jhaveri

Okay Sir, thanks.

Moderator

Thank you, Sir. There are no further questions. Now. I hand over the floor to management for closing comments.

Sachit Jain

Ladies and gentlemen, thank you so much for your interest in the Company. As in closing comments, I would like to say that with Aichi, our partnership is going strong. As we speak, their president of the Steel Division is here with us. He was there in the board meeting. Even as you speak to you, he is currently in the plant. And the next few days, we have a lot of discussions to have with them. Also, I'll be visiting Japan in December, to have further discussions and meet all the customers. The advantage is thanks to Aichi, all doors open to us which will not open to many other steel Companies. So that is a huge advantage. And it's up to us how we take advantage of that opportunity.

I believe as a company, we're very well poised to take full advantage of that opportunity. Thank you so much for your interest in our Company.

Moderator

Thank you, sir. Ladies and gentlemen. This concludes the conference call for today. Thank you for your participation and for using Door Sabha's Conference Call Service. You may disconnect your lines now. Thank you and have a pleasant evening.