Vardhmān
Delivering Excellence. Since 1965.

VARDHMAN SPECIAL STEELS LIMITED

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BSE Limited, New Trading Ring, Rotunda Building, P.J. Towers, Dalal Street, MUMBAI-400001. **Scrip Code: 534392**	The National Stock Exchange of India Ltd, Exchange Plaza, Bandra-Kurla Complex, Bandra (East), MUMBAI-400 051 **Scrip Code: VSSL**

SUB: COMPLIANCE UNDER REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.

Sir,

We refer to our letter dated 11th May, 2021 regarding the intimation of Analyst/ Investor Conference Call organized by IIFL Securities to discuss the Company's business and financial performance for 4Q FY21 scheduled on 14th May, 2021 at 01:30 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

Vardhman Special Steels Limited Ludhiana

(Sonam Taneja)
Company Secretary

"Vardhman Special Steels Limited Q4 FY2021 Earnings Conference Call"

May 14, 2021

ANALYST:	**MR. URVIL BHATT – 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** **MR. MUKESH SHRIVASTAVA - CHIEF OPERATING OFFICER - VARDHMAN SPECIAL STEELS LIMITED** **MS. SONAM TANEJA – COMPANY SECRETARY – VARDHMAN SPECIAL STEELS LIMITED** **MS. SOUMYA JAIN - VARDHMAN SPECIAL STEELS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Vardhman Special Steels Limited Q4 FY2021 earnings Conference Call hosted by IIFL Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Urvil Bhatt from IIFL Securities Limited. Thank you and over to you Sir!

Urvil Bhatt: Thanks Steven. Good afternoon everyone. On behalf of IIFL Securities Limited, I welcome you all to Vardhman Special Steel's Limited Q4 FY2021 results Conference Call. From the management side, we have Mr. Sachit Jain – Vice-Chairman and Managing Director along with his team. Over to you Sachit for your opening remarks!

Sachit Jain: Good afternoon everybody and thank you for joining our call. Along with me Sanjeev Singla – CFO, Sonam, our Company Secretary, Mukesh Srivastava - Chief Operating Officer as well as our Investor Relation Firm, Bridge Capital with Savli and her team and also my daughter Soumya Jain is on the call. She is getting inducted gradually into the business.

Couple of things about last year; last year has been a very challenging year as you all know. When we began this year, it was gloom all through. With the lockdown happened, we did not know when things will restart, there was panic. We used that opportunity, of course to build our teams much stronger together. Couple of decisions we have taken right in the beginning. One, we said, there will be no layoffs, two we said, we will protect the salaries of all workers, officers, management and in addition, we also said we will protect the wages of all contractor workers.

I think the last part protecting contractor workers, we would be one of the few companies in the country did that. Even large MNCs, and very professional companies would have let go off contractor workers, but we made sure that all contractor workers are paid in full. We look after our people and we also use the lockdown time to communicate with people, tell them not to panic, please imagine somebody is sitting in a one room flat or a two-room flat or a three-room flat, I mean one room to three room flats who cannot move out of the house and who is seeing television, newspapers talking about panic everywhere, if sitting at home can go mad.

Fortunately, our entire management team, Mukesh Srivastava, my COO and he had played a lead role out there. But all of us were communicating everyday through the length and breadth of our organization not to panic. We are there with you. So, those are the kind of things we did. Our team became much stronger and by the time the lockdown lifted and the demand started picking up little bit coming in, our team was highly motivated because they saw the contrast of how our organization looked after its people compared to other organizations. So, the sense of the belongingness to the organization and motivation went high and overall, they have contributed a lot to the organizations, building up capacity because as you all recall demand suddenly shot up and for many companies supply chain bottlenecks came in because they could not meet the supply. Luckily for us, it was our entire team was together united with the organization, we could meet all the requirements as and when they came.

In July, we decided also that if the company moves into profit zone, we will even declare increments for the year and we declared increments for all our staff and officers. In addition, we also gave additional one-time incentives down the line from senior management, down to all our workers even contractor workers. So that was one-time exceptional item which we charged in third quarter.

Q4 has been even better performance than what we anticipated because we got a good price increase from January. As you know, we have six monthly price settlement with the auto companies, so since we had only got the October settlement, our next price settlement is due only in April and when the raw material prices shot up abnormally, it became too much for us to handle and we had to go back to the OEMs and ask for interim increase, luckily we were able to get those interim increases, we got increase of Rs.6,200 from most of the OEMs and so because of that we were able to report a better than expected Q4.

The other highlight of the year has been that if you would recall a few years ago, I had said that we will be targeting to reach 18% EBITDA on capital employed as our target. I am happy to report for last year, we have managed 19.55%, so we are now getting ready to say that next couple of years, we will stay north of 20% because the next question will come is this performance sustainable? So very clearly, we target to remain above 20% EBITDA on capital employed and we target to reach 25% EBITDA on capital employed by the year 2024-2025. This is of course after our environment approval comes and we were able to expand our capacity and number two, with Aichi, our partners filling up the capacity with their requirements.

The second area I want to share with you is in the earlier call we have said we had up the target for EBITDA per ton from Rs.4500 to Rs.6000 our earlier target, we had moved it to Rs.5000 to Rs.7000, I am happy to say that we are now up in that range again to Rs.6000 to Rs.8000 a ton. Once our environment approval comes in and we start filling up our capacity, this range of Rs.6000 to Rs.8000 will move to Rs.7000 to Rs.9000 and once again Aichi's capacity starts fulfilled in Aichi products which will take by 2024-2025, we will be targeting about Rs.9000 to Rs.10000 EBITDA per ton. So, as I said earlier that we will be upping our targets every as you go along, I am happy to note that after close of the previous year, we are in this position to say that these would be our targets.

The next target that you will be happy to know that in this year's balance sheet our net debt equity has come down to 0.30:1. We have also now almost finalized our investment plan along with Aichi. Again, some part of this investment plan is subject to the environmental approval coming in. If that happens which again as I said we hope to get it later this year, we expect to invest about 250 Crores to 270 Crores in the next five years and in addition to this investment plan, we have also targeted that in the next five to six years with the current capacity of this current plant and the current operations, we expect to be close to a zero debt company in the next five to six years. Of course, in the interim from now to then if plans of an acquisition or expansion our new project comes in, situation could be different but in the current foreseeable plans as firm plans, we expect to be zero debt company near to zero debt company in the next five years to six years.

Overall, for the year 44 Crores net profit has been the highest profit we have ever got also 116 Crores EBITDA is the highest EBITDA that we have got. I am also very happy to see that for the year our volumes have been 9.5% higher than previous year. So, this is something despite Q1 being a washout. In the next three quarters, we have been able to cover up that.

So, overall, I would say I am reasonably satisfied with the performance and lastly, we have been able to give our maiden dividend at 15% i.e. Rs.1.5 a share. This Rs.1.5 per share was just to start with. In the next year or two, we will come out with a comprehensive stated dividend payout policy. So, just to start we have given this figure but I presume that what I would like to see in the next couple of years that our dividend payout policy as we stated should be higher than this as a percentage of payout. This year that 15% also works out to near 15% as payout that is just by chance.

I would expect in the next couple of years of course subject to Board approval, we would like to as management, we would like to propose to the Board that at least 20% to 25% should be the payout formula as we move along.

These are some of the highlights of the previous year and last but not the least, CRISIL has upped our outlook from AA negative outlook to AA stable outlook. So that means that our ability to raise capital at better rates than before goes up. We are able to raise rates at good rates from the commercial paper market and this year probably, I think we will have to also raise NCDs as part of the government new norms to be probably coming in for NCD issue sometime in the current financial year.

The next question many people would have would be is Q4 sustainable. Very clearly a 54 Crores EBITDA that we have got in Q4 is beyond our stated range of Rs.6000 to Rs.8000 a tonne, it is beyond our range of Rs.7000 to Rs.9000 a ton that we expect to get after the environmental approval, and it is beyond Rs.10000 per ton that we expect to get with Aichi business coming in. So, please do not multiply that by 4 and put that as an expectation for the next year; however, for next year also we do expect our overall EBITDA and volumes to be better than 2021.

Of course, with the COVID situation suddenly which came in and hit us all by surprise, April was a very good month, May, our production, and sales are going to be down a bit because of the lockdowns and shutdowns of plants by Maruti, Hero, Hyundai, so basically mostly or all the OEMs have taken long shutdowns, so clearly demand is little lower than what we had estimated.

Secondly, our production is also little lower as some of you may know that there is a massive oxygen shortage everywhere but as some of you would know that in Ludhiana, we have diverted oxygen from our production, and we have been sending almost 2000 cylinders of oxygen per day into Ludhiana and some of the surrounded districts of Ludhiana. I have stated publicly that we will not allow any oxygen shortage in the city of Ludhiana. There were times we were supplying almost 60% of the oxygen requirement of Ludhiana and this is our commitment to the city and to the state that we will continue to serve. So that will take higher priority than production as long as this current pandemic is going on. So, because of oxygen shortage, availability for production, some production has gone down plus we have also shifted a bit some of our raw material to those raw materials that consume less oxygen, so that has also changed our production a bit, so the production goes down because of both these reasons.

Moving ahead in this year, we have a planned shutdown of about 15 days which is earlier planned for August but as some of the suppliers have started telling us that there would be delays because of COVID problems, lockdowns, shutdowns and so on, so we have to come back and decide the new day to the shutdown. So even if there is a slowdown from the markets, we will continue to run our production full stream to build up stocks, to be able to serve our customers at this shutdown.

As regards Aichi, you will be again happy to note that we have sent out our first samples to our customers for Aichi's operations in Thailand and Aichi operations in Philippines and to head office in Japan. In addition to Aichi's own business, own requirements, many other Japanese companies as they have come to know about Aichi's relationship with Vardhman, so more and more Japanese companies are approaching Aichi to source materials from us for Southeast Asia, While those materials also sampling requirements are coming in, so I would say 2021-2022 is the year of samples, 2022-2023 will be the year of trial orders and of course volumes will start coming in for exports and really 2023-2024 is the year where we will start seeing the potential of Aichi and Japanese requirements from Southeast Asia as well as import substitutions within the country which are coming in from Japan.

One last figure also, we have worked a lot on working capital, so we have been able to maintain our total net capital employed, when I say net, I remove the 50 Crores FD that is there which is meant for capex, we have been able to maintain that net capital employed below 600 Crores and despite price increases we expect even next year, we will target to keep it around 600 Crores net capital employed.

As we start this financial year, the raw materials have continued to rise exponentially and so we are negotiating with the OEMs for the April increase. Those are still under discussions. One OEM is already settled at a reasonable price for us. We are happy with that settlement. The other OEMs since there was shutdowns, the plants were shut down, I think the serious discussion really start next week so over the next week to two weeks, we hope to finalize the price settlements with the other OEMs.

So, based on that Q1 of this year though not comparable to last quarter of previous year but Q1 of this year should also be reasonably good quarter. This time we have made another change, we are negotiating with the OEMs only for three months because of this unprecedented volatility in markets, so this current discussions with OEMs is only for Q1 April to June, normally it is for six months and for July onwards we will be discussing with the OEMs for another change and in all probabilities because of raw material situation we will be asking for an increase. So, this is what I have as part of my opening remarks and comments and after this, we will open for Q&A. Thank you very much ladies and gentlemen.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: This is Vivek Ramakrishnan. Congratulations on the performance and I am really heartening to know about the contractor and oxygen, so double congratulations from us. What I wanted to know is you were talking about EBITDA going up, how does it happen? Is it because you have products which are less in competition, the value added so much and in which case what is the nature of the value add and second question is, you had also mentioned that you are going to look at exports from 2023-2024 onwards is when it will pick up, is there a target for exports as percentage of sales? Thank you.

Sachit Jain: Sure, so the EBITDA per tonne rising there are primarily two components and both are costs component as of now, cost rated components, so one area of cost is that as volumes go to full volume, fixed cost gets spread over a bigger volume, also some of the variable cost like power are really there is an element of which is variable and an element of power which is fixed, similarly oil which is a variable cost which is used for heating, there are wastages there and losses out there. As volumes increase and utilization increases, so the consumption per ton goes down. Manpower which is a variable cost really but at full capacity that manpower increase is minimal only in inspection area and loading-unloading, so only those costs go up every other cost will be same. So, the cost per ton goes down because just increases volume that is one element of cost going down. The second element of cost going down is a last 1.5 years we have worked a lot on our costs, starting from raw material by changing our raw material mix that we did so that is one element of cost reduction. The second element of cost reduction is internal cost reduction where our people have worked hard. Aichi has given us a method called 3R i.e. Reduce, Reuse, and Recycle. Under this 3R, we have got more than a thousand suggestions from our workers and we used the lockdown period to get those suggestions, to put cross functional team, to work on the suggestions and moment the plant opened up we were working on all those suggestions and suggestions have come from workers, officers, managers everywhere for the whole culture of the organization is changing as we work with them. Some of the ideas, one idea itself has saved couple of crores, and some ideas we have saved only Rs.10000 or Rs.50000, so for us each idea is important, and that each worker participates in the idea generation. So, this has changed the overall again, as I said earlier the culture of the organization. We have not reached the Japanese culture a long way to go but we have come a long way from where we were. I would say and this is what I keep Japanese partners also, Vardhman Special Steels will not be an Indian company, will not be a Japanese company, it will be Indo-Japanese Company, so the culture will hopefully join the best on the Indian culture and join the best for the Japanese culture, that is what we aspire to be, I am not saying we will succeed in doing that, but that is what aspire to be. On this front this is the reason for the margins what we say are EBITDA per ton going up, so it has got nothing to do with product mix as of now. However, as Aichi business comes in that product mix is clearly a superior product mix, so those when they start picking it from 2023-2024, 2024-2025, that is when I said that the EBITDA per ton will actually go up because of product mix and our target of exports at that time is about 20% to 25%, currently, our export percentage is less than 5%, so basically almost the entire increase in capacity will basically go in for exports, at superior products where there is no competition and superior margins.

Vivek Ramakrishnan: If I could just speak in one more question, in terms of electricity cost, is there any way of hedging it up by putting your own solar capacities?

Sachit Jain: No, this is an electric arc furnace where you cannot, I mean they shocked us so high you cannot have your own generation and then to setup a separate plant to feed to the grid then you are getting into the power business. We are clear we are in the steel business we are not in the power business. Before we have the next question, there are a couple of other comments that I may bring in out here which I missed in opening remarks. In the results you may see that we have taken some extraordinary write downs and write offs also, so as you all are aware that we are working to get our environmental approval for expansion, in that environmental approval, there is one element that we are required to have 33% of our area as green area. Now we did not have 33% within the premises of the organization, so we have demolished a warehouse, so we have written off little over 2 Crores on that warehouse, there was some capital work-in-progress that we have dropped that project, the write off of that plus there are certain other but this has already done so this is written off in the books and second there are few other warehouses that we intend to demolish, once we get the approval. So, they are still there existing but if we get the approval, we will demolish them. So since as of Vardhman Special Steels as an organization has decided there is no need for those buildings and we cannot charge them off because those buildings are existing, we have used the provision of accelerated depreciation to reduce the value of those buildings to zero. Roughly 3.43 Crores to be exact is the amount of accelerated depreciation that we have written offs some building. So, these are little extraordinary charges of 6.78 Crores that we have taken in this quarter. Also, there were as you are aware, last year we have changed our furnace, so there were spare parts of the old furnace, there are other spare parts lying, some changes we had made in our reheating furnace to get in better fuel economy, so there were Recuperator and those kind of small small items, roughly 1.40 Crores of that has also been charged off in this quarter. This is again a normal course of business whenever we modernize some spare parts etc., they come obsolete and so have to be written off. So that has also been done in this quarter. I just thought I should have clarified this in my opening remarks and before some questions come on that better clarify that. I am ready for the next question please.

Vivek Ramakrishnan: Thank you.

Moderator: Thank you. The next question is from the line of Vipul Sanghvi from Systematix Share. Please go ahead.

Vipul Sanghvi: Congratulations and thanks for the opportunity. Congrats Sachit and team for a very strong performance, maiden dividend and really heartening to know about the oxygen initiative of the company. My questions- one is on the de-risking initiatives that you have talked about in the presentation, if you can elaborate a bit but which new industry application is there on the drawing board and which new geographies that you will be targeting for the same and second question, can you help us with some guidance as far as the volume this year is concerned FY2022? That will be really helpful.

Sachit Jain: As far as de-risking is concerned, there are two kinds of de-risking which can happen, one is you change of product portfolio move into non-automotive steel. This was on the agenda a few years ago we were looking for opportunities in those areas; however, since Aichi partnership has finalized, we have dropped those plans as already I had shared this in earlier conference call and I think in annual report also I have written that, so that de-risking is not on the cards. The other de-risking is what I answered in my first question is we move to a different geography, Southeast Asia we are present but in a minor way but really not as a major supplier part of a global supply chain of a global auto major. So Vardhman Special Steel is the only Alloy Steel Company in the country that has an opportunity to become a regular partner of the global supply chain of an auto major like Toyota. So, this is going to be huge risk mitigation for us and as I said earlier we intend to have 25% roughly, 20% to 25% of volume in exports by the year 2024-2025, so that is how will be mitigating the risk. The other part of mitigation is if something happens to our plant, you suffer production outages, as Aichi and Vardhman Special Steel have promised to each other we will support each other in case there are production outages because of accident or those kind of things. So, one big risk for us is here a single plant location if something happens to our plant for extended period, our customers will suffer. Thanks to Aichi support, we will have alternate production available if the customers are willing to accept that, so this is the other risk mitigation that we are going to have.

Vipul Sanghvi: Alright, can you give guidance on the volumes for FY2022?

Sachit Jain: Yes, we are expecting between 170000 tons to 180000 tons for this year. Again, as of now we do not know how much of an impact COVID would have but at this point, we believe that the COVID impact will not be too much like last year we will lose a few months of demand but after that demand would bounce back sharply. So as of now we are expecting 170000 tons to 180000 tons of sales for this financial year. However, we will know better and if there is any change in the next conference call after Q1 we will come up with an update and as I shared earlier, April had already started on a very strong note. We were in fact fearing we were going run in to capacity problems. Because of this lockdown and COVID situation, we will have time to rebuild our inventories that we are running globally short off.

Vipul Sanghvi: That is really helpful. Thanks a lot, and all the best.

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

Ritwik: Thank you for the opportunity. I have a couple of questions; firstly, can you quantify per ton basis of realisation gain that we would have in FY2021 because of lower inventory and higher price hikes from the OEMs, we would have inventory gains, right?

Sachit Jain: No, inventory gains do not come up in terms of sales realization, so sales realization of 2020-2021 and 2019-2020 is marginally higher, so I think roughly Rs.900 a ton higher, roughly around Rs.900 a ton higher, so on Rs.61,000, Rs.900, 1.6 that is normal fluctuation.

Ritwik: Okay, so that will not be more than like 1.5 Crores for the full year because if we assume Rs.1000 and 1.5 lakh ton for the year which we did as volume so that will be about 1.5 Crores?

Sachit Jain: 15 Crores.

Ritwik: Sir, you mentioned that we are having a lot of cost savings from all the benefits that we realized from Aichi and even internally we have done, so going forward this Rs.6000 to Rs.8000 per ton without any product mix change, you think there can be any improvements from here on or cost savings we have plucked all the low hanging fruits and now it will be over to the product profile changing and then going gradually to Rs.9000 to Rs.10000 per ton over the next two, three years? Is that a right way to look at it?

Sachit Jain: In my opening remarks, I have already said that we will be upping this from Rs.6000 to Rs.8000, next range will be Rs.7000 to Rs.9000, so we will be upping this may be within a year’s time or so, we will be upping this range, may be year, may be two years and as of now because of this massive fluctuation is very difficult to even the Rs.6000 to Rs.8000 and my CFO is not very happy when I shared these figures but he is staring at me even now but Rs.6000 to Rs.8000 we expect that once this extreme volatility that is currently on going goes down, we should be able to move to Rs.7000 to Rs.9000 and beyond that, the product mix impact will sit in after that. There is more scope of cost reduction and really speaking, Aichi’s help in cost reduction is still we have just scratched the surface, there is a lot more work that we intend to do with them to reduce cost.

Ritwik: Sure, and lastly on the capex you mentioned Rs.250 Crores to Rs.275 Crores once we get the environmental clearance, so would you be in a position to give us what kind of additional capacity would come up from this Rs.250 Crores to Rs.275 Crores and how do you plan to fund it and what would be the timeline for the same because we have early internal accruals?

Sachit Jain: We are targeting to the next four to five years this capex to be done. This includes our normal replacement capex. It includes investment for environment purposes because of a lot of investments we have done for the environment clearance. This is a big headache for us because Ludhiana comes under critically polluted zone and if Vardhman Special Steels gets the approval for environment clearance it will be the first project to get the environment clearance from the centre in the last several years in Ludhiana. So, this is something unique that we are going to get. So, there is a lot of capex which goes in for environment clearance, there is also investment going for safety, there is investment going in for quality purposes, because to reach that kind of product mix that we are looking at and for exports we have to invest another non-receptive testing line so, that big investment going in for that. But on the whole with this we expect to reach a capacity almost 40% higher, so from 180000 tons of current capacity we expect to reach 250000 tons of rolled production.

Ritwik: Okay, sure and it has been almost a year, but we have had the pandemic in the meanwhile and we have not got our environmental clearance yet, so is there any bottleneck right now that we are not getting the environmental clearance from our end or the other side, from the regulators side?

Sachit Jain: No, we have already applied to them, we have had one hearing with the committee, they have pointed out some shortcomings in our proposal, we have addressed those short comings, I think we have a strong proposal now. But again, it depends on the approval that we get from this committee.

Ritwik: Okay, sure and how long that we get it say June 30, the approval. How long would it take, are you ramp up on that?

Sachit Jain: It is very difficult to say because this is a long process once its committee approve. This committee is the main bottleneck but after that for this expert committee if that this committee approves then the probability of getting approval is almost 100%, so the whole approval should take three to four months coming in from the Ministry of Environment. Once that approval comes, I think within a year's time we will be ready to at least build up or start building up our capacity. Yes, we clearly are going to up our target for next year. As of now without the approval 180000 tons is our capacity limit. So, if this approval comes in next year, I think market demand being there we should be able to touch maybe 190000 tons to 200000 tons and then as the capex comes in we will be able to increase our capacity further.

Ritwik: Okay, and just taking this one last question on this capex, we have LT tunnel approval for more than Rs.50 Crores to Rs.75 Crores if I assume Rs.6000 to Rs.8000 per ton on our existing 180000 tons that would be that would be cash flow of more than Rs.50 Crores – Rs.60 Crores per annum. So, would it be fair to assume that we would not require any external debt and not require any external equity also for the next few years, would that be a fair assessment?

Sachit Jain: If you look at purely balance sheet angle and our ability to fund this investment you would be right. However, decisions to raise capital are over and beyond current requirement there are also strategic reasons, for example: over the next few years there could be an opportunity for Aichi if they would like to increase their stake, if they wish to increase their stake, we as a company would welcome that. So, if that happens and as Vardhman Group has no plans to divest any stake the only way for them to increase their stake would be for another preferential issue or something like that. So, I am answering your question in two ways, from the capex requirement and the balance sheet we would not need coming to the capital markets and as I said that in our forecast as of now, we are targeting the next five years to six years without any equity infusion we should be nearing net zero debt, net-debt equity to zero. So, very clearly the balance sheet does not require any equity infusions with the current plans. But we have already stated our desire that along with Aichi over the next ten years we intend to reach 800000 ton to a million tons of capacity. So, very clearly over the next few years there are plans to increase this capacity. So, at what stage we decide to take the next step those are the things that we will be discussing constantly with Aichi. It will depend on how soon we are able to establish the quality for their requirements, how soon we are able to run those kinds of products and how soon we are able to gain the customer confidence of the Japanese customers in Southeast Asia. Once that happens very clearly, we will face the capacity bottleneck again, we will come under pressure to expand and at that stage larger and larger proportion of our business is moving to this superior product mix at a higher EBITDA per ton and at some stage we will also start making steel which are patented by Aichi. So, that is planned over the next eight years to ten years. At what stage those happen at this point I cannot say and it is very clearly means that export as a proportion of production is going to increase further from the current levels.

Ritwik: That is very helpful Sir, all the best and thank you.

Moderator: Thank you. The next question is from the line of Devang Sanghvi from ICICI Securities. Please go ahead.

Devang Sanghvi: Thank you for the opportunity and firstly congratulations on good set of numbers and initiative to supply oxygen. Sir, I just wanted to know the steel products, actually developed by Aichi, which is a focus area, any specific product line you like to focus on?

Sachit Jain: Yes, one is of course they are normal automotive products. So, carbon steel that we produce in India patent customers will be carbon steel for Aichi requirements also, but the quality requirements that come in there are a much higher level. Second would be micro alloyed steels. We are already producing micro alloyed steels, but the proportion of micro alloyed steels have increased. Then SCR steels, SEN Steel of course other steels which anyway we are producing, we will be producing more of those. So, it is not that they will be very new products largely, but it will be the specifications are much tighter for the same products or similar products and to get even a chance to approve this product other suppliers would not even have a chance to approve these products because each approval cost a million dollars at least for one component. So, we are getting a chance only and only because Aichi is our partner, otherwise we would not get that chance. So, point I am making is the stickiness of this business is very, very high and some of the new products we will be making is all the hybrid cars that you are aware that even Maruti's hybrid cars they are going to be in a joint development with Toyota. Now, Toyota's hybrid engines all has steel from Aichi everything those products which are going into go into hybrid cars. The EVs also, there are some special steels which is going to EVs. We have already started supplying some steels to some of the leading EV manufacturers. Of course, we are not permitted to take their name, so we will not be taking their name, but some very well-known brands we are already supplying steel for EVs. So, later if hydrogen car become important again, the advantage of having a partner like Aichi which is the steel supplier for Toyota and Toyota is strong in hydrogen cars. If hydrogen cars become the future in times to come, our partner already has the steels which are required for, those are all things that are in the area of speculation so, largely we should say the product mix is similar to what we are doing. It is only that the quality specifications are much tighter and the way some of the areas they look at quality is something no other Indian supplier or no any customer looks at. So, those are what is going to take some time to develop, and which gives us then the stability that no other supplier can knock us off and so stickiness of this business.

Devang Sanghvi: That was very helpful. My second question is regarding the negotiations. Now we have shifted to three months negotiation, so this is not a stat base So, now we are having three months for negotiation at the moment, so it will be a longer-term three months, or we will shift to six months when the situation stabilizes as far as steel prices?

Sachit Jain: If this kind of volatility that is rising, we have never before seen or can imagine from October we have had one price increase of Rs.4700, then in January we have got a price increase of Rs.6200, so that is Rs.10900 almost Rs.11000 price increase and then we have asked for another Rs.6500 to Rs.7000 price increase from now, from April 1. This is crazy. So, this is not normal business. Scrap is touching $515. This was $260 or $270 may be less than a year ago. So, these are crazy pricing situations. Commodities are going through the roof and it is a cost-based push. Now if you see HRC(hot rolled coils) globally are much higher priced than the Indian prices. Secondly, China has eliminated export duties, so very clearly steel prices globally are on the rise. If HRC prices rise, Vardhman Special Steels does not do HRC, but the larger companies can make HRC as well as the commodity alloyed steel. So, they would divert capacity to HRC because some of them have a flexibility of moving the molten steel to either HRC or to long products, then commodity long products risen in price, so they will rather make those commodity long products than produce alloy steel for the auto market. Then billet exports will also a big opportunity, so they are exporting, the larger companies are exporting billets outside. So, I see no reason for the prices to not increase; however, till they have not increased we cannot say. So, as is the foreseeable future with this kind of volatility, I expect the auto companies will also want three months and we will also want three months. So, I would say for the foreseeable future they would stick to three-month negotiation.

Devang Sanghvi: Sure Sir, this is helpful. So, are you targeting any gross margin on near term is that we would like to have this percentage of gross margin on a sustainable basis?

Sachit Jain: Rs.6000 to Rs.8000 EBITDA per ton. In the current situation if the market demand is high, if we get higher than that we will happily pick it we will not stick that to Rs.6000 to Rs.8000. But when I am saying higher than that I think this is not a sustainable number we are getting it, I mean fourth quarter we got at Rs.11400. But to base your future models and forecast based on Rs.11000 and you will be valuing our company maybe at Rs.3000 Crores which may not be the current reality.

Devang Sanghvi: Yes, you are strictly right. Sir, any movement in the blast furnace costing have they moved higher over last couple of months that what we are hearing?

Sachit Jain: Graphite electrodes have been rising continuously, so they were at Rs.140 a kilo currently at Rs.225 a kilo.

Devang Sanghvi: Was the trend there? Is it on the upper level trend at the moment in the negotiations in what you are seeing?

Sachit Jain: As of now because we wanted to buy more, they have halted supplies, so which clearly means that the prices seem to be on rise. The other thing is of course that the demand has also come down. Because of oxygen shortage many steel plants are closed. So, that is the other factor, the demand is down, but again as we believe this will be temporary and again you will be happy to note that in Punjab, Government of Punjab has banned any steel company from production, Vardhman special Steels is the only steel company that has been permitted to run and this order has been signed by the Chief Minister.

Devang Sanghvi: That is very helpful Sir. The last question, this Rs.250 Crores to Rs.270 Crores capex that we are targeting, how much is this volume part and how much is this on margin expansion if there is a break up in that regard?

Sachit Jain: No, we have not broken up that way. Some part of it is for the extra volume. For the product mix that we are targeting we need to invest for quality reasons. So, really is it capex for expansion or is it capex for the product mix which will enable the expansion? We cannot differentiate the two. Investment for environment clearance is required to get the approval so, currently we are meeting the environment requirements.

Devang Sanghvi: Correct, Sir. Thank you, Sir and all the best for your time.

Moderator: Thank you. The next question is from the line of Rohit Ohri from Progressive Share. Please go ahead.

Rohit Ohri: Sir, congratulations for coming on the list of dividend paying companies, and hopefully this continues.

Sachit Jain: This is Vardhman group. We are a cautious, conservative company as that is our parentage which is cautious and conservative, so we take time to start but once we start very clearly dividend will be maintained or increased.

Rohit Ohri: So, that is good to understand that the growth engine of the company and operations will continue. Sir, my question is related to the oxygen business that you have done. Can you just elaborate a bit on that, is it that when our just filling in the empty cylinders and passing it through or you are making the entire cylinder as well?

Sachit Jain: So, first of all this is not an oxygen business. We are not in the oxygen business we are in the steel making business. This is a service we are providing to society around us to save life that we are filling cylinders as hospitals send in empty cylinders. Frankly if you ask me if oxygen were available to them we would rather they buy oxygen from other sources, because please understand so many trucks coming in, coming from hospitals, coming with people coming in, all kind of drivers coming in, the helpers coming in and in that back breaking worse there is no possibility wearing masks. They are coming in from hospitals so there is fear in our workers that this is coming from corona tainted people and so on and yet the spirit of service is so high our workers are working 15-16 hours a day because they are seeing that they are saving life and many workers you will be happy to note are contributing the extra hours. They are working for this is their Seva, some of them are not taking overtime and we are giving free oxygen to many people. Any individual who is coming to our gate as long as he had a cylinder, he had a medical report and we had a two-member committee examining it if we were convinced that you are genuine case we were saying okay, bring in his cylinder we are filling it for free. However, the government has banned this now, so now Government of Punjab has banned this, so we are not allowed to fill oxygen for individuals.

Rohit Ohri: Okay, knowing your nature a little bit you must have done quite a lot of CSR activities and given for free to the government hospitals. My question was is there any one-off that has come in this quarter ending March or should we be seeing a one-off which is having this?

Sachit Jain: I am sorry. I have not understood your question?

Rohit Ohri: Sir, was there any one-off revenue generation that happened in Q4 or is this absolutely CSR free activity that you have done?

Sachit Jain: There is some revenue from this oxygen, but it is a very small part. As I said we are not in the oxygen business. I do not even count this. It will not be reported separately or any such thing it is a tiny part of the business.

Rohit Ohri: Okay, so last question is, looking at the commentary that you have given which is quite optimistic and with a vision and plan with Aichi and the Japanese counterparts in future. Sir, just I am just trying to be lucky over here, in the coming year 2022 can we estimate growth of around 12% to 15% on the top line or try to reach the numbers of FY2019 along with improved EBITDA margins of maybe 8% or 10%?

Sachit Jain: So, volume we do expect from our current 150000 tons we will touch around 170000 tons to 180000 tons, so I would say about 10% to 15% volume increase can be expected, also because price is likely to go up, so there would be a kicker based on price also. So, I would say 15% to 20% revenue increase is a possibility at this point as we see it now, of course forecast say be the commodity cycle is here to say for some time, but if the prices come down and our prices also come down. So, I will look at volume, the volume would be yes, 10% to 15% growth in this year can be seen. EBITDA margin as a percentage I do not look at, I look EBITDA per ton which we have said Rs.6000 to Rs.8000 per ton is how we should look at our company. If it is higher than that it is abnormal profits, it is lower than Rs.6000 it will be abnormal margins on the lower side also.

Rohit Ohri: Thank you. Thanks a lot, all the best.

Moderator: Thank you. The next question is from the line of Pranay Jhaveri from JNJ Holdings. Please go ahead.

Pranay Jhaveri: Sir, thank you for this opportunity. First of all, kudos to you for vowing to supply oxygen even with sacrifice of volumes that really is appreciated. Sir, if you can broadly throw some light on say five, ten years down the line where we see maybe a hydrogen or maybe EV cars coming in where the use of aluminium will be little higher or how is this the speciality steel can be a component in the total weight of the car, I am just trying to understand the changing dynamics over next five, ten years, would this steel be of much more relevance in terms of their weight and if you can just throw some differential here in pricing vis-à-vis this other materials, that would be really helpful.

Sachit Jain: I do not see any competition at this point from aluminium and other metals, because those parts will come in the surface and the body of the car. So, not really in the engine components, of course engine components etc., would come down. So, clearly in an EV it is expected per vehicle the alloy steel consumption would be lower. However, there are two other factors which say that for us which gives confidence to us to continue our expansion. One if you look at just the Indian market, we will be a much bigger automobile market than what we are today. As of now the belief, we have is there is no way that all cars will be EV, so there still be a very large chunk of either the combustion engine cars or the hybrid cars. We believe hybrid cars are the way to go forward, EV has huge other environmental consequences. The disposal of batteries for example, where will you mine lithium from for example and today Tesla and all these companies, they get huge subsidies from the government. So, really at what price they are coming, so those are all questions which I am not capable to answer. I am just raising those questions. So, really ten years down the line, as you will see Government of India at one time said by 2030 all vehicles will be EVs. That was the statement made by the Government of India about two to three years ago. Those statements have stopped because they have also realized that this is not practical. But one part is that even if EVs start increasing and per car consumption will go down there still be a large volume for current business and overall number of volumes of cars will be way higher than what it is today even as a proportion we believe as Vardhman Special Steels that the volume required of alloy steel will be significantly higher than what it is today. Two, we are talking of supplying to South-East Asia, we are talking of replacing our Japanese partners in those markets. So, there is huge market growth for us for any hybrid cars as well combustion engine cars in Southeast Asia. Third because of this threat of EVs the chances of new people diving into this industry to get into if they see the good margins, if let us say, the margins what are of fourth quarter for us, if those margins start coming in it and it becomes sustainable, I am not saying they are sustainable, but I think supposing they become sustainable those kind of numbers are seen for two, three years, the problem of alloy steel industry has been, we will get one year or two years of good margin and new people start jumping into this industry. Now, because of the threat of EVs the probability of new players coming into this industry goes down, I am not saying it is zero, but it goes down. So, because of all that and we feel much stronger is because we have Aichi as our partners who are part of Toyota group. So, we are the only alloy steel company in the world probably to my knowledge at least, that has direct access to what a global auto company is thinking. I hope I have answered your question.

Pranay Jhaveri: Thank you so much.

Moderator: Thank you. We will take the next question from the line of Krishna Kumar an Individual Investor. Please go ahead.

Krishna Kumar: Good afternoon Sir. Congratulations on a lot of socially responsible activities that you have done and as is a very commendable performance during the quarter and the year. Also, in the presentation you have taken lot of pains to explain the growth strategies over the next five years. So, could I ask you in terms of would M&A and acquisitions of some stressed capacities which will fast track your process also be in the cards and any thoughts there, Sir?

Sachit Jain: So, is that KK who was with Sundaram earlier?

Krishna Kumar: Yes.

Sachit Jain: So, first of all I am at least satisfied that before you left Sundaram we made sure at least that, I mean we do not make sure but you did not lose money on your investments, so that is something that I was always guilty about issuing capital at Rs.140 and the share price was down below that, so at least I am satisfied before you left Sundaram, you made up the loss that you invested with us, trusted with us. M&A unfortunately there are not too many targets available in the country because this is a strictly approval-based business. But if an opportunity comes we could be open to it. But clearly our first agenda is to get our environmental approval and get this expansion up and running and as a management team I would say that we are reasonably confident that we will get this approval. So, it is not in a matter of speculation or if and all we are reasonably certainly we will get it. So, once we get this environmental approval our first target will be to get this up and running fully and as fast as possible One. Two, meeting the requirements of quality for Aichi, these two are our main focus, so once this thing is on and when we start looking at the next stage of growth for the company at that stage we will definitely evaluate if there is a target available. Let me put it this way. We are not averse to M&A and as you will see our Board when the Chairman of our Board is somebody like Rajeev Gupta, who is probably in my opinion the number one investor banker in the country and M&A, but clearly one of the top investment bankers in M&A. so, if he is a Chairman of your company, M&A is something that we would not be averse to at all.

Krishna Kumar: Great Sir. Sir, you have been constantly guiding on with the margins per ton basically over a period of time and even today you alluded to that. But if you look at all the great work you have done internally there has been lot of savings on the raw material also in spite of all the action that has happened around the world, you optimised that very well and gross margins have expanded quite nicely. So, which gives us some feel that you probably have lot more to deliver than what you are promising, is that right way to be more optimistic than the numbers would be in a better to in terms of Rs.6000 to Rs.8000 EBITDA, because the gross margin expansion is much ahead of all that?

Sachit Jain: So, KK when we talk of our estimates, we talk of sustainability, so one odd quarter here and there can happen. So, if I really put a forecast based on the stage of discussions going on there is a high probability that the first quarter of this year with again be a very good quarter and there is a strong possibility that EBITDA per ton would be higher than my range of Rs.6000 per ton to Rs. 8000 per ton. But when we make any statements, we are not talking about the short-term. So, at this point in time for me to say that we can give a relative assurance to our investors that we will be in higher than this range. At this point of time, I am not in a position to do that, but I had said very clearly once this expansion happens, this environment approval comes in we will definitely go up from Rs.6000 per ton to Rs.8000 per ton range, I think we will go to Rs.7000 per ton to Rs.9000 per ton once the Aichi business comes in. So, we are clearly saying that there is a roadmap ahead for us to increase the EBITDA per ton.

Krishna Kumar: Sure, great Sir. Thank you very much and it has been a pleasure to have been investor with you and if all the cycle that probably to the share price down while all the efforts were made to really run the business very well. Thank you very much, Sir.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question. I now hand the conference back to the management for closing comments.

Sachit Jain: Ladies and gentlemen, thank you so much for your interest in our company. I give you an assurance from our management team and myself that we will remain committed and dedicated to performance and we will also keep updating you about any significant changes if and when they happen. I remain cautiously optimistic despite this COVID problem because we see trends showing, numbers showing that in the major market, major metros, of Mumbai and Delhi it has already started going down maybe next month, month and half hopefully it will come down further. So, as of now all our forecasts are based on that, if situation turns more adverse again, we will update you and we thank you for your continuing interest in the company. Thank you so much and stay safe. All the best.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited that concludes this conference. We thank you all for joining us. You may now disconnect your lines.