"Vardhman Special Steels Limited Q3 & 9M FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Vardhman Special Steels Limited Q3 & 9M FY2021 Earnings Conference call hosted by IIFL Capital 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 Capital. Thank you and over to you, Sir!

Urvil Bhatt: Thanks, Nirav. Good afternoon. On behalf of IIFL Securities, I welcome you all to Vardhman Special Steels Limited Q3 FY2021 Results Conference. From the management, we have Mr. Sachit Jain, Vice Chairman & MD and his team. Over to you Sachit for your opening remarks!

Sachit Jain: Thank you Urvil. Good afternoon everybody and thank you for coming to our Q3 call today this afternoon. With me on this call, we have Mr. Sanjeev Singla our CFO, Ms. Sonam Taneja our company secretary and compliance officer, Mr. Mukesh Srivastava our COO and we have a surprise also Ms. Soumya Hora my daughter the fourth generation of the business family is also on the call and in addition we have of course Bridge, our investor relations team.

I am happy to report we had a decent quarter. The results are a little better than our forecasted range. EBITDA per tonne we had revised the range now upwards from 5000 to 7000 is the normal EBITDA per tonne and this quarter has been a bit higher. In addition to EBITDA, we are adding now a second performance parameter return on capital employed we reported as EBITDA on total capital employed and our first target is 16%. This year we hope to cross 14%, but 16% will be our first target then 18% and then 20%, so by 2025 we hope to reach 20%. At present we are running at full capacity. The demand in third quarter has been very strong and continues to be strong in Q4. Impact of COVID seems to be normalizing. More and more businesses seem to be opening up. The economy is definitely doing better then before. In the overall market situation commercial vehicles have been little behind, but they seem to also be picking up and overall demand is robust, so we are expecting a strong Q4 also in terms of volume. However, on the negative side raw material prices have shot up dramatically in the last couple of months, this has happened globally and because of that we expect our Q4 performance to be below our Q3, but at this point we are also asking our customers for an interim price increase because all commodities have gone up sharply, steel prices have gone up dramatically, so we are asking our customers that normally as you are aware our price setting is every six months, but we are asking our customers for an interim price increase from January and that of course discussions are on I think one OEM has already given some price increase, others are in the process of examining it, so we are likely to get some price increase. Even if we get no price increase at all we will still be in the profit zone in Q4, but as I said much lower than Q3. If we get a price increase then Q4 may not be significantly worse than Q3, but all depends on the quantum of price increase.

As regards our partners Aichi, working with them is going on fine. As we have said earlier 2021 is the year of preparation in terms of quality levels. We have lost some time last year because of

COVID that our Japanese partners had to go back to Japan, we have been working with them through Zoom calls, e-mails and so on, but there are limitations because of that and we are expecting our Japanese full time people to come in by January end or first week of February and then we hope to meet our targets on quality levels, sampling orders have come in from various Japanese customers and Thailand and Philippines, we are on track for that, 2022 is when we start seeing business coming up with them. The other area of course is expansion of capacity. We are working with the Ministry of Environment and it depends on them, but we hope in the next few months to get clearance for expansion of our capacity from 200,000 tonnes of melting to 280,000 tonnes. Overall, the company is doing well, the morale of the people is very strong, and motivation is very strong. In these COVID times, I think we have been able to build our teams much stronger together. We are feeling optimistic about the way the future is looking.

The other questions our analysts and investors have been asking us is our investment plan over the next five years, so that is still being formulated, but rough idea we have with our Japanese partners. It will be between Rs.150 Crores to Rs.170 Crores over the next five years including normal capex, including replacement capex, including investments regarding safety, investments regarding quality and capacity expansion projects, so those are the kind of money we are looking at. Some of these investments will have pay back on their own, so those are things that will come up in due course and we hope in the next quarter we will finalize more details and therefore we will have a more precise number. At this point, I will stop my opening remarks and ask Sanjeev Singla to go through some financials and after that we are open to take questions. Singla over to you!

Sanjeev Singla: Thank you Sir. Good afternoon everyone. During this quarter, we have achieved total sales volume of 45964 tonnes and year-on-year growth of 45% and in terms of revenue in rupees it is at Rs.287.65 Crores, which is reporting a growth of 53%, one is because of the increase in volumes by 45% and the remaining is because of the increase in price, which we have received from the customers from October 1, 2020. Apart from this other income is continuing to support the bottom line and in adding good numbers. In other income, there are two main incomes, one is interest income received on FDR funds, which we have received from Aichi last year and secondly this year we have deposited advance electricity bill up to March 2021 and on that there was a scheme from the state electricity board that they will be giving us interest at the rate of 1% per month, so resulting all this our EBITDA including other income during the quarter is Rs.42.64 Crores and year-on-year growth of more than 400% and during this quarter the EBITDA margin is Rs.9300 a tonne, which is beyond our guidance of normal range. The last range, which was Rs.4500 to Rs.6000 and last quarter it was revised to Rs.5000 to Rs.7000 a tonne and the net profit stands at Rs.21.67 Crores as against Rs.1.81 Crores last year, so that is all on performance side and now I request for the questions.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have a first question from the line of Dhawal Joshi from Sundaram Mutual Fund. Please go ahead.

Dhawal Joshi: Good afternoon Sir. Thanks for the opportunity and congratulations for the good set of numbers. Sir just a couple of questions from my side though you have said your negotiations with OEMs is going on, automakers are going on for increasing the contract price, how much increase required in terms of realizations part do you see to offset the cost given the higher raw material prices of last quarter so can you give us some guidance on that?

Sachit Jain: We have asked our OEMs for a price increase of Rs.7000 to Rs.7500 at interim level because the cost increase from product to product is very different. The cost increase in the range of Rs.10000 to Rs.12000 a tonne that is the cost increase; however, that is as far as spot prices are concerned and then each company will have its own levels of inventory and so on and the size is also increased over time it is not that it suddenly increased by Rs.12000, so we have been purchasing at various levels and also seeing the commodity increase we did cover a little bit more than consumption, so we do not share what numbers we have covered. I think the spot prices overall the cost increase is around Rs.10000 to Rs.12000 per tonne based on product to product.

Dhawal Joshi: Got it and you have asked for Rs.7500 per tonne sort of increase in the realization?

Sachit Jain: Yes that is rough range Rs.7000 to Rs.7500 we have asked and we need to understand that this is not due to us because the price settlements are for six months purpose, so the real increase is due from April 1, 2021, but because of unprecedented increase in raw materials and the dramatic increase in commodity steel prices we have asked and the indication we have got from most customers is that they understand our situation and they are willing to look at some of these numbers. Some customers who are not linked to OEMs, etc., or even who are linked to OEM has started giving interim increases, so a figure below what we are asking, but a reasonable number irrespective of whether the OEM gives the price increase or not, so those kinds of things have also happened. They must take a flex at this point, but as I said that we believe that even without any increase, we will still be in the profit territory for Q4.

Dhawal Joshi: But per tonne benefits will be not as high as the current level if at all assuming that price increase will not happen then?

Sachit Jain: Yes of course we have already indicated that in the past also that Q4 will be below Q3 we have already indicated that, but it depends on what prices we get, so very difficult at this point to predict that. The only thing we can say is if we get Rs.7000 we will match or cross this quarter, but below Rs.7000 we will still be in profit zone, so we are somewhere in between that at this point.

Dhawal Joshi: Okay and Sir just a basic question I wanted to understand from you what is the problem or what is the issue with your automakers to have quarterly contracts where they also enjoy better pricing?

Sachit Jain: The reason for this is I guess too much time is wasted in negotiation. Once you fix a price and then it is reasonably clear it is cost basis and so on. With the lag we anyways get the benefit or pass on the benefit.

Dhawal Joshi: That is the only thing no other?

Sachit Jain: I doubt there is any other reason because the industry has been going very well, only this is the first time in my 10 years that we are seeing this kind of unprecedented increase. Within two months the price increase was this much. I remember one time in a week's time the domestic scrap went up by Rs.3000 a tonne in one week.

Dhawal Joshi: How do you see the plan for the next two quarters especially from your large customer, order book there has been pretty strong?

Sachit Jain: We only get some kind of indication; we do not have firm order book.

Dhawal Joshi: Yes.

Sachit Jain: So this Q4, current quarter we are in the volume is very strong we are not able to meet the requirement and so the demand is very strong and as of now the indication for the next quarter is also not too bad, nobody see the contraction starting for the next quarter.

Dhawal Joshi: Q1 you are saying?

Sachit Jain: Yes, Q1 and very clearly we will have the price increases from April 1, 2021 whether we have it from January 1, 2021 or not we do not know at this point.

Dhawal Joshi: Sir last one what is the net debt at this level?

Sachit Jain: Net debt would be around Rs.250 roughly.

Sanjeev Singla: Yes, it is Rs.250 Crores.

Dhawal Joshi: Thanks Sir.

Moderator: Thank you very much. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Sir a couple of questions. The first is that as you mentioned we have visibility of orders from the OEMs and we are seeing a good pickup in the auto cycle also, but from the past what we saw in 2018-2019 how do we kind of better placed if there is again a slowdown situation emerging how are we preparing ourselves in terms of protecting our volumes and margins better given we have a Japanese partner also so any sort of more focus on exports to hedge the loss in volumes in a normal way?

Sachit Jain: As I said in my opening remarks from 2022 onwards our exports to the Japanese OEM based business in South East Asia will begin, sampling has begun and there will be more sampling orders coming in this year, so from 2022 onwards we are fairly protected with our export business picking up. So, if at all the risk for the peak of volumes is only for this calendar year, or I may say at best to FY 2021-2022. In any case volumes for Q1 of this calendar year are very strong and as of now even Q1 of the next financial year is okay, so then you begin into Diwali quarter, so it is anyway strong. So, in all probabilities the risk of volume slowdown, again these are all just my idea, something like Rajiv Bajaj says he does not know what will happen. So, I guess if at all would be only Q3 and Q4 the second half of next year there will be some risk, but by that time we expect heavy commercial vehicles to pick up. Two component demands are picking up, so export of components, which requires our steel, so that is going quite strong also, so that may overshadow the drop in demand if at all.

Dhaval Shah: Two questions, first is you said we are almost at full capacity for Q3 we did some 46000 tonnes, so 2022 when we start exports to start with how much, what sort of volumes are we expecting in the export side?

Sachit Jain: It is very difficult to say exactly, but over the next five years our target is 50000 to 70000 tonnes of exports.

Dhaval Shah: Over five years okay.

Sachit Jain: By 2024-2025 we will be at that level.

Dhaval Shah: Okay and Sir the other question is you mentioned about the export of components happening out of India, now that is something, is it because it is change in supplier by the customer or what is the reason you see?

Sachit Jain: See again we are one level removed so that is what is special from the component exporters, but my reading is as the larger OEMs in Tier-1 are looking at diversifying their supply chain a bit from China. So China plus strategy would mean that people are looking at India maybe more positively than what they are looking at it in the past and there also seems to be a commercial vehicle upsurge in North America and so on, so there is a demand from our customers like GNA Axles for example who export parts for trucks in North America their demand is very strong.

Dhaval Shah: Correct we spoke to them they mentioned it.

Sachit Jain: Their demand is strong. So again, we are indirect exporters, so our demand for US is also strong.

Dhaval Shah: Sir in India also more commercial vehicles and trucks are sold, so your volumes logically should be higher am I correct?

Sachit Jain: No, we do not sell much to commercial vehicles. We are into cars and two wheelers primarily and so whatever commercial vehicle business as we have is indirectly to customers like GNA Axles for exports and for some customers like Sona BLW, which is going to supply to all products or Shriram Pistons. So yes, if commercial vehicles improve we will get some spin off from that, but not too huge an impact.

Dhaval Shah: Sir this PLI scheme, which government has floated so can you give some thoughts on this?

Sachit Jain: Unfortunately it does not cover our product category and it is surprising because it has some commodity scheme also covered in it and specialized fields they have got a segment of special schemes that they have not covered automotive scheme, so we have as a steel industry and as per ASPA Alloy Steel Association we are represented to the Ministry that this is a big lapse that has happened and this needs to be covered. The Steel Ministry seems positive, but as of now we are not covered.

Dhaval Shah: Understood. Okay Sir. Thank you very much and good luck.

Moderator: Thank you very much. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: Thank you for the opportunity. I was going through your presentation and I wanted to understand what you mentioned on page 31 that you will start making advance steel for auto so what kind of product would this be, it also mentioned something about setting up a forging facility, so if you can throw some more light on this?

Sachit Jain: First of all, when you talk about advance steel when you are making steel for Toyota and Toyota requirements we will need newer grade of steel and better quality of steel than what is being used in India at this point in time. Also Maruti for example today even now imports some steel some steel which is specialized steel, which it does not source from India, those are the kind of products that we hope to make in our facilities with the help of our collaborators and when you talk of forging, etc., those are all in the future in due course because our partners are already they are the strongest forging company in the world and they have a desire eventually to put a forging plant in India, so those are the kind of other things that can happen in the future, but that is a futuristic thing it is not something that will happen today or next year.

Tushar Sarda: So, I had one question on this when you say steel for auto is it not HR coils?

Sachit Jain: No, what we are doing today alloy steel bars that we are making today, so the focus is more and more on cars in the future and two wheelers will remain in India and maybe a little bit for export, but really when we are saying 50000 to 70000 tonnes of export we are looking at that is mostly cars and some for trucks.

Tushar Sarda: My second question was on the plan to increase RoCE so how do you reach the increasing EBITDA per tonne?

Sachit Jain: EBITDA per tonne anyway we have said that we already have guidance as I said Rs.5000 to Rs.7000 a tonne and we have also said that in another couple of years we will raise the guidance upwards again we are waiting for two events to be taken, one our expansion to get okayed from the Ministry of Environment once that happens and the second once the Japanese business starts so when these two events start our EBITDA per tonne will go up further and then we will revise the range from the current new range of Rs.5000 to Rs.7000 we will revise it upwards maybe we will go to Rs.6000 to Rs.8000 or may be a little bit more we will see at that point in time, but we will definitely revise it up in about two years time. So, one is EBITDA going up per tonne, second volume will go up and third we are working on our capital employed. So our net capital employed you will see by March 31, 2021 we plan to have a reduction in the net current assets from the current levels and we plan to keep a very tight check on that so it is a combination of volume, EBITDA per tonne and reduction of net current assets.

Tushar Sarda: Okay thank you very much Sir. Very informative presentation and very transparent shareholding. Thank you.

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

Ratish Varier: Thanks for the opportunity. Sir just a couple of questions first question pardon me if you would have answered that? With respect to PLI do you see any opportunity in this segment for us and if yes what capex guidance you are talking about in your initial five-year plan can that be revised accordingly?

Sachit Jain: So as of now as I said the entire segment that we are in is not covered in the PLI and this is a gross mistake made from the Ministry at some level. So there is a realization that this is a big lapse and there is an attempt to include our sector, so once that is included then of course we are covered, but as of now we are not covered and to answer your second question all our investments are already in line for exports so nothing will change.

Ratish Varier: Okay. Sir just one more question some data keeping question, for these nine months in this quarter what will be the mix for us, you mentioned something we supplied as indirect exports, so between domestic and indirect export, two wheelers?

Sachit Jain: We do not track those numbers, we just have a general idea that customers like GNA Axles for example produces axles for exports, but they also make axles for domestic market. Then Sona produces for domestic market and export we do not track all those things that we keep. Each of our customers produces some for domestic market and some for export. We do know that they are producing for exports, but what proportion we do not track that.

Ratish Varier: Two wheelers will be what percentage of our business currently?

Sachit Jain: Two wheelers should be around 30%.

Sanjeev Singla: 33% is the two-wheeler and about 35% is passenger vehicles.

Ratish Varier: Remaining?

Sachit Jain: Remaining is off highway, commercial vehicles and tractors. We do not supply to the tractor segment as I said earlier or the commercial vehicle segment, but through customers like Sona, etc., for some of the critical components our steel will be done, but otherwise we do not supply steel for components for the tractor industry or the commercial vehicle for the domestic market, but for international market yes for the components we do supply. The reason for that is very clear if the quality standards of commercial vehicles and tractors in India is very low and anybody and everybody can compete in those segments and therefore it is a price war. We being a smaller player like to stay away from businesses where price is the main determinant.

Ratish Varier: Okay thanks. That is it.

Moderator: Thank you very much. The next question is from the line of Dewang Sanghvi from ICICI Securities Limited. Please go ahead.

Dewang Sanghvi: Good afternoon Sir and thank you for the opportunity. Sir my question is regarding this capex you are planning with Aichi of Rs.150 Crores have we identified any product specific details in terms of earlier assessments, which company product you are going to invest in?

Sachit Jain: Our product line is going to remain the same as what we have today which is alloy steel bars meant for the automotive sector, which is cars, two wheelers, trucks, and tractors the same segment there is no change in the product segment; however, with Aichi, so let me tell you what are the areas in which we will be investing. One is the capacity expansion, second is steel requirement because the requirements of Japanese in steels are much higher than what we have internally, third is for replacement items because we are dealing a normal capex, so normal capex is also part of this. For example, some cranes are older than 30 years and we need to replace those cranes, so that is also part of this, fourth will be for quality enhancement for improvement on quality some R&D cushion will be required and may be some process equipment will be required for improving the quality. There will be certain investments, which are good in itself for just their own sheer payback.

Dewang Sanghvi: I was asking in addition to exports do we also focus on import substitution?

Sachit Jain: As I said earlier we will be focusing on import substitution for Maruti, for Hyundai as well as for Toyota in India.

Dewang Sanghvi: My question regarding the capex from nine months what you have incurred up until now and what is the sense for the balance few months for this current year?

Sachit Jain: Nine months it has been miniscule, but again Singla can you answer that question?

Sanjeev Singla: Sorry can you come again?

Sachit Jain: In nine months so far what has been the capex?

Sanjeev Singla: In the last nine months there is very nominal capex of maybe Rs.1 Crores.

Dewang Sanghvi: What will be the repayment schedule we have, are we trying to pay, do we have good cash flow in current fiscal year?

Sachit Jain: We plan to prepay. We have already prepaid earlier in this calendar year I do not remember in this financial year we have prepaid some loan.

Sanjeev Singla: Last year Q4 Sir.

Sachit Jain: In Q4 last year and this Q4 also we will be prepaying some loans.

Dewang Sanghvi: Any early quantum are you predicting Sir?

Sachit Jain: About Rs.15 Crores to Rs.20 Crores or something like that, rough ballpark.

Dewang Sanghvi: Thank you Sir and all the best.

Moderator: Thank you very much. The next question is from the line of Anil Kumar Sharma, an Individual Investor. Please go ahead.

Anil Kumar Sharma: Sir good afternoon. First of all, congrats. Sir I want to know about the main thing is raw material, for raw materials front how much the trend is going on and whether the prices of manganese, chrome and electrodes have risen up to what level and what will be the impact?

Sachit Jain: Raw materials are rising across the board; various raw materials have risen between Rs.10000 to Rs.12000 a tonne. Graphite electrodes have risen by about Rs.20 to Rs.25 a kilo, but we covered that well in advance. Even refractories have gone up and all the alloying elements have also gone up about 20% to 25%. Singla please correct me if I am wrong?

Sanjeev Singla: Sir it is about 10% to 12%.

Sachit Jain: 10% to 12% sorry my apologies.

Anil Kumar Sharma: Right Sir what do you think this current quarter and in the future how much impact on our realization?

Sachit Jain: It is very difficult to say that because as I said earlier we have in advance bought the inventories, we have covered some raw materials and the price rise also has been not on one day it went up like that so it has been going up and it has been coming at various price levels. If you just add say Rs.12000 into Rs.45000 it takes about Rs.45 Crores because beyond Rs.50 Crores if you take the yields into account, but for us the increase is not going to be that.

Anil Kumar Sharma: I know it is difficult but next year the target will be above Rs.1200 crores at least?

Sachit Jain: I am sorry we do not look at sales target, but in terms of volume we will be targeting beyond 150000 tonnes and the sales and all will depend on the price increase that we get in January and then again in April.

Anil Kumar Sharma: Right we are negotiating that, you are hopeful that we will get the revised prices?

Sachit Jain: Yes, because very clearly and let me give you something that already happened in the public domains. Mahindra & Mahindra has given to my understanding Rs.7500 increase for flat steel. That is my understanding, but for our product they have not yet given though we do not deal much with Mahindra, but some of our customers their orders are linked to Mahindra pricing, but another OEM has also given Rs.7500. The Rs.7500 for flat steel two OEMs have given, for forging quality steel the negotiations are going on.

Anil Kumar Sharma: Alright. Thanks a lot Sir. Thanks for your wonderful contribution. I know you are doing extraordinary. Thanks a lot, from my side. Thank you.

Moderator: Thank you very much. The next question is from the line of Anupam Gupta from India Infoline. Please go ahead.

Anupam Gupta: Good afternoon Sir and congrats for a good set of numbers. Just one query I had on the margin guidance you said and you have upped the margin guidance in the coming quarters so what we have seen is whenever raw material prices are on the uptrend your margins generally do not expand and you also said that you had basically built up inventories of various raw materials electrodes and others as well so you said that Q4 margin should be below Q3, but what is basically underpinning the expansion in the margin guidance for you in this scenario?

Sachit Jain: We are not giving an expansion of margin guidance of Q4 we are saying for the full year as a whole our guidance now is Rs.5000 to Rs.7000 range, but not for Q4 we have not given any guidance for Q4 except that we will make a net profit and the fact that volume will be strong so volume wise we are expecting similar to Q3, we do not make exact prediction because it will be a little bit higher and little bit lower, but we are running at full capacity so it should be very near Q3 little bit lower or similar, but similar ballpark and the margins depend on the price increase. So just take an example if we get full Rs.7500 price increase, which is what we have given for flat I am not saying that is going to happen, but if that happens then please multiply let us say 40000 tonnes into 7500 so that will give you one number that is one extreme and if you get zero then we very well said we are making a profit and depending on the increase that we get Rs.4000, Rs.5000, and Rs.6000 these numbers will be in between, so at this point in time it is very difficult to give any guidance for Q4.

Anupam Gupta: Understand. So, let us say if I were to assume that the raw material and the steel price everything remains same here on a sustainable basis..

Sachit Jain: On a sustainable basis we are saying that it is Rs.5000 to Rs.7000 a tonne is going to be our EBITDA margin. We are not saying that Q3 where we got 9300 is a sustainable number, we were lucky and we are also saying that in a couple of months and in a couple of years we will be revising our guidance upward.

Anupam Gupta: A couple of years basically when Aichi processes coming that obviously will aid your margin?

Sachit Jain: The processes have come in and some gains have already started coming because of Aichi, but business. There are three, four parts of Aichi, one is safety area, so a lot of work has already happened on safety, and accident levels have come down. There is quality improvement, that work has already started and improvement is already happening. Third cost reduction because of process improvement, that work has started, some gains have already come in and more gains are coming in every quarter and when the force in productivity and volumes so that is also happening and it is analysis of problems, break down analysis and so on, which will reduce our consumption of spare parts as well as improve our price and therefore increase in production and then once the volume really comes in because once they are satisfied with the quality levels since their own good companies are consuming so we do not have to put in a marketing effort, it is Aichi's good companies, which will be consuming our steel, so marketing effort is not required, once we reach the quality level Aichi is satisfied with, then the volume will come.

Anupam Gupta: So that should help Sir. Just one request so whatever improvement in metrics you mentioned if you can highlight that in the presentation that would let me give some statistics for that that would help to build a confidence in terms of how your margins can proceed?

Sachit Jain: The other metrics we are saying is that on return on capital employed EBITDA on capital employed first target 16% then 18% then 20% so within the next five years we hope to touch 20% EBITDA on that metrics. So, every year we will be improving that metrics. Earlier we were not as focused on the metrics because we were focusing on volume and profitability per tonne. Once we reach those volumes then the focus is shifting to other metrics also and third metrics we are going to start working on later will be return on net worth that will be the third metric to start working on two years from now.

Anupam Gupta: Right thanks a lot for your explanation Sir. Thanks.

Moderator: Thank you very much. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Good afternoon Sir. Given the volatility that you are seeing in sales last year or in terms of margins this year how do you view your financial profile especially borrowings, you have a net debt of Rs.250 Crores would you look to bring that down over a period of time to provide stability in financial profile?

Sachit Jain: We are not giving any guidance on debt equity, but we are saying that we will be below 1:1 and two our rating is AA and we were at a negative outlook earlier, which has been revised upwards by fiscal two being stable and we are going to work to retain that rating. So, we are not going to allow that rating to slip. Within the rating parameter we will always look at what should be the debt levels, what should be the debt equity, what is the cost of debt and all those things we will see. So, we are not having any plans to further reduce debt; however, in the short term as we keep reducing our net current assets the debt will fall in the short term. Our cost of borrowing just now is 4.5% on CP, so it does not make sense to reduce that and increase your component of equity so as long as we maintain our rating. So rating is going to be AA we do not inspire to be AA+, anyhow we will not allow it to fall to the AA-, we are very happy at AA rating.

Vivek Ramakrishnan: Fair enough Sir. Thank you very much and good luck Sir.

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

Rohit Ohri: Good to hear that Soumya has joined the call and you have vision of RoCE of 20% for the next five years. Sir I have two questions. With this capacity augmentation, which might happen in the next five years or so and we are targeting 300000 metric tonnes and the Japanese would be focusing on hybrids or maybe the electrical vehicles do you think that the management needs to chalk out a plan for the dividend distribution policy as such?

Sachit Jain: Rohit I think that is a very valid point and we were waiting for performance to come in. In fact, if you recall if you have been following our company from a bit earlier we were expecting may be not this kind of performance but a much better performance in 2018-2019. We were expecting a record performance in 2018-2019 and unfortunately the auto market just crashed then so we were caught absolutely embarrassed that our entire estimate had gone wrong and then of course 2019-2020 was a washout again because of the markets remained crashed. So we are happy that we have come back, at that time we had given reasonably rosy performance and we have finally come to that level, so we are two years behind what we had said, but as a risk factor we have always said that we are linked to the auto industry. If the auto industry does badly there is no way we can do well at that point in time; however, with Aichi sourcing from us now we will be relatively insulated from the domestic market, which institutes in the coming couple of years. Now as regards reasonable I think it is a very valid question, so once we are reaching this kind of profitability level I think dividend distribution should be a point of consideration by the board and it is a decision of the board I cannot comment other than the fact that as a management we are now satisfied that we are at a level that we can start recommending to the board that the board should start considering dividend, but this is not my purview is a purview of the board.

Rohit Ohri: That is good to hear some positive light over there. Sir one request as to what would be the promoter shareholding because this was not updated to the exchanges so I just was wondering what is the promoter shareholding?

Sachit Jain: It will be roughly.

Soumya Hora: 59 point something Sir.

Sachit Jain: Thank you Soumya.

Sanjeev Singla: 59.34 last quarter.

Sachit Jain: I am buying in the personal account. We are one of the few companies where promoters may not have too much of money the companies have lot of money; I am buying on the personal account and small quantities only at the bank.

Rohit Ohri: That helps a lot. Sir last question with this vision and target of export, which are currently around 3% in the next five years, is it quite ambitious to say that you will try to reach 20% exports after the expansion happens in Aichi and everything falls in good for us?

Sachit Jain: It is not ambitious in fact it is on the other hand the requirement is much more than this. So, the biggest problem that Aichi has is we do not have enough capacity. The critical part was for them we have to find a partner in India, which they found in us. The second part was to find whether they could trust the partner, one is trusting in discussions, which they had obviously that is why they came in, the second was in the working of the company after coming in and seeing whether it trusts the company that they are having confidence in that, the third part was developing the production capabilities and smooth working in production, which has been achieved. The fourth part is getting safety in line and the safety has improved. The next part is getting quality. Once quality levels come the demand from them is way higher than what we can produce. It is 50000 to 70000 tonne we are talking about is not ambitious it is bare minimum. If Aichi was not our partner then yes your point is right from 3% to 20%.

Rohit Ohri: So, with the mindset of the Japanese will they be first looking at capability building or will they be first looking at capacity building?

Sachit Jain: All that we have been doing since last year is the capability building. So that comes first because they like smooth working, what is the plan, and what have you achieved and any deviation where people have to answer a lot and any accident that happens near miss, there is a lot of discussion on near miss that nothing happens the accidents could have happened there are serious discussions on that. A small scratch happened on some body's finger that discussion happens a lot. So, all that part is part of the detailed working and our people are running a lot with the Japanese.

Rohit Ohri: I saw your videos and I saw the work that was done during the pandemic so much commendable. Thank you for answering the questions. Thank you. Thanks a lot.

Moderator: Thank you very much. The next question is from the line of S Mitra, an Individual Investor. Please go ahead.

S Mitra: Good afternoon Sir. My question is that I just want to understand your raw material dynamics like we use both imported scrap and DRI so can you disclose the mix between these two?

Sachit Jain: We use DRI, we use imported scrap, we use a lot of domestic scrap also local scrap and we do not share our mix.

S Mitra: Okay so let me frame it in a different way? Looking way back in 2012 when it was compulsory to share the imported component of raw material was around 35% and domestic was roughly 65%?

Sachit Jain: We are relying far more on domestic local scrap, which is why it gives us more stability in terms of the quality is better and two we are getting daily raw material coming where we can work with lower inventory and three at times I think the cost is also lower in the local scrap.

S Mitra: So, with this Aichi can I do some more improvement on this raw material mix; can I expect something on that front?

Sachit Jain: They work in a holistic comprehensive manner, so their improvement happens on all aspects, so it is not that the improvement only in this area, I have always been an admirer of the Japanese, but this time and Vardhman has been working closely with the Japanese since decade, but this time their personal experience and getting of directly handling them myself has been phenomenal and my respect and regards for them as a country and the people has gone up after my own personal relationship with them.

S Mitra: Thanks a lot Sir. Thank you and congratulations.

Sachit Jain: Let me add one more thing. It is difficult to work with the Japanese they are not easy to work with, so if you have the skill to work with them it is a huge competitive advantage.

S Mitra: Okay. Best of luck Sir.

Moderator: Thank you very much. The next question is from the line of Aniket Redka, an Individual Investor. Please go ahead.

Aniket Redka: First of all, congratulations for the good set of numbers Sir. I have a couple of questions. My first question is actually as I can see the interest cost is lower can you throw some light on it?

Sachit Jain: See the interest cost is lower as the borrowings keep cutting down and the cost of borrowings also dropped as interest rates have fallen in the market so interest cost is lower and last year we had huge inventory buildup because we had a shutdown, so interest cost was higher on working capital account because of shutdown also. Singla you want to add anything to this?

Sanjeev Singla: No, you are right Sir. Nothing to add.

Aniket Redka: Where do you see our EBITDA per tonne ending by this year?

Sachit Jain: We do not make that forecast. It is Q4 we have no idea of making a forecast now. The profit will be in the range of zero to Rs.35 Crores.

Aniket Redka: It is PBT level Sir?

Sachit Jain: At PBT level yes.

Aniket Redka: Sir can you throw some light on the current working capital cycle and how are our inventory, debtor and the creditor days trending?

Sachit Jain: So inventory finished goods is normally about 20 to 25 days normally it will go up a bit because we have again a shutdown coming, we had billet inventory in the middle, which is required for our rolling mill then you have raw material inventories, raw material inventory is again about 15 to 20 days.

Sanjeev Singla: It ranges between 15 to 20 days.

Sachit Jain: Outstanding is normally around 60 days. It will vary because some customers have longer credit terms, some customers have shorter and it varies in between that.

Aniket Redka: Once exports take place how do we see the working capital cycle?

Sachit Jain: We have not made that forecast as of now, but we expect working capital to be much tighter managed than what has been in the past.

Aniket Redka: Have we done any travelling and consequent meetings with Aichi's support to develop our clientele in other regions?

Sachit Jain: No because of COVID no travel has happened.

Aniket Redka: Okay this is from my side. Thank you.

Moderator: Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference over to Mr. Sachit Jain for closing remarks.

Sachit Jain: Ladies and gentlemen, thank you very much again for being with us on this call. Your support and confidence gives us encouragement and we are sorry that we are two years behind in our performance, but finally we are getting there and with Aichi's partnership we expect the medium-term future is going to be very strong and the short-term future on our own thing we should be doing okay and beyond that our partnership is going to make us much stronger. Having the world number one in your business as your partner gives tremendous strength and not only being the world number one the kind of people they are, the kind of openness, the kind of understanding we have I am very satisfied for the future and we are looking for better financial performance from our accounts also to see that once all these foundations are in place ultimately the business has good returns, good free cash flow and as some of you raised the question eventually rewards to the shareholders a dividend, all that should come in to make a holistic company. Thank you very much and hope to see you again at the end of the financial year. Thank you.

Sanjeev Singla: Sir you can also share about one-time incentives.

Sachit Jain: Thank you Singla for reminding me. In the Q3 results, our personal costs are higher than normal because we gave a large one-time incentive to employees across the board because of the way they valiantly fought COVID and the way they were able to ramp up the production capacities and meet the requirement. Many companies altered in the supply chain when the demand came up because our team did not worry about COVID they worked hard, so we gave a one-time reward. We have also declared increments for the year. As a steel company I do not know how many other companies have given increments and this one-time reward has also been given to employees across the board including contracted workers also. Thank you everybody.

Moderator: Thank you very much. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.