Vardhmān
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VARDHMAN SPECIAL STEELS LIMITED

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Dated: 12-Nov-2018

The Deputy General Manager, Corporate Relationship Deptt, Bombay Stock Exchange Limited, 1st Floor, New Trading Ring, Rotunda Building, P.J Towers, Dalal Street, Fort, **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.

We refer to our letter dated 31st October, 2018 regarding the intimation of Analyst/Investor Conference Call on the un-audited financial results of the Company for the quarter/half-year ended 30th September, 2018 Scheduled on 5th November, 2018 at 2:30 p.m.

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

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

Thanking you,

Yours faithfully,

FOR VARDHMAN SPECIAL STEELS LIMITED

Sonam

(Sonam Taneja)

Company Secretary

"Vardhman Special Steels Limited
Q2 FY2019 Results Conference Call"

November 05, 2018

ANALYST:	**MR. ROHIT SINHA - EMKAY GLOBAL FINANCIAL SERVICES**
MANAGEMENT:	**MR. SACHIT JAIN - VICE CHAIRMAN & MANAGING DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED** **MR. SANJEEV SINGLA – CHIEF FINANCIAL OFFICER - VARDHMAN SPECIAL STEELS LIMITED** **MR. RAJEEV THAPAR - GROUP CHIEF FINANCIAL OFFICER - VARDHMAN SPECIAL STEELS LIMITED** **MS. SONAM TANEJA – COMPANY SECRETARY - VARDHMAN SPECIAL STEELS LIMITED** **MS. POORVA – INVESTOR RELATIONS**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2019 results conference call of Vardhman Special Steels hosted by Emkay Global Financial Services. We have with us today, Mr. Sachit Jain, Vice Chairman & Managing Director and Mr. Sanjeev Singla, Chief Financial Officer. 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 would now to hand the conference over to Mr. Rohit Sinha of Emkay Global. Thank you and over to you Sir!

Rohit Sinha: Good afternoon everyone. I would like to welcome the management of Vardhman Special Steels and thank them for giving us this opportunity. I would now hand over the call to the management for the opening remarks. Over to you Sir!

Sachit Jain: Thank you. Good afternoon ladies and gentlemen, Welcome and Thank you for joining our earnings call. So with me today our Mr. Rajeev Thapar, Group CFO, Sanjeev Singla, Vardhaman Special Steel CFO as well as Ms. Sonam our Company Secretary and Ms. Poorva our group investor relations person and along with them also we have Bridge IR our IR team. So thank you all for being here. So as regards the Q2, financial and business performance is in line with our expectations though you have seen a dip in margins, this was briefed by us last year because as you all know that in this industry price fixation happens once in six months. So the next price fixation is due in October.

Volume for the quarter was 42446 tonnes, year-on-year growth was 11%, and revenue has grown up by 43% at Rs.295 Crores. This has gone up much more than the volume because of, one the prices have gone up, two also it includes 26 Crores of raw materials and outsource sales, which was not there in Q2 2018, so basically as we have been saying that we are looking for capacity outside of our operations whether to acquire a company or take it on lease so we have been able to work out in formal arrangements with another company where we are getting production done from them and financing them to increase our sales, so that method is working on well and this proportion of sale will become a bigger part in the second half, EBITDA had Rs.15 Crores in Q2 versus 14.5 Crores in Q2 last year basically almost flat, so rising prices of basic raw materials and electrodes during the quarter, rising oil prices and rupee depreciation have led to the cost increases and as we have mentioned before the Q2, the power cost is the highest in the year is Q4, the lowest is Q3, the second lowest is Q4 and Q2 is the highest power cost, so clearly Q3 onwards we expect lower cost and higher prices because of the current price negotiation is going on, PAT is Rs.7 Crores as against Rs.6 Crores last year, this is largely PBT levels has a drop, PAT has gone up because of the adjustment in the deferred tax, so that is the reason for the PAT going up. Interest cost also is higher than before and capital employed is higher on account of the land purchase which was completed in April as well as entry tax payment that we have kept earlier as a provision for it, but entry tax actually has been paid in current year, so interest cost has gone up on that account as well as increased cost of inventory because of inventory buildup for our shutdown coming up as well as higher price of the inventory, so these are the reasons for the interest cost going up.

Currently, negotiation is going on. One of the OEMs has given us a price increase of Rs.4300 a tonne with the others the price negotiation is going on. We believe the prices should be upwards of Rs.3500 a tonne at a bare minimum could be even higher cost on the other OEMs, so we are pretty confident that for the third quarter and for the full year we will be well within our range of Rs.4500 to Rs.6000 EBITDA per tonne and we will be meeting our budgets for the year, the second half is likely to be much better than the first half. As regards the half of course revenue growth is 38% and realization per tonne is higher, year-on-year increase of 24%, EBITDA is higher by 28%, in the first half Rs.33 Crores, so overall I think we are on track for the full year. Also what I wanted to share is that the shut down has been postponed to April because one, overall buoyancy in the steel market there is delay in the supply of equipment, two we have taken the conscious decision of shift the shut down a little bit more because inventory buildup is taking longer time than what we anticipated because sales have been going very strong so because of strong sales we have not been able to build up enough inventory as we had wanted, so April is when as of now we are planning the shutdown, so no shutdown expected in this financial year. Also as we said Q4 is the lowest cost of power so to have a shutdown when the cost of power is the lowest may not be a great financial attractive idea, we pushed it since we have planned from January it was going later then it decided to other position to April where at least we gain the advantages of lower cost of power. Way ahead and plans going forward, it was seen as what was there earlier, the expansion is on track were little delayed. JV or acquisition opportunity of value added products namely Bright Bars, those discussions are going on and we expect a visit from our potential partner soon. For a technical alliance, again discussions are going on so we will see how that develops. My hope will be that next year. We will have more clarity in the next few months and of course continuously improving our product mix. What we are also seeing is because we are running at almost full capacity utilization our ability to cull out the low margin businesses that ability is increasing and we are able to get in small, small quantities we have started getting price corrections over and above what the OEMs are giving so which means overall the quality of the business is actually improving. I would also like to share that we are welcoming a new director, independent woman director though it is applicable to us from 2020, but we said if that is the advisory has good corporate governance norms we like to adopt it right away and Shubhra Bhattacharya, who is an XLRI graduate of 1993 and an independent management consultant, she is joining our board with respect to the next board meeting, so these are some of the things I wanted to share, apart from that we are open to questions.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Dhruv Agarwal from Crecsita Investments. Please go ahead.

Dhruv Agarwal: Congratulations on a good set of numbers for the topline in the profitability side. Sir, my question is that regarding this first October price hike so for the first half of the year on an average per tonne realization was around Rs.67000 so you expect that in the second half of the year it should be in upwards of Rs.70000?

Sachit Jain: That could be our expectation.

Dhruv Agarwal: That is because for example if you take.

Sachit Jain: 67 is not the right figure because it all includes also the traded turnover, etc., from terms of our sale the figure is 63352.

Dhruv Agarwal: In Q2?

Sachit Jain: Yes and this we expect this to go by roughly the same figure that you alluded to.

Dhruv Agarwal: Rs.3500 to Rs.4000 per tonne.

Sachit Jain: About Rs.3000, 3500 we do not know what it will be actually.

Dhruv Agarwal: That will be decided as per the negotiations?

Sachit Jain: Yes, we expect it to be higher than that, but still it happens we do not know minimum 3000 to 3500 looks possible.

Dhruv Agarwal: One thing regarding this plant shut down so supposedly it was to happen in the fourth quarter as you rightly said, so now it will happen in the other part of the year, so far how many days will this shut down happen?

Sachit Jain: About 30 to 35 days, which is why we need to build up sufficient inventory that our customers would not get affected.

Dhruv Agarwal: So you will build up the inventory and the sales will happen accordingly?

Sachit Jain: Correct, which is why also one of the reasons that the inventory is building up and capital employed is going up and therefore interest cost is also going up on that account.

Dhruv Agarwal: Correct, correct, I think you mentioned that very clearly on the last quarter. Thank you so much Sir.

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

Dhaval Shah: Sir Two questions from my end, one is the recently introduced antidumping duty on Bright Bar, is it really helping or it is too late and once this has come how does it help or change our decision to do a partnership with the foreign company for value added product?

Sachit Jain: So the impact of this will always be indirect because where the antidumping duties and it is not just on Bright Bar it is on all bars, all alloy steel so we do not directly get affected as Vardhaman, but this increase in the cost of imports for some of other competitors, which enables the possibility of a higher price increase than what would have happened otherwise, market overall and then even our customers eventually look at what the market is going up by and that also influences their decision to agree to a price increase.

Dhaval Shah: So I am speaking to a few people in the industry they mentioned now apart from China, Korea is the other country.

Sachit Jain: Yes, Korea and Japan. Definitely imports from Korea increasing substantially and we have made representations to the government that they should be aware of this dumping by Korea.

Dhaval Shah: But that would take a lot of time if anything has to materialize on the dumping from there, am I right?

Sachit Jain: True and I do not think it is dumping from there, but it because they get zero custom duty, but I do not know whether it is dumping or not and that has to be investigated, but at least we have made the government aware that the surge in imports from Korea.

Dhaval Shah: Any change in the programmes, which the OEMs give you for the next six months, any reduction in their volume procurement programme, any sort of change from the Q1 concall we had, you are saying that the things are very good going forward, but it is the same right now?

Sachit Jain: So there does seem to be a slight slowdown in terms of the OEM sales, but as far as any effect on us so far we have not heard anything from the customers and we have not felt anything and if any drop happens we will welcome that because it will enable us to build up our inventory in the right time the way we would like it to be, so we are just now, any slow down if happens we will welcome that slow down.

Dhaval Shah: Products.

Sachit Jain: Products as a company we need that cushion to build up the inventory properly.

Dhaval Shah: What was our inhouse production volume, the one which we have reported is the total that includes the traded one as well?

Sachit Jain: 42465 tonnes is our sale and at about 2300 tonnes is the outsource, still the outsource part is a very small part, it will increase.

Dhaval Shah: So will this dilute our EBITDA per tonne how will it impact?

Sachit Jain: It will as per reported EBITDA per tonne is concerned it will show a lower EBITDA per tonne, yes that is right, but we do not mind releasing our EBITDA per tonne for our sales, so which will be easy for you to calculate where we are going. So when I am speaking of Rs.4500 to Rs.6000 a tonne it is on our sales.

Dhaval Shah: Yes, it is produced in your current data.

Sachit Jain: Let me put it this way clearly. What we fully produce in our factory is part of our sale, but we produce is billets and get rolled on job work from outside is also part of our sales and when we buy billets and roll inside is also part of our sales, so what we report as traded turnover is where the entire production is done outside, meaning billet as well as rolling is done outside.

Dhaval Shah: So I assume that the realization would be much lower in those products?

Sachit Jain: No it could be lower, it could be higher, could be different product mix, so nothing link to that.

Dhaval Shah: Fine Sir. Thank you.

Moderator: Thank you. The next question is from the Abhijeet Vara from Sundaram Mutual Fund. Please go ahead.

Abhijeet Vara: Thank for taking my question. Sir I wanted to check what will be the installed capacity as of FY2020 and FY2019 also and what is the utilization level you expect in FY2020 there might be some leaning curve in order to achieve the utilization initially after some teething issues, so if you could answer these two questions?

Sachit Jain: Very difficult to answer that question, but by FY2019 our capacity will be 200000 tonnes of melting, rolling is about 180 to 190 it keeps varying little bit depending on the product mix, maybe it may hit 200000 tonnes, so it will be matched, so FY2020 our capacity should be 240000 tonnes of melting.

Abhijeet Vara: Rolling will be 220000?

Sachit Jain: Rolling may be 210000 to 220000, we are trying to see out of debottleneck, but it looks possible.

Abhijeet Vara: Sir about the capacity utilization of FY2021, how long do you think it takes to stabilise new facility?

Sachit Jain: Should not take too long, but because of the shutdown we will not be able to produce that much in the year 2020, so 2021 is when we should be able to run our full plant, so we believe 2021-2022 will be able to run full capacity and 2021-2022 may be 220000 tonnes.

Abhijeet Vara: But in FY2020 you can still have some volume growth, on FY2019?

Sachit Jain: Yes, for sure we will have the volume growth. We are forecasting 200000 tonnes, 190000 to 200000 tonnes of billets and about 180000, 185000 tonnes of sales, so about 8% to 10% increase in sales.

Abhijeet Vara: Sir in terms of cost curve you have mentioned about the power cost, but what about the other cost graphite electrode or other raw material related cost?

Sachit Jain: The raw material seems to be plateauing now and graphite electrode again is anybody's guess, but the relative increases are not going to be so high. We are also looking for other sources.

Abhijeet Vara: Sir, your raw material purchase will be on spot or do you have some sort of volume contract and pricing?

Sachit Jain: They are all in spot, of course by little forward, but we keep some inventory, normally for shredded scrap we have about 100 to 110 days of coverage including goods in the plant, in transit and booked and that is about it and we buy on a weekly basis.

Abhijeet Vara: Sure Sir. Those are my questions. Thank you.

Moderator: Thank you. We have the next question from the line of Anupam Gupta from IIFL. Please go ahead.

Anupam Gupta: Just to recheck one, so you are on the reported EBITDA and reported sales, your EBITA per tonne is 3608 in this quarter, what is the correct number to look at if we exclude the traded volume?

Sanjeev Singla: On reported PBDIT our EBITDA per tonne is Rs.3900 and in case we will add our quantity of traded goods also then it will be around Rs.3700.

Anupam Gupta: What is the number for 1H?

Sanjeev Singla: It is Rs.4300 and again in case we will add the traded quantity it will be less by Rs.100 approximately, the traded really started building up in the second quarter and the buildup will happen in the third quarter.

Anupam Gupta: So when you are saying Rs.4500 to Rs.6000?

Sachit Jain: We are talking about our production, not the traded, because of traded it may drop a bit, but when I see things even with that it may remain within this range.

Anupam Gupta: I understand. Thank you.

Sachit Jain: Thank you. We tried to report this as separate segment, but as per our auditors we cannot report it as a separate segment because it is the same product, we actually wanted to report it as a separate segment, so it is clear to everybody, this is the earnings there, it is the earnings here. Unfortunately we cannot do that.

Moderator: Thank you. The next question is from the line of Rikesh Parikh from Barclays. Please go ahead.

Rikesh Parikh: Sir just wanted to understand what proportion of revenue come from third party and internal as such breakup?

Sachit Jain: It is very small from third party just now so I would say 5%-6%. It will be small, it may work to about 8% or 10% max, I doubt it will go more than that.

Rikesh Parikh: Secondly I wanted to understand what is the kind of increase say that price increase what we are looking is 3% to 3.5%, so what is the kind of RM inflation, what we have seen during this first half?

Sachit Jain: This will more than cover the cost increases happens, which is why we will be about Rs.5000 per tonne in the second half and average will be in this range, it will more than cover up the drop in the second quarter.

Rikesh Parikh: As per our negotiation going on while right now, so do you feel confident about the passing on the price hike in this current environment as such?

Sachit Jain: It looks like that because we have already refused an offer, which is in this range from one of the OEMs, we have refused that offer.

Rikesh Parikh: In your opening remarks, you talked about entry tax can you please explain if I might not on top of it?

Sachit Jain: So there was an entry tax in Punjab, which we were contesting as not right and providing for it in the balance sheet because it was subjudice, but finally we took the call to pay the entire entry tax because otherwise if in case we lost the case we have to pay very heavy interest on that so we took a call as a management to pay the entire amount so there is no interest liability pilling, but there is a case still going on and there is an even chance if we win the case the entire money comes back, but that depends and this is the case, which was fought across the country, there are several cases of entry tax across the country, so this was already provided for which is why it did not hit the P&L very strongly, little bit was left of interest coverage, which is all provided and then we decided to pay the entire amount.

Rikesh Parikh: Can you throw some light on new JV or something we are looking at as such?

Sachit Jain: Nothing new, it is the same thing that we have been looking for the last few years. So there are two different things we are talking about one is proposed JV in a downstream value added Bright Bar and other heat treatment so that process is on and the second is looking for a technical partner cum JV partner for the basic steel making, in the second process also, the process is on and our talks are going on with a couple of companies.

Rikesh Parikh: And the last question is can you guide on the capex we will be doing in the next two years?

Sachit Jain: So we had announced that we have Rs.200 Crore capex plan, land was part of it, so we will not be doing more than this Rs.200 Crores as of now and our debt equity we are very clear will be well below 1:1 and debt to EBITDA, which this year will go up a bit, but otherwise our target is to take below 3 to keep the debt to EBIDTA ratio below 3, so we are very conscious of our rating and want to keep the rating that way.

Rikesh Parikh: That is all from my side.

Moderator: Thank you. The next question is from the line of Saurav Ginodia from Stewart & Mackertich. Please go ahead.

Saurav Ginodia: Sir there are two questions, one with respect to the price increases, am I heard you correct that in your industry the price increases happens only once during a particular year?

Sachit Jain: Twice, April and October

Saurav Ginodia: What would be the reason for this kind of volatility in the power cost on Q1, Q2?

Sachit Jain: Power cost, the reasons are that night rebate that the Government of Punjab gives, it gives in the second half not in the first half because in the first half they have the paddy sowing and within the first half it is really June onwards that they really need that power for the fields, so April and May they gave the night rebate, so October to March we got the full night rebate, so third and fourth quarter we got the full night rebate, first quarter we get two third of the night rebate because two months out of three months and second quarter we do not get any night rebate so therefore in the second quarter the cost is highest. In addition to that, in the fourth quarter for incremental power over and above the base levels there is a lower cost of power, which will always happen in the fourth quarter and peak load charges also levied in the second quarter, so we do not have those charges of third and fourth quarter. So these are the reasons for quarter-to-quarter variance in the power tariff. Punjab is a specific thing because of the huge paddy crop from June to September period.

Saurav Ginodia: How confident are you when you are having a discussion with other OEMs for the price increase?

Sachit Jain: This industry is a very strange industry, so big negotiation goes on with Tata Motors and many of the other OEMs and tier ones they follow what price increase Tata gives, we hardly supply to Tata, so one of the other big boys negotiate with Tata that becomes one set of price increases. These separate negotiate with the key OEMs that we work with. Hero Moto Corp, Maruti and Bajaj and Hyundai, so it is a little complicated industry the way and everybody looks at what each other has given, everyone waits for the first person to blink that show dancing is currently going on. One of the OEMs has given Rs.4300 price increase.

Saurav Ginodia: Can you name the OEM?

Sachit Jain: No we cannot.

Saurav Ginodia: Thanks a lot. Thank you.

Moderator: Thank you, Ladies and gentlemen, as there are no further questions from the participants, I would like to hand the conference over to the management for their closing comments. Thank you and over to you.

Sachit Jain: Ladies and gentlemen thank you so much for your patience and in all probabilities in February after our third quarter we would like to have a physical meet in Mumbai rather than a concall, so hope to see some of you folks there then. Thank you.

Moderator: We just have one more question. It is from line of Vinit Gala from Tantomath Fund Managers LLP. Please go ahead.

Vinit Gala: So just wanted to ask like how would our cash flow from operation get affected like what we are seeing is that we will build up our inventory right so the other thing is we do not have much control on the debtor side, so like how would our cash flows got affected?

Sachit Jain: Yes, we are improving our debtors, once we are tightening our cash cycle on that front plus we are also increasing our creditors wherever possible so we are working on increasing our financing from these two sides. We are committed to an EBITDA to capital employed target of 18%. While we are focused on the EBITDA per tonne and the tonnage we are also focused on the return on capital employed, so 12.5% was the EBITDA to capital employed of last year and we have already shared that our target three years from now is 18%. We expect to increase volume as well as improve the returns on this business, so our target is 18% EBITDA to capital employed and we are reasonably confident of achieving that number.

Vinit Gala: Thank you sir. That is it from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question. On behalf of Emkay Global Financial Services that concludes this conference. Thank you all for joining us. You may now disconnect your lines.