"Vardhman Special Steels Limited Q2 & H1 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Vardhman Special Steels Limited Q2 & H1 FY2022 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 the 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: Good afternoon, everyone. Thanks, Lizann. On behalf of IIFL Securities Limited, I welcome you all to Vardhman Special Steels Limited 2Q FY2022 Results Conference Call. From the management side today, 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 Urvil and thank you for being with us on this call today. We had a decent second quarter and though as you would have seen our performances were a little lower than what it was in the first quarter. Production was lower for two reasons; one we had massive power cuts in the month of July, ten days power cuts because of delayed monsoon and the power being transferred to the farm sector and also we have had muted demand, two wheelers as you all are aware are not doing as well as they should and cars though the demand is good but because of chip shortage, the volumes are lowered from production point of view and therefore offtake from us for cars is lower than what we were expecting.

Having said that our EBITDA per ton for second quarter was around Rs.11200 we still maintain going ahead, please do not multiply this by four to come to expected margins for us. We believe the normal range is Rs.7000 to Rs.10000 as of now and for the third quarter we have asked for price increases. If some of you have seen my CNBC interview a short while ago, we have said that that we have asked for price increase of Rs.7300 from our OEMs and let us see what response we get back.

What we are hearing is of course the chip shortage might get over by March or so and we expect things to start normalizing beyond that and still as a whole for this year we stand by our original forecast of around 165000 tons or just below that and our expansion plan is on track, our relationship with Aichi is on track.

Lots of developments are happening, lots of enquiries coming from other OEMs, other Japanese customers, not necessarily though Aichi but we know indirectly they are coming because they know that Aichi is with Vardhman, so those advantages or spill out advantages seem to be coming in.

One interesting thing that we have had in this quarter, we as you would recall we were off late targeting EBITDA on capital employed and we were saying that our target will be 25% for the year 2024–2025, EBITDA on capital employed. When we say capital employed into our net capital employed without the FDs and deposits to the electricity board that is interest bearing. I am happy to report that in the trailing 12 months we have crossed this over 25%, so we have done better than what we were expecting or let me say earlier that what we were expecting we have achieved this benchmark, so I must compliment my team doing good job out there. Our CFO – Sanjeev Singla is down with dengue, so he is not on the call today. On the call, with me are my daughter, Soumya, Sunil from our finance & accounts department and Gagan from MIS and the Company Secretary, Sonam. So, I will ask Sunil to quickly take you through the numbers and then after that I may take questions.

Sunil: Good afternoon, everyone. I am Sunil from Vardhman. I am going to present the key financial highlights of the company for the first half and Q2. In the Q2 of FY2022 sales volume were 43283 as against 43986 of corresponding quarter of last year and there is a little bit decrease. While comparing to half year of the 2022 volume is 86988 as against 56473 for the corresponding last year.

Last year first two months were completely washed out due to nation-wide lockdown, so figures are not comparable up to that extent. Now, coming to revenue, revenue for the Q2 is Rs.335 Crores as against Rs.247 Crores of corresponding quarter and Rs.330 on the previous quarter. The half year revenue increase is Rs.665 Crores as against Rs.314 Crores of last half year, so it year-to-year growth of 100 BPS however, EBITDA is 48 crores as against 26 crores of corresponding quarter and 53 crores of last quarter and YTD EBITDA is Rs.102 Crores as against Rs.19 Crores in first half of the last year and PAT stood at Rs. 24 Crores as against Rs.9 Crores of corresponding quarter of last year and for half year it is Rs.52 Crores as against the loss reported of approximate Rs.4 Crores in the first half of FY2021. So, per ton EBITDA is around Rs.11200 Crores as against Rs.6000 Crores in Q2 FY2021. So, there is comparatively high digit and that is it from the financial point of view and for any queries you are most welcome.

Sachit Jain: Ladies and gentlemen, we are ready for questions I am here to take your questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Shalini Vasanta from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: Sir, good afternoon this is Vivek Ramakrishnan. I had two questions, first in terms of how are keeping the volumes going despite the fact that the production of the various auto companies are lower, it seems both in India and abroad. So that is question number two is, you said that you will be building up inventory for the November shutdown does that explain the increased inventory for the current quarter? Thank you.

Sachit Jain: Thank you for your question. One we have scrambled for orders when the markets are down and team has done a good job as I said earlier, so we found some orders which are not part of our normal markets, we are not obligated to continue selling in those markets and luckily, we got them at decent margins also it is not that we set at huge margin problem. So, that is the reason for the volumes being normal and that is why we are sticking with our forecast that we should cross 165000 tons for the year unless of course in a further massive drop happens in the markets that we are expecting to cross 165000 tons for the full year which means we are expecting the next half also to be pretty decent. The second question is regarding the shutdown, shut down is going to be from 25th November to 10th December because of 15 days shut down we clearly have built up extra inventory of billets, also some old products because if flexibility goes down when your furnace is stopped so we have built that extra stock of old products also. This explains part of the inventory increase. The other reasons for inventory increase are we saw an arbitrage opportunity as there was a difference in various raw material prices. So, we have used this opportunity to buy excess raw materials which is going to carry on into part of third quarter and that is the reason for excess inventory. This will gradually get liquidated partly over third quarter and fully by the fourth quarter. So, by the end of the financial year we should be back to normal inventory levels of raw materials, billets as well as finished goods and in addition the graphite electrode is other area, we built up a very large inventory because you saw the price is going up, so we have some cushion in graphite electrode also.

Vivek Ramakrishnan: Thank you when you answered all my questions. Sir, just one question the last one, what about the risk item, I mean the prices are very volatile. Do you end up carrying a price risk on the extra bit of inventory and do you calibrate in terms of how much risk you can take, I am sure you do that, I just wanted to know how you do that; for example this same material that you bought the price has come down what flexibility do you have?

Sachit Jain: So, of course there is a risk of prices coming down and therefore a loss on that account, so that risk is always there. But I believe this was a reasonable risk that we have taken and in any case because of physical limitation of how stock you can store it is not as if we have six months inventory and things like that. So, the inventories will only continue into the third quarter, by end of third quarter we would be very close to normal if you stop buying today and we will spill over it partly to part of fourth quarter if you continue buying some quantities today.

Vivek Ramakrishnan: That is reasonable. Thank you, very much and good luck.

Moderator: Thank you. We will move on to the next question that is from the line of Devang Sanghvi from ICICI Direct. Please go ahead.

Devang Sanghvi: Good afternoon, Sir. Congratulations on the good set of numbers and thanks for taking my question. My first question is regarding the power supply concerns which you eluded in the commentary has that been solved, and we are operating at optimum utilization?

Sachit Jain: The power crisis is solved. That happened only in the beginning of July, monsoon was delayed and that is paddy sowing time. So, the governments focus and rightly so, were all of the farm sector, so we cannot blame the government for taking that action that was a major crisis. That because there was slow down in the auto sector, we did not get too badly affected it terms of sales.

Devang Sanghvi: Right Sir, now we are at optimum utilization?

Sachit Jain: As I said because demand is low, we are running at lower than full capacity, but we are pretty close to full, but not running at full capacity.

Devang Sanghvi: Right Sir. Okay, sir my second question is on the demand side. Two wheelers were the weak segment in H1 do you expect some signs of recovery out there?

Sachit Jain: As of now OEM leaders are not able to make those forecast correctly how are we to make those forecasts so, we are taking it as it comes and as I said we do believe that we will cross 165000 tons for the full year and we hope that next year is going to be a better year from demand point of view and in any case towards the end of next year some demand from our development is going to start coming from our export markets and 2023-2024 onwards we are going to see more demands coming in there. So, we believe that there is only one year of so-called uncertainty where we are largely dependent on the domestic market. From 2023-2024 onwards our export demand will take off and then the way I feel 2024-2025 we are going to have a capacity problem.

Devang Sanghvi: Great it is good to hear. On the export side what would be the export volume in H1 or Q2 whatever we have at the moment, handy?

Sachit Jain: We have not shared those figures just now, but it is small, it is not huge.

Devang Sanghvi: Lastly the electrode pricing what else just quarter-on-quarter uptake, so we have the inventory at the moment and what would be the spot pricing at the moment just number on it?

Sachit Jain: See the spot pricing today of shredded scrap is about $552 and sponge iron is about Rs.36500 or so landed around that those are the numbers, we do not share the price about.

Devang Sanghvi: No, it is not and the electrode part I was asking the graphite electrodes spot?

Sachit Jain: Electrode I think it is about 285. I am sorry I am not checked it that figure, 295-300 around that per kilo. Take that as an approximate number.

Devang Sanghvi: Yes, that is only the ballpark number only. My last question is regarding this volume guidance 165KT what you have given, and we have already done 87KT in H1, so there is an upper lift to your guidance if the demand recovers?

Sachit Jain: That is why I said we will cross 165k and very difficult to make that prediction just now by how much will we cross.

Devang Sanghvi: Right sir, I got it. Thank you, sir, and all the best. Thanks for answering my questions.

Moderator: Thank you. The next question is from the line of Noel from Ashika Group. Please go ahead.

Noel: I just wanted some clarity regarding raw material sourcing this is primarily scrap?

Sachit Jain: We use a combination of materials. There is scrap and there is derivatives from the iron ore route, things like sponge iron, pool iron and beach iron, pig iron, pig iron chips. So, there are the combinations of materials that we use and then within scrap we have shredded scrap, heavy melting scrap, turning and borings, end cuttings, so there is a whole variety of mix that we use and depending on relative prices at that point in time we do vary the mix that we use.

Noel: So, the mix is dependent on whatever the pricing at that particular point in time?

Sachit Jain: That is one part of it and second is that the need for production, because some offtakes or some elements of the raw material mix is very cheaper. But the yield is lower, and the production gets affected you have lower production. So, if like currently production demand is lower than our capacity, we would be shifting our mix to a lower cost mix and the demand of productivity happens when the productivity demand goes up then we will shift to a faster melting mix which may be little more expensive. So, this is a dynamic decision and we take every week, ten days we look at the relative prices, relative demands requirements and availability and fortunately we have moved in the last one and half years we have strategically moved far more to locally available scrap and that gives us a flexibility of making those changes. Earlier we were all dependent on long distance scrap so even if you wanted to make your changes these were not having the flexibility of taking those changes.

Noel: Just one last question, regarding the power sourcing right now it is being sourced via the grid?

Sachit Jain: We always source from the grid, not only right now we are always sourcing from the grid.

Noel: So that will be whatever the rates prevailing at that time as per the Discom?

Sachit Jain: Exactly.

Noel: That is all from my side. Thank you.

Moderator: Thank you. We will move on to the next question that is from the line of Yash Sarda from Diwa Capital. Please go ahead.

Yash Sarda: Good afternoon. In your investor presentation page 32 you have mentioned a line stating a target from where Japanese quality steel in India for Indian auto majors. So, could you throw some light on what exactly that is and how much efficiency or the reduction in cost you expect from the same?

Sachit Jain: So, the Japanese quality steel that we are talking there are various quality parameters that those companies require. So, companies like Toyota they have very strict quality parameters, and some are mix of quality that nobody else in India has ever ask us for. So, those are the kind of things we have to develop and that is the whole that is why we have said though our partnership is Aichi started two years ago now and our target is only now we are making samples and even then, to reach the production ability to make those on a regular basis it will take another year and half or so. So, that is why I said that any benefit from Aichi that we are likely to get is likely to come only from the year 2023-2024 but primarily from the year 2024-2025. This is why we have said that by 2024–2025 we will get the full benefit of Aichi relationship that means the newer businesses and the Southeast Asian market as well as extra volume that we will get because of capacity enhancements. So, we have said that by 2024–2025 we expect our EBITDA per ton to shift from the current range of Rs.7000 to Rs.10000 we expect it to be Rs.10000 to Rs.12000 at a higher volume by that time.

Yash Sarda: Okay, and my second question was, you are planning to increase the export from the current 1% to 23% - 25% over the next four years, so what does the marketing spend which we are doing currently and how much do we are trying to do in the next two years?

Sachit Jain: There is no marketing spend.

Yash Sarda: As of now, okay.

Sachit Jain: No, there is no marketing spend, we are not a consumer product. So, some travel expenses will increase and those are low just now because of COVID restrictions, no overseas travel. So, clearly overseas travel will increase and so TA is usually I suppose we have marginal impact, and some admin cost will increase because of that. But beyond that I do not see, there were travel and hotel expenses those will go up.

Yash Sarda: Okay, thanks. That is all I had.

Moderator: Thank you. The next question is from the line of Ankit Redkar an Investor. Please go ahead.

Ankit Retkar: Good afternoon, Sir. I have a couple of questions; my first question is as we can see the inventory level is high in the balance sheet due to the plant shut down in November. So, have you plan to manage demand during shut down?

Sachit Jain: That is why we have high inventory that we will be able to cater to whatever demand comes up. We are not expecting any loss of sales because of the shutdown.

Ankit Redkar: Sir, there is decrease in the raw material cost as a percentage of sale in spite of increase in sales. So, what basically is the reason?

Sachit Jain: The reason is that when we have increased the price of materials of the finished products that is based on raw material prices but then there are commercial, we have been lucky and our calls were right we had raw materials at lower cost and that is why raw material as a percentage of sales has gone down perhaps and that is one explanation I have, I do not know whether it is right explanation but very clearly our margins are higher than a normal margin because of valuation gains and finance guy is nodding his head that means my answer is correct.

Ankit Redkar: As far the new expansion plans, how do we plan to fund the capex, and will there be any equity dilution?

Sachit Jain: This capex that we have announced is around Rs.250 Crores in the next five years. This capex can be funded with internal accruals than incremental debt. We do not really need any equity dilution to fund this expansion; however, we have bigger plans which have to be now time has come to start thinking about those as and when those plans get formulated and we start taking decisions on that then and very clearly within the next three year to five years we will be taking those decisions and once we take those decisions clearly those decisions require larger capital and therefore there will be need for capital dilution at some stage. That stage is not just now. It is a second point and the third point is that our partners own just 11.4% in the company and very clearly it is their intention and our intention that they increase their stake because that shows more seriousness to the Japanese OEs, towards our group and other companies that Aichi is more serious towards India and to other companies and they are showing their seriousness in putting in some more money. If and when they decide, not if when they decide to increase their stake because it is clear that they will, we are open to that, so when those discussions happen then there could be some dilutions as a preferential issue to our partners but there are no plans to come into the markets to raise any capital at this point in time with the existing announced capex plan. If the plans change as I said in point number two very clearly, we will need to have more capital raising.

Ankit Redkar: As per the last concall the Japanese team was supposed to fly to India to discuss the further plans. So, is there any update on the same?

Sachit Jain: Yes, two members already here and they are the operating people, and the senior people are going to come in the middle of November, so discussions will happen in November and December. So, perhaps by that time we have our next call of clearly at the end of when we have our annual call by then definitely, we will have more updates. Very clearly there is a need to increase our capacity beyond 2024–2025, so very clearly this is visible to all but as I said the enquiries that I am seeing based on that our export business can be between 70000 and 100000 tons. If you are currently let us say 165000 tons or 170000 tons that we do now in the next three four years the domestic market itself will grow it may grow to cross 200000 tons when you add 200000 tons or 220000 tons, when you add 100000 tons of in business, we are talking very clearly of a demand of 300000 tons to 350000 tons where our capacity as I said will be between 230000 tons to 260000 tons we will be clearly short of capacity. So, at what stage do we take a decision to expand capacity, or the other alternative will be to start cutting the non-profitable out there the less profitable businesses and we will start cutting those businesses. Those are alternatives when they in all profitability we will go in for expansion.

Ankit Redkar: So, Sir one last question, how do we anticipate demand keeping in mind as you can see the slowdown in auto industry, what are your views on the industry look like at this moment?

Sachit Jain: See we are a small player supplying steel to the large auto OEs, so what is the situation of auto demand it is better to be answered by the auto OEs and SIAM and so on. From what I have read and what I have understood, India is going to start growing at next 30-40 years is going to be phenomenal time to be in India and that is what all reports say, all experts say with the China plus one strategy coming in many company, so we are seeing a surge in exports across textile operations, as that Vardhman Textile Group company, we will see a massive demand in terms of yarns and fabric also the demand is improving from where it was. So, every sector the exports are booming, with the exports are booming very clearly growth is going to come in and if growth is going to come in demand for auto cannot remain far. The other part is that despite this massive increase in steel prices, Indian steel prices are still significantly lower than American steel prices, European steel prices and therefore very clearly, we have seen bigger enquiries coming in from our tier-1 customers for export orders. So, the auto component exports just one customer friend of mine who was sharing with me that earlier he used to get three enquiries to four enquiries per week, now he gets three enquiries to four enquiries per day and his view was he is unable to handle the flood of enquiries. So, all this is real time happening, which means that I see demand in three parts; one is demand for the Indian auto sector, which will revive the Indian economy growing. Second part of demand is for our exports, for which are developments were happening enquiries are coming and feel that strong. The third part of demand would be a significant increase in auto component exports from India and therefore demand for steel and the fourth would be railways, we are already supplying to the railways. Our customers are happy and we will be trying to increase our share in the railways and of course I need to mention out here EV is the other area we have already started supplying for EV usage to some of the key customers we are seeing a massive demand in that area. So, very clearly as EVs grows and some of us as we are aligned with the right customers as their demand is growing, we see a pretty big increase in our EV related business and hopefully a year from now we will start reporting separately at least in our annual report what is our outlook for our business for the EV segment.

Ankit Redkar: So, do we see the current volume of 43000 tons sustainable in the coming quarter?

Sachit Jain: See, I am not giving you a forecast the next two quarters, but these numbers are clearly sustainable. If in fact I say next year very clearly, I see next year also 175000 tons to 180000 tons kind of sales as a reusable possibility.

Ankit Redkar: That is, it from my side. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Rohan Mehta an individual Investor. Please go ahead.

Rohan Mehta: Good afternoon, Sir, and congratulations on a decent quarter. Sir, you mentioned earlier about export contribution being relatively small do you have any vision as to what would be a good target in terms of export contribution to the revenue the next half year or next year?

Sachit Jain: No, just now there is no major change. 2024 – 2025 we expect it to be 25% to 30% of the sales.

Rohan Mehta: Okay, so that is the kind of growth you have any geographies in mind where because right now you mentioned it is relatively small to reach 25% of total revenue do you have any geographies in mind?

Sachit Jain: South-East Asia, Thailand is the main market and then Philippines, little bit Indonesia, little bit Malaysia.

Rohan Mehta: As you mentioned about raw material prices it has been the talk recently. So, the price hike that we have are we expecting another one in the near future and the raw material prices if you see it going up again because right now despite flattish tonnage, our realizations have improved quite a bit so what would you see on that aspect. Would realizations be at the current levels or if raw material continues to increase then realizations may tend to decrease, so what are your views on that?

Sachit Jain: I am making a forecast and that is wrong to make such forecast but I believe raw material prices are near their peak, I mean little bit of fluctuations up and down can happen. But to expect that raw material prices are rise significantly from these levels, I would be surprised. Again, I am saying I am hazarding it is a pure guess work because we are near, and I think we are already at all time high as far as sales, scrap is concerned. I will not all time high but near all time high, so these are like really high prices and demand is not so strong globally, so we think that prices continue rising significantly probability seems to be low. As far as third quarter is concerned we have asked for the price increase of Rs.7000 plus so let us see what we get just now negotiations has just about begun because letters have gone out to the customers, customers are adjusting with kind of increase, because this is not easy for the automobile OEs to take because they are not as strong and they all feel that the costs have gone up, so they all see that this is going to happen that once the negotiations happen we will get the call where we reach. So, realizations the way I expect, realizations per ton will be higher in Q3 than Q2 and in my view should make up for the increase in raw material cost but will be more at this point in time this is the hope, and I would say expectation.

Rohan Mehta: Okay fair enough, I got it. So, this higher realization that we have got even higher EBITDA per ton that we have seen is it solely due to the price increase or had that some factor of bright bar sales may be contributing little more has that also play that role in this?

Sachit Jain: No, this is very difficult. We do not analyze that mix so well but otherwise second quarter actually the price bar sales have dropped higher than the other sales so, it is more result of the price increase.

Rohan Mehta: Okay, understood and the RoCE levels also right now around 19% odd which excludes the benefit from Aichi, so can we estimate give or take on the same levels this year or you are expecting little more?

Sachit Jain: RoCE as EBIT to capital employed it should be about 20% for this year.

Rohan Mehta: That would exclude Aichi's benefits, right Sir?

Sachit Jain: There are not any Aichi benefit this year, you may call it excludes Aichi benefits in that sense yes excludes because there are no significant benefits of Aichi this quarter because the benefits of Aichi today are about cultural, safety oriented, approach to problem solving and so on, it is very difficult to quantify those benefits. The real benefits from Aichi will come when this new business starts coming in which I said this start from 2023–2024 and really 2024–2025 that will take off. I am sorry. I do not know it was your question or the previous question about exports. The only reason we are talking of with such confidence i.e., jump from about 4% to 5% share as of exports to 25% exports in about three years or four years, it is only on the back of Aichi otherwise if Aichi was not there we would still be maybe 5% or go to 7% or something like that.

Rohan Mehta: Understood. Sir, you had mentioned once earlier that we would get access to the South-East Asian markets also due to our tie up with Aichi.

Sachit Jain: Yes, the real benefits from Aichi are in product development and cultural change we are already getting the benefits and we will get more benefit as we go about. Cultural change includes safety. The safety orientation is huge. So safety, second is problem solving, third is the data, orientation data analysis. Fourth is involvement down the line with workers, we already have the strong culture but that they have made it even stronger than that. Fifth is the term called consciousness where everyone feels the sense of empowerment ownership belonging, all those areas the software areas already benefits have come in what more has there and some will be coming. The second aspect is the doors that they have opened for us, so for those doors that open now sampling has begun and every week samples are going to some customers or the other any new enquiries that are coming in constantly. I am seeing the RFQs myself as normally those will not come to me but because with huge flood of orders and enquiries so, very heartening to see those developments. But those because there are some factors are growing, the samples are growing, then sample will go get tested and parts will be made and tested and come back and once approved then we will get trial orders. Once those trial orders go, they get approved and so on and then after that we will start small orders. So, 2023–2024 the small orders will begin and then 2024–2025 onwards we will be in the mainstream. It is a long process, and this is massively short cut process because of Aichi, so another Indian steel company will not be able to reach where we have reached.

Rohan Mehta: Yes, absolutely right, it is really great to know these benefits from Aichi even the non-financial benefits which will fructify in the long run.

Sachit Jain: Yes, I am very confident that they will, not probably, they will.

Rohan Mehta: Of course, totally. Sir, just wanted to know your take on the PLI scheme if we are going to benefit from it over the next five years?

Sachit Jain: The PLI scheme has it came out was not going to benefit us and then on several representations and in fact us meaning nobody in the industry who are going to apply at least on the automotive side because the way the scheme was planned, all of us were excluded from applying, for the conditions were such that none of us would have applied. What I learned is that they have made some changes in the scheme but I was busy for a board meeting yesterday, there was a call on PLI yesterday I had not attended it, so I will come to know in a day or two whether the changes have been made, what I understand some changes have been made, are they beneficial to us now or not I will come to know. So, I am sorry I cannot answer that question as of today.

Rohan Mehta: No problem, Sir. If one last minor query from my end, we notice that short-term borrowings have shot up a little bit since March is it only for working capital or where exactly were the funds employed and this interest cost has been flat if not decreased, so if you could just shed some light on that, please?

Sachit Jain: Yes, the short-term borrowings are increased for three reasons; one of course for the funding inventory, second is we have put in a deposit with Punjab State Electricity Board which gives us an interest rate of 7% on deposits and across the boarding days below than

4% so that is one of the arbitrage over there and third we have prepaid some long-term loans, so few installments of long-term loans that is also being done of course it is a combination of cash accruals and short-term borrowings which we also fund these things.

Rohan Mehta: Got it. So, Sir next quarter would be interest cost higher?

Sachit Jain: Interest cost are not going to be behind and inventory levels are going to start dropping so you will see lower inventory levels on December 31, and therefore lower borrowings on December 31, on short-term side. However, now our capex for this year is going to commence we will figure out how we are financing that, so maybe some long-term borrowings may come in but otherwise some cash accruals we will be funding this and that is what we have fixed deposit of Rs. 47 Crores is still pending with us we will be liquidating that.

Rohan Mehta: Okay, understood Sir, got it. That was all from my end and all the very best. Thank you.

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

Rohit Ohri: Sir, continuing with the question on PLI from the earlier participant, which of these categories would we be kind comfortable with secondly is the coated steel where resistant alloy steel still or electrical wire?

Sachit Jain: Only one category steel for Powertrain.

Rohit Ohri: Okay, and if you can just give a breakup between the auto and non-auto?

Sachit Jain: Almost 100% is auto grade steel for us.

Rohit Ohri: Are we not seeing any opportunities in special grade of steels for the defense or petrochem or energy industry?

Sachit Jain: I am sure there are opportunities there. When we see enough opportunities in our own areas, it does not make sense to start supplying to other areas. We will look at other areas when we see that growth in our area is going to be muted. That is how we have seen massive growth and we have seen impact as I said earlier, we have seen capacity problem coming up in our areas, it does not make sense at this stage to waste our efforts to looking for other opportunities. So, we are a focused company, and we would like to work in a focused way.

Rohit Ohri: Sir, last question is relating to the cost of the management on patenting certain grades of steel if you can take us to that?

Sachit Jain: As of now no plans on any patenting.

Rohit Ohri: Thank you.

Moderator: Thank you. The next question is from the line of Kunal Shah an Investor. Please go ahead.

Kunal Shah: Sir, congratulations for the fantastic results. I just wanted to know your inventory is well enough for 15 days shut down?

Sachit Jain: Yes, we are very covered for shut down.

Kunal Shah: Okay, Sir so that we can see the next quarter result also like this?

Sachit Jain: Difficult to say because as I said the raw material prices are higher than what they were so depends on what price increase gain from our customers.

Kunal Shah: On topline?

Sachit Jain: Topline could be similar. It depends on again the exact volume that has happened that will be similar; I mean order of magnitude should be similar. So, I say it will be more or it is same or marginally less but similar order of magnitude and just to give a better understanding, 2nd quarter volumes are 43000 tons, so third quarter will be between 40000 tons and 44000 tons.

Kunal Shah: Thank you.

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

Vipul Sanghvi: Good afternoon. I just wanted to know during the first six months of the current financial year what is the total quantum of price hikes that we have taken.

Sachit Jain: We had a price hike of around Rs.6000 in Q1, so Rs.5950 somewhere, Rs.6000 somewhere, Rs.6700 somewhere, so I mean around let me say Rs.6000 the majority of chunk was Rs.6000. That is in Q1, and Q2 I would say Rs.2000. Some customers given more and some customer has not yet given any hike, but I would say Rs.2000, I would say Rs.8000 would be a good estimation for the price increase in first half.

Vipul Sanghvi: The one that we are planning will be averaging about Rs.7000 – Rs.7500 in Q3?

Sachit Jain: That is what we are asking. I am not saying we are going to get that.

Vipul Sanghvi: Sir on the five-year expansion plan the Rs.250 Crores capex that would take our capacity to what?

Sachit Jain: The license that we have got is of 280000 tons, realistically we are planning about 250000 tons of steel making and rolling of 230000 tons and then we start working on small improvements in capacities and hopefully over the next few years after that the capacity will keep rising a bit but to the fortified calculations, I would look at 230000 tons of rolled product as our capacity.

Vipul Sanghvi: Sir, this license also means we have environmental clearance, right?

Sachit Jain: Yes, license means environment clearance for 280000 tons. See last time I made a mistake that we had estimated we would go up to 200000 tons that it is not possible to go beyond that if you took a license of 200000 tons and once, we reach near 200000 tons we found we will go to 240000 tons, and we were stuck. So, we took a license of not 240000 tons but 280000 tons which means taking the license and we already found that we could go to 250000 tons or 255000 tons probably that was what we were estimating. So, as we get closer as the capacity gets completed and people start working on improvements, we will have to go for approval also. But for calculation purposes 250000 tons of steel making and 230000 tons of rolled products.

Vipul Sanghvi: Thanks, and all the best.

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

Ritwik: Sir, good afternoon. Just one clarification plus confirmation on the expanded capacity we will be ready by December 2022 is that understanding right?

Sachit Jain: Correct. Yes, will be ready by December 2022.

Ritwik: Yes, and then the ramp up as and when it takes?

Sachit Jain: Yes, the volumes as they go up, we set to fill up this capacity by 2023–2024 or 2024–2025.

Ritwik: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Avinash Gupta an Investor. Please go ahead.

Avinash Gupta: Just one little clarification. My question is that in the times like this with the raw material prices are fluctuating so much how much does our margin vary because of the margin that is the gross margin rather and how much time does it take pass on gross increase and the drop in gross margin to the customers and there we get a kind of equilibrium?

Sachit Jain: Very difficult to answer that question as to when we will get the equilibrium because since September of last year, there is prices are rising continuously, so normally equilibriums happen very fast because these kind of changes do not happen, I have never seen, I have been in this industry 11 years, I have not seen these kind of price increases, Rs.6000, Rs.4750 that we got earlier, so these kind of price increases we have never seen before. So, this is unchartered territory and very difficult to predict and when the demand is high then the price settlement happens faster because people are afraid that the prices will go up even further, raw prices when we ask that we have could increase later in the quarter. So, all depends on and today because the demand is not so strong then the attempt will be for the auto companies who will delay the settlement as much as possible and we hope that if the raw materials prices go down a bit, they will get a lower increase what we are asking for. This is all a matter of negotiations, cat, and mouse game, who blinks first, all those kinds of things, who needs it more and so on. Fortunately, for us our costs have increased less than our competitors on the class of repute. So, there are other people pushing for a bigger increase than what we are asking for, so we are sitting at this point in time re-delegating nine years we suffered this year we are enjoying.

Avinash Gupta: Thanks a lot. Got the idea. Thanks a lot.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Sachit Jain: Ladies and gentlemen, thank you once again for showing your interest in our company and of course it is nice to be talking to you every quarter and I hope you got to see our annual report because that conveys some of my views which had not been asked today and talks about our thoughts process and our philosophy of how we are managing our business. I look at our shareholders as part owners of the company and as our partners because I have a very frank conversation with them through that annual letter and I hope we can have a physical conference soon because COVID seems to be over for now and if January situation remains just the way it is there are the reasonable chance for investor relations firm, Bridge who are also here they recommend and we get a reasonable confirmation, there is a chance that we might actually have physical conference either in

January or sometime in May. That is something that I would like to do to physically meet some of our investors and analysts. Thank you all for showing interest in the company and we will see you in January either on the call or physically there. Thank you so much.

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