VARDHMAN SPECIAL STEELS LTD.
A COMMITMENT TO QUALITY

"Vardhman Special Steels Limited Q3 FY '22 Conference Call hosted by IIFL Securities Limited"

January 31, 2022

VARDHMAN SPECIAL STEELS LTD.
A COMMITMENT TO QUALITY

IIFL SECURITIES
(Formerly India Infoline Limited)

CHORUS CALL®

MANAGEMENT: **MR. SANJEEV SINGLA – CHIEF FINANCIAL OFFICER, VARDHMAN SPECIAL STEELS LIMITED**
MS. SONAM TANEJA – COMPANY SECRETARY, VARDHMAN SPECIAL STEELS LIMITED

MODERATOR: **MR. ANUPAM GUPTA – IIFL SECURITIES LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Vardhman Special Steels Limited Q3 FY ’22 Conference Call hosted by IIFL Securities Limited. As a reminder, all participants’ 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 ‘*’ and then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anupam Gupta from IIFL Securities Limited. Thank you and over to you, Sir.

Anupam Gupta: Thanks Faizan and Welcome everyone to the Q3 FY ’22 Results Call for Vardhman Special Steels Limited. From the Management, we have Mr. Sanjeev Singla, CFO, with us for the call. I will hand it over to Mr. Singla for the opening comments and then we can have the Q&A. Over to you, Mr. Singla.

Sanjeev Singla: Thank you, Anupam. Good afternoon everyone and thank you for joining earnings call for the Quarter-3 and nine months period ended December 31, 2021. Mr. Sachit Jain is not able to join the call because at the last moment he was not feeling well and he has apologized for that. With me is Sonam Taneja, our Company Secretary, and our Bridge IR Investor team. I must say though the profitability in the Quarter-3 is comparatively lower than Quarter-2 as well as corresponding quarter of the last year, but still considering the overall market scenario in the passenger cars as well as the two wheeler industry, I must compliment to my team that we have done wonderful. During this quarter, we have been able to achieve close to 45,000 tons of sales slightly lower than the corresponding quarter of last year, but again higher than Quarter-2 numbers. Total revenue is on higher side 359 crores as against 287 crores of the corresponding quarter mainly because of the higher realizations, price increases we have received from January 1st, then April 1st, then July 1st, so on quarterly basis, we are regularly getting the price increase. Finally, we ended up this quarter at 19.47 crores of PAT as against 21.67 crores in the Quarter-3 corresponding last year.

Coming to the major developments happened during the quarter, that during this quarter we had successfully completed the plant shutdown of 15 days in our steel melt shop upgradation. In this shutdown, we have been able to remove the debottlenecks in the CCM, concast machine, so this has been completed successfully. After that, it took little stabilization period and now the things are getting stabilized, so most of this CAPEX in this SMS has been funded through redemption of FDR worth Rs.15 crores and to that extent our FDR investment has come down, so with this I must say that our capacity of steel melt shop now stands increased to 250,000 tons in a year. Corresponding to this, we have already undertaken the expansion plan for our rolling mill to match the production capacities and for that necessary capital orders have been placed, and hopefully, we will be taking shutdown for our rolling mill in the month of November and December ’22. Here I must say that during this shutdown of steel melt shop, good support from Aichi Steel Corporation, their senior team & their operating team, all were there posted at VSSL and apart from that they have also sent one person, Mr. Sakai San, who is expert in CCM. The entire project work of the CCM upgradation was under the supervision of Aichi’s team and our team has learnt so many things from the Aichi we are working which we are talking always, so practically our team has learnt many things from Aichi way of working during this practical implementation of project execution.

Overall, industry scenario is still low. Festive season have not well. During Quarter-3, if I will say that Quarter-3 there is more than 20% decline in two wheeler industry demand and more than 12% is the decline in the passenger vehicles, so one is the demand factor and other is because of the chip shortage also. We had already built up the inventory for this shutdown and most of the inventory has been eaten up, but still some more inventory reduction will happen in the Quarter-4. In Quarter-3 considering the inventory buildup, we were operating almost at the full capacity but in Quarter-4, we will have to take maybe 15% to 20% of capacity shutdown because of the lower orders, still we are expecting that with the ease of this chip shortage and going forward because of this Omicron variant specification then we are expecting that now the sales momentum will again pick up. That is all from our side on the performance as well as on the major developments happened during the quarter. Now, we are open for the questions. Thank you.

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

Vivek Ramakrishnan: Sir congratulations, given everything it has been great performance, my question was on the inventory levels and borrowings, in your remarks also in the presentation you had said that the capital employed has been higher, so when will the inventory level and borrowing normalize to what we saw in March '21, so do you expect that with the planned shutdown and slowdown in capacity utilization, it will come back to March '21 levels by end March '22?

Sanjeev Singla: Yes, in terms of quantity, I agree with you that by March '22 it will be at the same level as we ended at March '21, but in terms of value it will be higher because since then more than 20% values have risen in raw material as well as in debtors, so to that extent it will be higher, otherwise in quantity terms it will be almost at the same level as we ended in the last year.

Vivek Ramakrishnan: Sir, just one more follow up question on Aichi and great to see the progress, in terms of the export plans and so on what you guided in the beginning of the year that it is like a two-year timeframe still holds, nothing is accelerated significantly, correct?

Sanjeev Singla: Yes, that the process is already on and our samples are going to the Southeast Asia companies, their subsidiaries companies in the Southeast Asia, so we are awaiting for the approval of our samples, then bulk samples will go, then I think by next year FY'23-24, we will start supplying.

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

Ritwik: Thank you for this, Sir first a clarification you mentioned that we will have to undertake 15%-20% capacity shutdown in Q4 FY '22, so will this impact the sales volume in Q4 FY '22 or the inventory that we have will be sufficient and that is why we are looking to reduce production, so if you can clarify on that?

Sanjeev Singla: Yes, there will not be any impact on our revenue because we will be eating up from the inventory.

Ritwik: So follow up on this, you mentioned that scenario is still soft for two wheelers and four wheeler to some extent because of chip shortage, I believe Q2 and Q3 also had the same situation, so despite this we are selling all our volumes, so have we gained some market share in existing customers or new clients that we have added or new applications like rails which you have been mentioning has started increasing the volumes, so if you can throw some light because despite two wheeler and four wheeler, we are doing well on the volumes front especially?

Sanjeev Singla: Yes, you are absolutely right, we have already started working to add some more customers because immediately it is not possible to add any major customers which are OEMs, but yes on tractor market and commercial vehicles, there is always an option with us where we can sell though it is on the lower margins, but definitely we can safeguard our volumes, but at the same time little lower margins.

Ritwik: So basically, we have been selling to tractor and CV as two wheeler and four wheeler was soft and that has compensated for the volumes?

Sanjeev Singla: Yes, going forward as and when this chip shortage and momentum in the demand will be coming from the Quarter-1 next year, so again we can discontinue because that is the business which is on order based business only, so we are not bound to continue that type of business.

Ritwik: So once demand comes back, we will shift back to two wheeler, four wheeler which is higher margin for us?

Sanjeev Singla: Yes, definitely, and this quarter Maruti has started operating at a higher capacity though they were operating at a lower capacity up till Quarter-3, so from this quarter they have increased the capacity utilization also, so with further chip shortage or ease out pressure of chip storage, we are expecting that. The momentum will again be built up from Quarter-1 onwards.

Ritwik: Sir, second question is on the pricing, Mr. Jain has mentioned in the press release that we did not get as much as price increase that we had asked with the OEMs, so would you quantify what is the price increase, cost increase for us and how much we are not able to get from the OEMs and what is the negotiation currently going on?

Sanjeev Singla: All the negotiations with the OEMs have been closed except one and as far as the quantum is concerned, I must say that the quantum which we have received less is depicting in the Quarter-3 results also, so by 2 or 3 crores of profits which is lower, so that is because of the lower price increase received from the OEMs, so not a major setback.

Ritwik: For current quarter versus the last quarter, current spot prices versus the last quarter's average, do we need to take any more further price increase or we are good currently at current levels, like have the cost gone up after December?

Sanjeev Singla: After December, the raw material prices have started increasing. There is a shortage of scrap also in the local market and we are expecting that whatever the price increase we have received less from October 1st, we will definitely get it from April 1st because now January 1st I do not think that there will be any further negotiations, because most of the negotiations happened for the six months this time.

Ritwik: Sir, one hypothetical question if you can give us some color on this, there has been a lot of questions previously on transition from ICE to EV, so would you hazard a guesstimate or some side of estimate from your end, when and if this shift happens from ICE to EV, as a sector as a specialty steel as alloy steel, globally and even domestic what would be the kind of volume impact that we could see because as we understand in a limited way, we would require specialty steel in EV as well and that would be higher precision, but do the volumes get impacted for the overall industry?

Sanjeev Singla: Yes, you are right, overall volumes will be impacted, but EVs will take a longer time may be for the two wheeler industry as well as for the three wheeler industry yes, they will be taking over in a faster pace, but for the passenger vehicles I think and in our opinion it will be taking a longer time to replace with the EVs and the volumes definitely will come down with the coming up of electric vehicles, but by the time again the growth rate is also coming 8% to 10% every year and no capacity increases happening in the alloy steel industry, so by the time these electric vehicles will be replacing the existing vehicles, by that time growth rate will also be mitigating that much of demand of electric vehicles, and some of our customers have also started manufacturing components for the electric vehicle and we have started supplying steel. On back of us, Aichi Steel is always with us and they have a better idea always for the next five years, 10 years down the line what will be happening, so from next year our most of the supplies will start going to their Southeast Asia subsidiary companies, so from that point of view, and we will start manufacturing some more critical grades with the help Aichi so from that point of view I think that we are quite secure.

Ritwik: Lastly, you mentioned the rolling mill capacity, we have placed orders so how like if you can give us some timeline on this for the rolling mill?

Sanjeev Singla: Within this current year, by November and December, we will be taking the shutdown, for 20-25 days, I do not know the exact number of days and by that time, it will be implemented so our existing rolling mill will be having the higher manufacturing capacity from 200,000 to 250,000 tons matching with our steel melt shop.

Ritwik: So that with our volume, our Brownfield expansion would more or less be completed in 12 months' time?

Sanjeev Singla: Yes, definitely.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir, firstly what percentage of our sales are direct to the OEM out of the total sales basket or is it completely the OEM only we are manufacturing?

Sanjeev Singla: As of now yes, our more than 90% volume is going to the OEMs, so whatever 5%-10% volume that is also going indirectly to some OEMs, but that we do not know but more than 90% volume is directly going to OEM which is known to us.

Saket Kapoor: What portion is domestic sale and how much is deemed export and direct export?

Sanjeev Singla: Export we are doing direct export, so export volume is very less as of now. It is I think 3% to 4% and rest is domestic. In domestic also some of the customers are ultimately doing the exports after making but that figure is not with us.

Saket Kapoor: Sir, if we further divide between the automobiles, the four wheeler, two wheeler and the tractor if we take the percentage of volume of steel sold, which will be garnering the higher percentage in that same order?

Sanjeev Singla: It is passenger vehicles about I will say 40% and 34%-35% is going for two wheelers. Rest is to the various commercial vehicles tractors of highway vehicles, some engineering applications and so on.

Saket Kapoor: Sir, we have also mentioned in our presentation about this casting part, so we are doing casting for tractors that is to be understood?

Sanjeev Singla: We are making the steel and in making the steel after melting, it is to be casted in a billet form, so that is the process which we are doing, whatever steel we are making it goes to two wheeler, passenger vehicles, commercial vehicles also, so we are not casting like that we are casting for tractor industry, so casting is a process through which we are making the billet.

Saket Kapoor: Sir, what are the benefits of this debottlenecking exercise which you have talked about, by what percentage the volumes will go up with this and how much have been spent and what is the time by which this money we will recover?

Sanjeev Singla: Presently our steel melt shop capacity was 2 lakh tons per annum and by removing this debottleneck in the concast machine, so our capacity now stands increased to 250,000 tons per annum because increasing the capacity in the existing thing is that we can only reduce the melting time of a cycle, melting time per heat, so this was the debottleneck where we were taking more time than melting time, so now with this automation implementation, we have been able to reduce the overall melting time of one heat and along with this we have changed some cooling process also, so that is all with the help of which we will be making 250,000 tons in a year.

Saket Kapoor: Sir, can you quantify what would be the annual savings, with this debottlenecking exercise it will definitely increase the turnover?

Sanjeev Singla: Yes definitely, having 50,000 tons of additional capacity by making investment of I must say Rs. 40-45 crores on this steel melt shop, we can very well calculate that the payback is very fast.

Saket Kapoor: You are also speaking about this cold roll mill being now the second one which is to be installed in the next coming?

Sanjeev Singla: No, we are not installing any cold rolling machine, new rolling mill rather it is a existing rolling mill and in existing rolling mill also, we are adding some stands so again in rolling mill also, we are saving on some times which are getting used for some maybe maintenance activities or may be some changing of rolls and other activities, so by reducing that time, our existing rolling mill capacity will stand increased, so we are not putting any new rolling mill.

Saket Kapoor: Sir, coming to the raw material basket, if you could give the split up of what constitutes the raw material basket and power and fuel also, what is our current component and any kind of saving that any steps we are taking to lower the power and fuel cost, I think that is also a significant portion of the total cost of manufacturing?

Sanjeev Singla: Yes, because we are into electric arc furnace and power intensive industry, so we are consuming much of power, so with the implementation of this concast machine, automation, and changes in cooling process, so we will be saving on time per heat we were using earlier. With the saving of time, definitely some indirect cost like overheads I must say, so within those overheads, we will be having the higher production capacity and also some of the variable costs. Some variable costs are definitely 100% variable, but some variable costs are partly variable and partly fixed cost, so by increasing the production capacity of the existing steel melt shop to that extent on the directly fixed cost and partly fixed cost, we will be saving and adding to the bottom line. On the raw material side, we are continuously doing efforts as already conveyed in the previous con calls by Mr. Jain that we have made substantial changes about one-and-a-half year back when started using more of a local scrap and replace with the standard scrap which earlier we were using in fair quantities, so with that definitely we are gaining more than Rs. 1000 a ton. Apart from that, last year as guided by Aichi, we have started a new 3R, reduce, reuse, recycle, so under that drive, we have received lot many suggestions from all the employees and definitely that has also added up to the bottom line, so that is why on all the basis of this changes in the raw material mix and this 3R, we have revised our guidance from earlier 4500 to 6000, earlier it was 6 to 8, now it is Rs. 7000 to 9000 and still in this quarter also we are at the upper end of this guidance range.

Saket Kapoor: Sir, there is very likely that we will be maintaining this band even for this year end and then improving upon it going forward?

Sanjeev Singla: Yes, that is always our thrust.

Saket Kapoor: Sir, for the raw material part, you were just telling that the imported scrap, we are all dependent on?

Sanjeev Singla: We have reduced dependence on imported scrap and increased our dependence on the local scrap, which is easily available also and we have not to have more of a hedging, so it is easily available and at a lower price than what is the standard scrap. In case, we would have been using the standard scrap as earlier mix we were using, so we were to happen losing more than Rs. 1000-1500 a ton nowadays.

Saket Kapoor: Sir, our dependence on pig iron purchase is to what extent and any update on the PLI scheme on the special steel that has been announced by the Government, how are our companies going to benefit out of the same, any collaboration with Aichi going forward on that front?

Sanjeev Singla: First part on pig iron also, we have reduced our dependence and replaced with that much of dependence also on with the local scrap mix. On the second part of PLI scheme still we are evaluating and in discussion with the MECON Limited who is the appointed agency by the Government of Steel, so still we have not finalized that we will be going ahead with this PLI scheme, but still we are valuating. By the next conference call, we will be able to clarify on this because under the scheme there are some capital investment requirements, some incremental growth rate, so all those things we are evaluating with internally our team as well as with Aichi Steel.

Saket Kapoor: Right Sir, because in your presentation you have articulated what are we expecting going forward with Aichi Steel especially phase-1, phase-2, the advantages and all, so where are we in terms of, we have given some timeline 2020-22, what we are expecting and then going ahead, so what kind of investment and sir everything will be channelized in this company itself or are we routing it?

Sanjeev Singla: Yes, we are in the line, whatever we have given it in the phase-3 presentation slide, so we are in the phase-3 and we are in time.

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

Devang Sanghvi: Good Afternoon Sir and thank you for the opportunity, my first question is regarding the contracts with OEMs, for last few quarters we had quarterly contract and now we have shifted to six months contract, so what could be reason for the same?

Sanjeev Singla: This is again because it is negotiated by the entire industry and the overall demand is on the lower side, slackness in the demand of two wheelers as well as passenger vehicles, so this time because of this, the OEMs were not in a mood to give the price increase but still with insistence of industry, they have given this price increase but agreed for six months. Not with all the OEMs, with some OEMs it has been agreed for six months, with some it is for the Quarter-3 only but going forward with the increase in demand, we are expecting that again we will be getting the due price increase from April 1st.

Devang Sanghvi: We have mentioned that the scrap cost is increasing, so what kind of inventory we carry for scrap and what could be the impact for this quarter higher scrap pricing?

Sanjeev Singla: Normally, in raw material we are carrying inventory in the range of 30 to 40 days of consumption. To further clarify, in terms of physical inventory as well as in terms of contracted quantity, we are holding in the range of 30 to 40 days of consumption, it is a normal range.

Devang Sanghvi: Thirdly, on the CAPEX front, what type of CAPEX you incurred in nine months and what is the target for the next three months in FY '22?

Sanjeev Singla: In current year, our CAPEX will be in the range of about 40 crores and going forward in FY'22-23, FY'23-24, we have a total CAPEX plan of 150 crores where it will be involving increase in capacity for the rolling mill and complying with all the requirements of Ministry of Environment and then we have also planned one installing a new NDT line, non-destructive testing line.

Devang Sanghvi: We have shifted from the imported scrap to the local scrap as you had indicated in the earlier question, I was asking that what could be the cost saving which we have in this particular quarter because of this shift because the imported would be on higher side and local would be on the lower side?

Sanjeev Singla: Not for this quarter only as I have said earlier also that not for this quarter, from last one to one-and-a-half year, we have decided that we will be shifting to this local scrap and because of this we are gaining in the range of Rs. 1000 to Rs. 1500 a ton.

Devang Sanghvi: Any ballpark breakup how much would be the import and how much is the local at the moment?

Sanjeev Singla: No, not that is not possible, but overall raw material mix side if we can say that on changes in raw material mix, we have been able saving in the range of Rs. 1000 to Rs. 1500 a ton.

Devang Sanghvi: I was asking how much is local and how much is imported on a current?

Sanjeev Singla: Less imported as of now we are using now in the range of 10% maximum and rest all is domestic.

Devang Sanghvi: This will be on increasing trend for the last few quarters?

Sanjeev Singla: Last two-three quarters it is almost the same mix we are using.

Devang Sanghvi: On P&L front by when we can expect some further details in terms of, are we participating what kind of products would we have, so we are also working on import substitution and export increase, maybe any color on the same?

Sanjeev Singla: By next conference call, we will be able to clear on this.

Moderator: Thank you. The next question is from the line of Vivek Chaturvedi, Individual Investor. Please go ahead.

Vivek Chaturvedi: Sir, Good Afternoon, just wanted to check one thing, you responded to the previous participant's question saying that you were saving Rs. 1000 to Rs. 1500 by using domestic scrap and we have been doing it for the last one to one-and-a-half years, so just wanted to understand what has changed in the last one and one-and-a-half years that we have been able to do this, I am sure we would have evaluated this opportunity earlier as well and is it that because of COVID this saving has arisen in the last one year, and is this a temporary thing which will go away or you think that this kind of a differential which is there between domestic and imported scrap prices would remain in the future as well?

Sanjeev Singla: This is not linked with the COVID and before COVID also we have started doing some experiments on changing our scrap mix, so in local scrap mix there are different components which we are buying from the local market at different prices and each raw material which we are buying is giving ua some yield maybe some 90%, some 94% or some is giving 85%, so it all depends upon the mix which we are using and the impact of that mix on our operating parameters, so taking together is constituting our total cost for making a steel billet. As you said going forward also the gap which is always there in the different components of raw material going forward also this will continue and this is a market trend for the last five years, 10 years and going forward also I must say that all these components move in tandem, maybe some time lag of maybe 15 days or maybe 30 days here and there, but overall that much of gap between different components continues, so in future also we will continue to get this much of benefit.

Vivek Chaturvedi: Sir, who would be suppliers of this domestic scrap, whom do we purchase it from?

Sanjeev Singla: Many suppliers, the local traders also, there are many suppliers, some are buying steel from us also who are making components and then we are buying scrap from them whatever is getting generated in manufacturing component.

Vivek Chaturvedi: Okay, but these would be procured locally in and around our plant itself, right?

Sanjeev Singla: Yes, within Punjab, mostly I must say that within Ludhiana and that Mandi Gobindgarh is also nearby 40-45 kilometers away, so this scrap is procured Ludhiana as well as from Mandi Gobindgarh.

Vivek Chaturvedi: Sir, second question was with regard to the composition of our customer, major portion I am assuming is the automotive sector whether it is two wheelers, four wheelers, tractors, so how much would be the breakup between the auto component and the non-auto component as of today?

Sanjeev Singla: More than 97% goes to auto components and out of this also major share is to passenger vehicles about 40% and 35% is to the two wheeler industry.

Vivek Chaturvedi: So Sir is it that our products are not particularly useful for non-auto businesses or that we have specifically chosen to focus on the auto segment because of our?

Sanjeev Singla: Yes, this is our choice we are focusing on auto components only and going forward in future, we are more focusing towards passenger vehicles because Aichi is our partner and so our focus is more and more focus on passenger vehicles.

Vivek Chaturvedi: Sir, would it not make some kind of a diversification or would it not smoothen out the economic cycles because our dependence on the passenger or the commercial vehicles, the auto industry is so high, so would it not make some kind of a sense to have some kind of a diversification in the customer base or that overall looking at the strategy as a business it does not make sense?

Sanjeev Singla: From that angle, we have a deficit question also because we have also started supplying to some requirements and going forward in next two years-three years down the line, our exports will start increasing and we are targeting more than 20%-25% of our turnover in terms of exports, so that is always our focus that we have to diversify but with diversification, our main focus is towards passenger vehicles and in passenger vehicles also we have the possibility to develop and supply various critical grades with the help of Aichi, which presently are getting imported from Korea or maybe Japan or some other countries, so we will be replacing those imported critical grades of steel within India.

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

Rohan Mehta: Good Afternoon Sir, I just had a couple of questions though you touched upon this but despite a little pressure on volumes, there has been good growth in revenue, so probably because of higher realization, so is it just plain market dynamic or is it because of a different product mix that we have had this quarter?

Sanjeev Singla: It is mainly because of the market dynamics, because higher import cost led to the higher prices from that OEMs.

Rohan Mehta: Has bright bar sales also benefited our EBITDA margins because EBITDA in terms of numbers?

Sanjeev Singla: Not much, I must say in the same range, 80% is our black bar sales and 20% is bright bar sales.

Rohan Mehta: Okay, not much change in terms of that ratio?

Sanjeev Singla: Yes.

Rohan Mehta: So our nine months EBITDA in terms of value has really shot up, so any other factors that helped this out?

Sanjeev Singla: No, nine months in case you are comparing with the previous nine months, it is not comparable because last year it was only six months working.

Rohan Mehta: But that would affect the revenue, but even on an EBITDA level because of the lockdown it is purely because of that?

Sanjeev Singla: It is because of that, because in the first quarter there was a heavy loss on account of fixed cost salaries, power and other expenses, which we have paid, so that has been offset by the six months working. In case we will compare the last six months results, I think we are almost at par.

Rohan Mehta: Sir, in terms of the expansion plans, the CAPEX would be funded by any combination of internal accruals and debt or any other source of funding the CAPEX is there in the plans?

Sanjeev Singla: Still we are having fixed deposit of 31 crores as on December 31st and first we will be funding from this FDR and then of course we are having the internal accruals. I do not think that there will be any need of taking additional debt to fund this CAPEX of 150 crores in the next two years.

Rohan Mehta: Sir, then there will not be any chance of any equity dilution also?

Sanjeev Singla: Yes, as of now there is no equity dilution.

Rohan Mehta: Sir, as a result of the upgradation, do we have like in terms of total capacity has there been any incremental capacity at our disposal or is just an upgradation only?

Sanjeev Singla: As of now yes we have increased our production capacity of steel melt shop and going forward in the next financial year, we will be increasing production capacity of rolling mill also to match with the steel melt shop, so for the shorter time until the market demand again picks up which we are expecting that it will happen from Quarter-1 onwards, so until then we will be having some small spare capacity.

Rohan Mehta: What would be utilization level right now, Sir?

Sanjeev Singla: Right now, it is in the range of around 85%.

Rohan Mehta: Sir, just you touched upon this during the presentation also, but if you could just shed some light on the Aichi involvement during this upgradation and you said that the team learnt a lot, so is there any difference in terms of their processes and ours, and what kind of intangible learning have come in, I was just curious about that?

Sanjeev Singla: Lot of learnings because the way they are working, the way they are doing the planning, most of the time they are devoting on planning then they start execution, but as an natural tendency of us that we immediately jump to the conclusion, so there Aichi way of working, Toyota way of working says that we have to devote more and more time on the planning part and analyze all the pros and cons, which can happen this way or that way, which can go against us, so writing all those points, discussing with the team and making everyone who is so ever in the project team at the same platform, how it can be, how can the communication gaps can be reduced, so lot many things we have our team has learnt that with the implementation of project through Aichi, many gaps which sometimes we notice later on those can be avoided at the time of implementation of the project itself.

Rohan Mehta: Right Sir, so in terms of process flows and the way of operating, it has become a little more streamlined with the Aichi's involvement?

Sanjeev Singla: Yes, because our team has practically learnt that otherwise sometimes it is a critical learning but this time their experts were there in the plant physically and our team has learnt physically from them that how to do the project implementation step-by-step.

Rohan Mehta: Sir, this would translate into like better project timelines and maybe even cost savings in the long run, would that happen?

Sanjeev Singla: Definitely yes, in future project implementations all these learnings will be implemented and also we are horizontally deploying these learnings in the operations also that how all these learnings which happened in project can be implemented in the operations.

Rohan Mehta: Sir, just a couple of other questions on the financials, our power and fuel expenses also as a percentage reduced lightly, so is it due to the upgradation or?

Sanjeev Singla: Yes, it is mainly because of the 15 day shutdown of steel melt shop. There was no consumption, power in the steel melt shop, so that is why it will be lower.

Rohan Mehta: Got it Sir, it is likely to be similar, will it be back to the normal levels in the next quarter because of shutdown the inventory was already there like you said so, sales continued but power and fuel expenses?

Sanjeev Singla: To some extent it will continue in Quarter-4 also because in Quarter-4 we will be eating up some more inventory and to that extent we will be having maybe a smaller shutdown of five to seven days additional as what was planned earlier, so to that extent some lower power and fuel consumption you can observe in Quarter-4 also, but going forward from Quarter-1, it will be at the normal realization, same level.

Rohan Mehta: Sir, raw material also would you expect it to continue at this current level?

Sanjeev Singla: Yes, raw material prices are always volatile and we are dependent on the market, so it is the international market who is impacting the prices on daily basis, so that is not in our hands.

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

Aniket Redkar: Good Afternoon Sir and congratulations on the good set of numbers, Sir what could be export contribution for the nine months FY '22?

Sanjeev Singla: Our total export contribution of the total turnover is around 4%.

Aniket Redkar: Sir, what is the current capacity for steel melting shop, rolling mill, and the bright bar?

Sanjeev Singla: As of now after this CAPEX of steel melt shop, our steel shop capacity stands at 250,000 tons per annum and rolling mill capacity is still at 2 lakh tons and bright bar shop capacity is 40,000 tons in a year.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: Sir, firstly our facilities are in the land lock region, so how is the ecosystem affected to being a land lock and what are the disadvantages currently and any steps that we are taking to flatten this thing out?

Sanjeev Singla: Yes, we are in a land lock location, but three years back we have purchased adjoining 8 acres of land. Earlier, we were operating at 20 acres of land and now this 8 acres additional adjoining land has been purchased, so with this land in our fold, I do not think that we will be facing any problem reaching to our new capacity of 250,000 tons, so for this existing plant this much of land is sufficient, so any more expansion will be requiring additional land and additional set up. Within this setup, I think we will be reaching at the optimum level.

Saket Kapoor: The steps that which we are taking with Aichi going forward all will be housed in this 8 acres and the current existing facility only?

Sanjeev Singla: Yes with existing facility only.

Saket Kapoor: Sir, off late I think so the graphite electrode prices have also moved up sharply, so what have been the price trends for the electrode prices for the quarter ending December and how have the prices shaped up for this month?

Sanjeev Singla: Graphite electrode prices are slightly marginally increasing from last I must say from last nine months or one year and we have a good coverage on this front more than one year coverage is there and as of now in case we will see the price differential between existing price and the cover price, so we are fairly covered. Going forward, it is difficult to say that whether it will continue to further increase or it all depends upon because the market overall international market in which China dominates, so as of now I must say that we are fairly covered for the next one year at good price.

Saket Kapoor: Sir, what is our annual requirement and price trends can you give, what are the spot prices for the December quarter market and for the month of January, how have the spot prices moved, I think there has been a significant increase in the spot prices?

Sanjeev Singla: The current prices are moving in the range of Rs. 300 to Rs. 325 per kg.

Saket Kapoor: This is for the month of January?

Sanjeev Singla: Yes, current prices which are currently available.

Saket Kapoor: What is our annual requirement Sir of graphite electrodes?

Sanjeev Singla: Annual requirement is approximately on production of 2 lakh tons per annum, it will be about 8 lakh kgs of electrodes required because 4 kgs is required for producing one ton of steel.

Saket Kapoor: Any number you can give for the December quarter, I just wanted to understand how the prices have moved for month on month, there have been significant, we had the information that 20% the prices have moved month on month, has that been the case?

Sanjeev Singla: In the last nine months or one year, we can say that the prices have increased 40% to 50%, but in last three months, I do not think that the prices have moved so fast.

Saket Kapoor: Sir, when we look at this Aichi part of the story unfolding, how is the revenue mix look like currently with optimum levels of operations at 2.5 lakh ton on an annual basis, I think so this should be optimum going forward and then further the incremental growth rather will come from the Aichi JV that we are contemplating currently going ahead, so how should the revenue mix look like Sir going forward for 2025 or way ahead, if you could give some more color on it?

Sanjeev Singla: FY'25 or FY'26, we are saying that we will be able to achieve sales volume of more than 230,000 tons in a year and in that 20%-25% will be exports happening towards the orders, which we will be getting with the help Aichi Steel Corporation.

Saket Kapoor: Sir, but currently only we are doing 2 lakh, there will be an increase of only 30%, I missed that point?

Sanjeev Singla: Actually what happens is 2 lakh tons is our steel melt shop capacity and then some material is getting wasted, and finally, we get saleable 180,000 tons only, so going forward on achieving 250,000 tons of billet production, the saleable will be 230,000 tons, so there will be 50,000 tons of saleable product from present to the future in FY'25-26 or maybe FY'24-25 also we will be able to achieve that target.

Saket Kapoor: On that mix of 230, 25% will be export related to the Aichi JV?

Sanjeev Singla: Yes, 25% will be the exports and rest will be the domestic.

Saket Kapoor: That would be higher margin accretive product, Sir?

Sanjeev Singla: Yes.

Saket Kapoor: It would be much higher than the band of 9000, which we are currently running, 7000 to 9000 band?

Sanjeev Singla: Definitely because in earlier conference call also Mr. Jain has confirmed that in next year once we will start receiving some bulk orders, so we will revise our guidance which is presently 7000 to 9000, but in future we will definitely raise this guidance in next year.

Saket Kapoor: Sir, what are the key reasons for the slackening of this demand, is it only the monsoon factors as you have told that November month, we have seen Sir that November month particularly for all industries November onwards whether it is cement or whether it is automobile, there have been a slackening of demand, the utilization levels have dropped significantly and then again an uptick was seen for the month of December, so what factors have really played out for industries particularly for you wherein you have seen that slackening of demand and how are the reversals going to happen going forward?

Sanjeev Singla: It is difficult to say but to me I think that it is because of the various reasons. One is that COVID second wave which happened started with March-April and then continued till June-July or may be some continued till July-August also, so then some chip shortage that is really hampering the demand overall worldwide in the passenger vehicles as well as in the two wheelers because in some two wheelers also this chip is getting used, and thirdly because of again coming out new variant Omicron and then translating, spreading so fast so that is again denting on the demand part, that is why during this festival season demand was not as expected in the normal festival season or I must say that as it happened in the last year also after the second COVID wave, so there are various reasons, so going forward with the ease of this chip shortage and Omicron variant effect is getting over, everyone in the industry is expecting that from Quarter-4 onwards, we will start seeing momentum in the volumes.

Saket Kapoor: This has happened Sir, this reversal you have seen the momentum gaining traction for this month, we are already one-third into the quarter?

Sanjeev Singla: Yes, in January we are seeing some positive response from the customers and slight increase in the volumes. Earlier there was depressing and now this month some increase has started happening in the month of January.

Saket Kapoor: Sir, since we are an OEM oriented business model, so there should be forward program from your OEM wherein the supplies have to be met as per their production schedule, so you must be having a better idea of how their schedules are planned and that has been dependent on the chip shortage, so that chip shortage getting eased out, their production gets going marching ahead, you would be having a better schedule that should be the way?

Sanjeev Singla: Yes, that is what I am saying that on the basis of discussion with the OEM and on the basis of schedules which we are getting through Tier-1 supplier, so definitely there is a positivity and overall volumes have also started increasing from January, though it is marginally but this is a signal that volumes have started improving. From January onwards, we are expecting much more increase in the volumes and reach to the prior level of second COVID wave.

Saket Kapoor: Sir, the seasonality factor also played out for our industry?

Sanjeev Singla: Yes, in our industry seasonality impact is there, always there is a more demand and smaller demand in the Quarter-4 during Christmas time most of the companies are taking shutdowns, so during the second quarter, the demand is always on the higher side because everyone is building up the inventory for the festival season.

Saket Kapoor: How are seasonally January to March quarter, Sir?

Sanjeev Singla: Yes, March quarter we should be marginally better in terms of volume than Quarter-2 or Quarter-3.

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

Sanjeev Singla: Thank you for joining the conference call and we are fully dedicated taking Vardhman Special Steels to the newer heights with the support of Aichi because this is a great opportunity with us that Aichi Steels is with us and with this we will be able to substitute some of the imports which is happening to our country in India and we will be adding new milestones in the coming years and with PLI scheme which has been introduced by the Government of India, yes overall steel industry will be doing be better and we will be having a major share in the steel industry. We will be improving our share in the steel industry as India overall especially in the alloy steel industry also, so thank you all and see you in the next conference call.

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