



# Vardhman

Delivering Excellence. Since 1965.

## VARDHMAN SPECIAL STEELS LIMITED

CHANDIGARH ROAD  
LUDHIANA-141010, PUNJAB  
T: +91-161-2228943-48  
F: +91-161-2601048, 2222616, 2601040  
E: secretarial.lud@vardhman.com

**Ref. VSSL:SCY:NOV:2023-24**

**Dated: 14-Nov-2023**

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

**SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN SPECIAL  
STEELS LIMITED – Q2 FY24**

Sir,

Pursuant to the provisions of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call of the Company held on 8<sup>th</sup> November, 2023 to discuss the Company's operational and financial performance for Q2 FY24.

Kindly take the same on record.

Thanking you,

Yours faithfully,  
**FOR VARDHMAN SPECIAL STEELS LIMITED**

(Sonam Dhingra)  
Company Secretary



“Vardhman Special Steels Limited  
Q2 FY '24 Earnings Conference Call”

November 08, 2023



**MANAGEMENT:** **MR. SACHIT JAIN -- VICE CHAIRMAN AND MANAGING DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED**  
**MR. SANJEEV SINGLA -- CHIEF FINANCIAL OFFICER – VARDHMAN SPECIAL STEELS LIMITED**  
**Ms. SONAM DHINGRA -- COMPANY SECRETARY – VARDHMAN SPECIAL STEELS LIMITED**  
**Ms. SOUMYA JAIN -- EXECUTIVE DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED**

**MODERATOR:** **MR. MUDIT BHANDARI -- IIFL SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the Vardhman Special Steels Limited Q2 FY'24 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mudit Bhandari from IIFL Securities Limited. Thank you, and over to you, sir.

**Mudit Bhandari:** Thank you, Darwin. Good morning, everybody. On behalf of IIFL Securities, I welcome you all to the earnings conference call for quarter two FY'24 for Vardhman Special Steels Limited. We are pleased to have with us Mr. Sachit Jain, Vice Chairman and Managing Director; Mr. Sanjeev Singla, Chief Financial Officer; Ms. Sonam Dhingra, Company Secretary; Ms. Soumya Jain, Executive Director, with us. We will have opening remarks from the management followed by a question-and-answer session.

So now I will hand over to Mr. Sachit Jain. Over to you, sir.

**Sachit Jain:** Ladies and gentlemen, a very good morning to you, and thank you for being with us on our call today and in advance, a very happy Diwali to everyone of you. Second quarter is over and we've had some interesting developments in this quarter. One, the price settlements for this first half got concluded, we got increase of about INR 3,000 in Q1 and a reduction of INR5,000 to INR6,000 in Q2 from most of the major OEs that we deal with.

Tata and Mahindra gave a zero increase in Q1 and a negative INR2,250 reduction in Q2. So net-net, all the adjustments happened in Q2. The other significant development is we shifted over successfully to the GAIL pipeline. Earlier, we were -- we shifted to gas, but we were taking gas from -- think gas in bullets, so the cascade system was a troublesome system. So now, we shifted to a GAIL pipeline that has successfully happened with the pricing formula linked to Henry Hub index. So that's a positive.

The other big story for us is our development process with Aichi continues. Our approval with -- from Suzuki has come through for some substitution of imported steels to Indian steel. We've also had a visit, an audit from a large European OE for export of steel to Europe. This is something very heartening. And again, they got excited with our process of steelmaking, which is a scrap-based recycling of material. And second, with our strategy that we will put up renewable energy in terms of solar power. So we should reduce our carbon footprint significantly.

Just to remind everybody, our carbon footprint as we measured was 0.82 tons of carbon dioxide per ton of steel. Our competitors mostly make steel from the blast furnace route would be in the range of 2.5 to three, so we are 1/3<sup>rd</sup> to 1/4<sup>th</sup> their level. And once we put up the solar plant that we are intending to, we're at the final stages of completing it, our carbon footprint will drop to about 0.5. So we will be then 1/5<sup>th</sup> to 1/6<sup>th</sup> of our competitors. This is something which is

attracting a lot of attention. I will not say concrete will happen because of this, but their attention being seen even with a top OE like Maruti Suzuki in India. So this has become important.

So this plus the circular economy once where we take scrap from the OE, convert that to steel, and the components then go to the carmaker, and again, the scrap comes back to us. So this kind of circular economy is gaining steam. So these are the few highlights of this quarter.

Our EBITDA per ton is though at the bottom end of the range, between INR7,000 to INR10,000 as we've guided. It is still within that range in the first half. We do expect moving ahead that price -- we will get some price increase in second half. And therefore, we hope that in the second half, our EBITDA per ton should be a bit better than the first half.

But I'll ask Mr. Singla to take over some numbers and add to some highlights if he would like to. And then we open for questions and answers. Singla?

**Sanjeev Singla:**

Thank you, sir. Welcome to all the investors on this Q2 earnings call of our company. And I wish all of you a very, very happy Diwali. And on numbers, this quarter is more or less same as previous quarter, quarter one. In terms of revenue, there is a marginal increase of INR6 crores, which is a combination of increase in quantity by about 1,600 tons and a reduction in price by the OEMs as already explained by Sachit sir.

Secondly, on this -- PAT is almost same as was in quarter one at INR36 crores and INR18 crores, respectively. This quarter, the dividend has also been approved by the shareholders. And accordingly, the same has been paid on 29th of September. This quarter, we have taken a shutdown in the beginning of July for about 13 days. And in this shutdown -- this shutdown was primarily for the rolling mill to carry out refractory lining of the furnace. And also, along with that, we have also replaced one transformer in the 66 kV substation.

As a result, this quarter also, we are well within the range of INR7,500 per ton of EBITDA. So that's all on numbers. I would request now the question answers.

**Moderator:**

The first question is from the line of Ritwik Sheth from One Up Financial.

**Ritwik Sheth:**

Yes. And firstly, sir, wishing you happy Diwali to the entire team. Sir, a couple of questions from my end. Sir, firstly, you mentioned about the approval from Suzuki that you have received for substitution of the imported material. So would it be possible to share something on this? And what can be the potential volume that we could do in, say, this year or next year?

**Sachit Jain:**

So the approval has two processes: the first process is technical approval, which is the beginning, which is necessary and not sufficient. But this is important that now you are amongst the one or two, I mean, the couple of companies that are being considered. So volume will then be decided as a supply chain when the substitution starts and how much share comes to us. That is not yet clear. But the important hurdle that had been crossed that we have got approved for now, very sensitive grades within Suzuki system, and this approval has come from Suzuki Japan.

**Ritwik Sheth:**

From Suzuki Japan. Okay. Okay. But we will be eventually supplying to Maruti Suzuki, right?

**Sachit Jain:** Yes, yes. The supply is to the Maruti, but I'm saying that these kind of sensitive grades, which was imported from Japan, it's -- the approval comes from Suzuki Japan.

**Ritwik Sheth:** Right, right.

**Sachit Jain:** And this is something which is important for the country also that eventually -- roughly this steel was almost about 24,000 tons per year being imported into the country.

So that steel will be spread between maybe two suppliers. Yes, two or maybe three, but we are there. That's the point of making is that we are on it. But the other advantage is with this approval coming in, the probability of other grades also coming to us increases within the country. So the possibility of how we're trying to increase our share in Maruti Suzuki would be better after the approval.

**Ritwik Sheth:** Okay. Sir, congratulations on this, sir. Yes. And sir, so with the EU OEM that you mentioned, so how far are we in the approval process? If you can throw some light on that also?

**Sachit Jain:** See, normally, this process will take at least a year. And suffice it to say, the samples have gone, the first two heats. And it will be interesting for investors here to know this -- and you'll understand the sophistication of the buyer, the steel is going to Japan. And it will be forged there, machined there. And then from Japan gone to Europe. So it obviously is a high-end automaker. Eventually, of course, they will try to find some source in India for forging and machining. But the initial trial has gone to Japan, and from Japan going to Europe.

**Sanjeev Singla:** And also it will be used for some electrical -- electric vehicles.

**Sachit Jain:** Yes, electric vehicles.

**Sanjeev Singla:** Okay. That is great as well. And one last question. Sir, in the opening remarks, I missed it, but you mentioned that there was a price reduction of INR5,000 per ton in Q2, which has already been reflected. But going forward, do you expect the prices to increase and EBITDA per ton should be better in H2. Did I get this right?

**Sachit Jain:** Yes. So -- INR5,000 to INR6,000. Some OEs given INR6,000 reduction and some OEs INR5,000 reduction. And so all price reductions, which is obviously an increase of INR3,000 in Q1 and a reduction of INR5,000 to INR6,000 in Q2, all that has been accounted for in Q2. So there's nothing pending in Q3. And we expect an increase in Q3, because even our competitors, their costs have gone up significantly. Coking coal has gone up, iron ore has gone up.

And the letters for increase that have gone to the OEs are ranging between INR5,000 to about INR6,600 a ton. That's the range of increase being asked for from -- by various special steel suppliers. I'm not saying this will be kind of increase that will come. I'm saying this is the kind of letters that have gone to the OEs. Then, of course, the process of negotiations will begin, and we'll see. But the point is we are not the only ones asking for an increase. The entire industry, every company in the industry is asking for the increase.

**Moderator:** The next question is from the line of Prolin Nandu from Goldfish Capital.

**Prolin Nandu:** Few questions from my side. One is that you had mentioned in Q4 that -- or maybe in Q1 that this will be the year of consolidation in some time -- so when I look at your H1 numbers, volumes are also down and EBITDA per ton also on a year-on-year basis is down. So is it fair that large part of that consolidation has taken place in H1 and from H2 onwards, we will see some growth both in terms of volumes and in terms of EBITDA per ton as well?

**Sachit Jain:** So the volume part, it comes in the consolidation, not the EBITDA part. And the consolidation process will continue for the full year. We have some shutdowns coming again for our -- in our rolling mill, will come up in Q3, the November end, December beginning, there's a shutdown for -- Singla, about 15 days?

**Sanjeev Singla:** Yes, it will be for 15 days by putting up two stands.

**Sachit Jain:** Yes. So we are adding these two stands. So as we told you, we said earlier, that our melting capex has been done but the major capex remaining is for the rolling mill. So the rolling mill capex is beginning. So the first shutdown will happen in Q3 of this year. The next shutdown will happen in Q4 of next year -- sorry, Q3 of next year. So we are adding two stands just now, then we'll be adding the Kocks block and the reheating furnace. So those all equipments will be added, which will together enable our capacity to go up to 240,000 to 250,000 tons of rolled products.

So this will continue to be a year of consolidation as far as volumes are concerned. And I'm very happy that we took that decision because as the proportion of Aichi business, Toyota business is increasing, the smooth running of lines is very important. You will be happy to note that the President of Aichi Steel division, he is here for our Board meeting, he came in. And he informed our team members that so far, the switchover from Toyota -- for Toyota from Aichi to Vardhman Steel has gone up smoothly.

So they haven't reported a single incident. This is a big achievement for any Indian company to achieve a switchover in Toyota without any major problem so far. Fingers crossed, that is our most important business objective just now for our future that the switchover process which it will take place over the next two years keeps on happening smoothly as more products are added and the switchover gets complete. So the whole switchover will finish for this platform for Toyota, will finish by 2025 end. So '25, '26 is the financial year, then you see the full impact of the volumes and the switchover and so on.

So margins, as you said, EBITDA per ton is based on the pricing and negotiations which the OEs force on us. Now as you will notice that we have two large players: Tata Steel and Tata Motors of the same group. And perhaps one can only conjecture from outside that since Tata Motors was under financial pressure earlier. Maybe Tata Steel was under pressure to support their good company a bit, one doesn't know.

But overall, we find that all the steel companies have shown poorer results. They are all pushing for this increase. So we expect -- that is the reason we expect H2 performance to be better. So if we get the price increase that we're looking at, we should get -- come back to moving towards the upper end of our range in H2 -- next quarter end.

**Prolin Nandu:** Yes. So the pricing mechanism and how the whole pricing thing takes place where the OEM will ask for quotes from one of you guys, right, in sometimes, one of the suppliers, and then do the selection. That mechanism has not changed. Am I correct, sir? Is that fair to understand?

**Sachit Jain:** It's just that the OEs have become more cautious, and they wait for one of the suppliers to break. But we were fortunate at this time, we didn't come under too much pressure. But still, we've reduced prices, I would say, a little bit more than what was warranted. But everybody wants now to move to a formula that it happens automatically and with more predictability. So we'll be trying in the next year, say Q3 and Q4, to move to a formula-based system with Maruti and Hero and any other way that is interested so that the prices change automatically without too much oppression -- just predictability, better predictability.

**Prolin Nandu:** And if nobody breaks, that possibility is real...

**Sachit Jain:** Once we formula is fixed, then there's no question of variability.

**Prolin Nandu:** Great. So then that will bring us a lot more predictability in terms of...

**Sachit Jain:** Yes. And then I think once that happens, then we will also be able to narrow our range because many of the investors have asked us that this range of INR7,000 to INR10,000 is a very wide range. They would like to see a narrower range. And I agree, even I would have to see a narrower range. So once formula gets fixed and gets arrived at, I think we'll be able to narrow this range of guidance.

But the other interesting part that I'm reasonably pleased about is that we have maintained our EBITDA to capital employed very close to 20%. We are just short of 20%, I think. As we said, our target is 20% EBITDA on capital employed by the year '25, '26, which is now quite near, we can't escape it. Our target is that we would like to reach a 25% EBITDA on capital.

**Prolin Nandu:** Great, sir. That's good to know.

**Sachit Jain:** As of now, we still stand by that target. But that is a target, it is not a guidance.

**Prolin Nandu:** Fair point. I mean, all the best, sir. Hope you will reach that target. The second question would be on the whole Suzuki part, right? I mean, where you mentioned that you have got an approval for that particular grade and 24,000 tons was something that was imported. And now, I mean, if I understand correctly, in certain period of time, all of this 24,000 tons will be supplied locally by either two or three suppliers.

So the time line for this entirely moving to India? And also secondly, sir, how many such different grades of tons are still imported where we are working on? What could be the size of this opportunity of import substitution, if you might help us? And is it that since 10% of our company is owned by the Aichi, does that mean that we'll always be in and around the Japanese ecosystem and won't be able to move to Korean, how does that work? If you can just help us understand the whole...

**Sachit Jain:** So there are several questions out here. So let me answer those questions one by one. So one, the -- most of the steels which have been imported, used by the auto OEs, have been largely localized, largely, except for some in Hyundai, but otherwise, most of the vehicles largely localized. And if I understand correctly, I could be wrong, but my understanding is that this particular grade was the last large chunk of steel being imported, amongst the last as far as -- there will be some smaller amounts here in there, but -- so that opportunity would be closed -- largely be over, not closed.

And this substitution should take place over the next two to three years. Government of India pressure is there on all the OEs to localize the steel. It may happen even faster. Now second, Aichi is -- Aichi owns about 11.4% in Vardhman Steels. And eventually, they will take -- increase in stake within the next two to three years, has the right opportunity. They will increase the stake to roughly 20-odd percent.

That is my estimation, at the right time, then -- I think when they're fully satisfied, that is my -- again, my feeling, once they're fully satisfied that we have successfully switched over the entire business of Aichi to Vardhman for this platform of Toyota, once the switchover is complete and running smoothly, that would be the right time, I guess. So we are definitely getting better, more stronger -- strongly linked to the Aichi and therefore, Toyota, and therefore, Japanese system.

However, that in nowhere precludes us from serving other OEs. In fact, this European OE, which is a big OE, our partners, Aichi are as excited about this as we are, and we're getting full support from them. See, we are a steel company, and we look for where opportunity comes for us. So we will support Japanese companies as that is the dominant automakers in the country.

If India was a dominating European-oriented car market, I'm sure whether we were owned by Japanese or anybody, we'd be supplying to the European company. But India is largely a Japanese-dominated market. Now the other large company from -- a multinational company is Hyundai. We are approved in Hyundai. In fact, to my understanding, we are the only Indian company...

**Moderator:** Excuse me, sir, your audio is not...

**Sachit Jain:** Other companies are also supplying the steel, but through some Tier 1s. So we are approved by Hyundai and we are supplying to Hyundai and Kia, both.

**Prolin Nandu:** Sure, sir. So that -- you said that there is some part of Hyundai, which they still import. So is there a scope for import substitution there? And outside the automobile ecosystem, right, in sometimes, are there any other grades of special steel which is still imported, which we are also looking at?

**Sachit Jain:** No. We -- at present, we are not looking at any non-auto business. As you all are aware that we will be running into capacity constraint in two years' time. So we are certainly not looking for any non-auto business, and we are having strategies in place to cope up with the time when we run into capacity shortage.



- Prolin Nandu:** Sure. And just one last point, sir. You are saying that this whole program of a platform that we are doing right now with Toyota will sometime end in the year FY'25? Am I correct, sir, did I get that number right?
- Sachit Jain:** Financial year '25. So which -- sorry, calendar year '25, so it will happen by end, so by the financial year '25, '26.
- Prolin Nandu:** Okay. So, financial year '25, '26. All right.
- Moderator:** We have the next question from the line of Radha from B&K Securities.
- Radha:** Congratulations on the Suzuki approval. Sir, my question was that I was also understanding that around 4 million tons of specialty steel is currently getting imported in India. But based on the conversations that we had just now, is it a correct understanding that a majority of this import is for the non-auto part, which is not a target market for you?
- Sachit Jain:** I would not be having the full information to answer that question. See, my concern is in our product mix, which is alloy steel bars -- now there are lots of other categories of special steels that they are not present in those category. The tool and die steels clearly large -- it's largely imported. A lot of steel gets imported for defense needs. A lot of bright bar -- sorry, not bright bar, wire rods, special wire rods get imported. So there are lots of other categories of special steel that gets imported.
- Radha:** Okay, sir. And sir, secondly, what would be the mix for sourcing the fuel as of now because we have recently shifted to natural gas? And what would be the mix now? And how do you see this mix change in the coming years?
- Sachit Jain:** I'm sorry -- I can't hear -- I misheard. Can you repeat your question. What is the mix of fuels?
- Radha:** Yes, sir. We are using natural gas...
- Sachit Jain:** So it's largely natural gas, what we use. So the biggest consumption of fuel in a steel plant is in the reheating furnace. Reheating furnace is completely on natural gas. The second area -- others are minor areas, which is also mostly run on gas. There's just a bit of furnace oil being used, but that's -- sorry, furnace oil or -- Singla, diesel or furnace oil that is being used?
- Sanjeev Singla:** Sir, all -- everywhere we have switched over to natural gas. And also in the last quarter, we have switched over to the mechanical pump instead of boiler, which was running on furnace oil. So as of today, we are not using any furnace oil. So it is 100% natural gas in all processes.
- Radha:** Okay, sir. And sir, last question was that given that we are looking for some -- like you mentioned, 15 days of shutdown. So any plans do you outsource any capacities for this year...
- Sachit Jain:** All that is already planned. So we have, again, a stock building -- buildup happening as happened in preparation of Q2 shutdown. So Q1, if you will see, our finished goods inventory were higher than normal. So again, now we'll be building up some stock, and we will be doing some outside rolling to make sure. So -- we are critical suppliers. So we make sure that our customers are taken care of.

And more importantly, this shutdown is after Diwali. Once the peak purchases are over, that's the right time to take a shutdown. So there will not be that much of pressure in terms of requirements from those customers.

**Moderator:** The next question is from the line of Mudit Bhandari from IIFL Securities.

**Mudit Bhandari:** My question is more regarding on the macro front to steel. So if we see the Chinese steel exports have not decreased, it has earlier announced to production cuts maintaining the same level of earlier, but it is not yet done and Indian demand is strong. So ultimately, when the demand falls, when the global scenarios hit India, steel prices might be subdued and secondly, demand also. So what's your take on that?

**Sachit Jain:** So again, what you are saying it would be true for the macro and the commodity steel market. But in the auto market, at least our forging quality steel, it is highly service-oriented and a very wide variety of products, that is approval-based business. So this business has rarely had imports from Chinese companies, and unlikely to be in the future...

**Mudit Bhandari:** Okay. And the majority of our products are going to auto sector only, right?

**Sachit Jain:** All. Not majority. This is almost 97%, 98%.

**Moderator:** The next question is from the line of Nishant Mehta, an individual investor.

**Nishant Mehta:** So talking about our EBITDA, can you give any estimate for -- in the second half of the year, somewhere, I guess, in the range of INR8,000 or INR9,000 as it was guided by you?

**Sachit Jain:** See -- beyond a point, I can't give any guidance because it all depends on the price negotiations that happen. But the indication we have given is that it will be higher in the second half to be better than first half. And yes, by all surmising, overall, second half, if things go well, should be between -- around INR8,000 to INR9,000.

**Nishant Mehta:** Okay. And talking about the solar power plant which we were going to install, any update on the same?

**Sachit Jain:** So we are very close to finalizing everything. I would think within -- I will try -- we will be trying within November. But otherwise, clearly, within 15th -- before 15th December, we would be done by that.

With that, roughly 50%. Our hope is, our plan is about 50% of our power will shift to solar power by -- before March next year. And hopefully before December -- March -- beginning March '25, so before December of '24, this should come on stream.

And sorry, if I may add to this. And obviously, on the solar front, the cost of solar power is going to be lower than the current grid cost of electricity we are buying. So we will be saving cost on the power front. At present, we are not at liberty to share how much amount, but it's a reasonable amount that we will be saving.

**Moderator:** The next question is from the line of Supan Parekh, an Individual Investor.

- Supan Parekh:** Yes. So I would like to ask, with INR160 crores of capex, where do you see the total rolling mill capacity moving towards?
- Sachit Jain:** Rolling mill capacity will cross towards 50,000 tons.
- Supan Parekh:** Okay. So like -- yes, go ahead.
- Sachit Jain:** But our current billet availability, the way we see, it will be around 260,000 tons at the peak. So from that, we should be able to serve about 230,000 to 240,000 tons. And when we see -- once we reach those levels, then we'll see whether we need to buy billets from outside for certain less strategic customers.
- Supan Parekh:** Okay. And can you tell us -- me about the raw material prices at present?
- Sachit Jain:** Raw material prices, shredded scrap, \$100 to \$410. Local scrap HNS that we buy is currently around INR38,000 a ton, would be INR37,500, but INR37,500 to INR38,000 tons. Those are the main scraps that we buy, shredded and MS-TB, which is turning and boring, would be about INR36,000 a ton. Is that I'm I right, Singla?
- Sanjeev Singla:** Yes. Yes, sir, you're right.
- Sachit Jain:** Okay.
- Supan Parekh:** Okay. And the last question I would like to ask, like, has there any decrease in price received from the OEMs?
- Sachit Jain:** Yes. As I already said, Q2 prices have been reduced.
- Supan Parekh:** Okay. Is there any impact of this likely to in the second half as well?
- Sachit Jain:** No, no. The entire impact has come in Q2. Q3, we expect a price increase. And therefore, we expect an improvement in margin in Q3.
- Moderator:** The next question is from the line of Prolin Nandu from Goldfish Capital.
- Prolin Nandu:** Yes. Just wanted to understand how should one look at the year FY'25, right? Because if I'm not wrong, your rolling mill capacity will come up in the -- sometime in mid or after the first quarter of FY'25. So just from a volume and a mix point of view, because see, EBITDA per ton is entirely dependent on the -- how the pricing approval comes from OEMs. But from a volume and mix point of view, what are the things that we should look out for in the year FY'25?
- Sachit Jain:** I think we'll be targeting about 210,000 tons.
- Prolin Nandu:** Okay. And in terms of mix, any change in mix that you would be expecting?
- Sachit Jain:** So the mix towards the cars would be increasing, the proportion of cars would be continuously increasing.

- Prolin Nandu:** Okay. Okay. Okay. So apart from that, no significant in terms of numbers coming from Toyota and Suzuki right? That would be more...
- Sachit Jain:** So that is constantly increasing. That substitution, we are on track for the final target of roughly 30,000 tons of steel going to Aichi.
- Prolin Nandu:** Okay. Okay. Because sir, in FY'23 also the volume of...
- Moderator:** Sir, sorry to interrupt, but you have a lot of disturbance coming in through your line, sir.
- Prolin Nandu:** Yes. I'm sorry for that. So you are saying that you will do somewhere around 210,000 tons, Am I correct?
- Sachit Jain:** Yes, that's the rough idea just now. We haven't looked at next year so close. So if you're asking a question, that the first number has come off the top of my head.
- Prolin Nandu:** Okay. Okay. The reason why I'm probably asking you this question is that we did a similar sort of number in FY'23 as well, right? I mean, maybe 5% give and take. So given that...
- Sachit Jain:** Yes, we did 200,000 tons.
- Prolin Nandu:** So we'll be doing -- I mean, let's say, I mean, 5%.
- Sachit Jain:** 5% increase is a 5% increase.
- Prolin Nandu:** Sure, sure. All right, sir. Just...
- Sachit Jain:** It will be between -- it could be 210,000, it could be 215,000, but I mean that's the ballpark number. At max, 210,000 to 220,000. Not more than that.
- Moderator:** The next question is from the line of Rohan Mehta, an individual investor.
- Rohan Mehta:** Just had a couple of questions. You spoke about the rolling mill, the shutdown that we have had. So any chance that it would have any improvement in terms of efficiencies or...
- Sachit Jain:** No, no, no. This is normal standard shutdown which happens every 1.5 years for the lining of the refractory -- for every 1.5 years, we have a 15-day shutdown.
- Rohan Mehta:** Understood.
- Sachit Jain:** But the ones coming in Q3 this year is not the normal shutdown. This shutdown is for placing those two stands in line.
- Rohan Mehta:** Okay, sir. And this would be for about two weeks, you said, right?
- Sachit Jain:** Yes, about two weeks shutdown. And therefore, there will be some costs associated with that in Q3.

- Rohan Mehta:** Okay, okay. And once the plant is operational, again, the operational efficiency would be similar to what it is right now?
- Sachit Jain:** It will gradually improve because with these two stands, we hope to lead to some changes in our rolling process, a softer reduction which is better for -- supposed to better for quality.
- Sanjeev Singla:** And also will increase in production capacity of the rolling mill by about 8,000 to 10,000 tons in a year.
- Rohan Mehta:** Understood, sir. So this would come into effect maybe Q3 or Q4 at max?
- Sanjeev Singla:** Yes. Q4. Gradually...
- Sachit Jain:** Q3 is the shutdown, which is going to happen in November and December. And by the time, it stabilizes, Q3 is over. So the impact -- this is a capacity increase. It's not necessarily that we'll be producing that much more or selling that much more.
- Rohan Mehta:** Understood. Understood. And not much impact on processing costs, etcetera, also, right?
- Sachit Jain:** No, no, no.
- Rohan Mehta:** Okay. Just one other thing, sir, on the front of our relationship with Aichi, if you look at revenue share coming in from Aichi separately, there is a bifurcation there that you can share?
- Sachit Jain:** No, no, no. We don't look at that. We don't report.
- Rohan Mehta:** All right, sir. And any...
- Sachit Jain:** Maybe -- we have given an idea, last year was about -- Singla, how much was it -- this year should be about 12,000 to 15,000 tons?
- Sanjeev Singla:** This year, it will be, sir, 8,000 to 10,000 tons.
- Sachit Jain:** 8,000 to 10,000 tons, yes. Sorry.
- Rohan Mehta:** Okay. Going to Aichi specific?
- Sachit Jain:** Yes, but that gets reported as domestic sales. It doesn't get reported as exports.
- Rohan Mehta:** Understood, sir. And our access to Southeast Asian markets through Aichi, is that also there?
- Sachit Jain:** It has increased. Of course, it has increased. It is all going to Southeast Asia. It is domestic sale -- why the domestic sale is because Toyota group deals with the trading company Toyota Tsusho. Our sales are with Toyota Tsusho India, who export the steel out.
- Rohan Mehta:** Understood. And any -- have they given any sort of indication about the plans to change, sort of expand their stake in our company or that's not on the horizon?

**Sachit Jain:** This is already part of our agreement, which was signed in 2018 -- sorry, 2019. Yes, yes, that there will be increase of stake subsequently in the next phases. So this is nothing new that I'm sharing.

**Rohan Mehta:** So in terms of time lines, they've not mentioned it?

**Sachit Jain:** Time lines. No, no, no, they have not indicated anything. These are only my estimation. If I was in their position, when would I want to increase my stake.

This is my -- purely my guesstimate based on if I was sitting in their place, when would I want to give the stake, then I see something increased. So start -- getting approval from Toyota is important. Then starting the supplies was important, then seeing the consistency in supplies is important, then reaching the complete switchover of this particular platform. These are the important milestones.

So in all probabilities, and since in Aichi, a new president has just taken over. So he's taken over in June this year. So a new President is taken over. Obviously, it will take time to get full control of everything. So ideally, I guess, when the full switchover happens, that would be the right time. And anyway, we don't need any capital. As you can see, we are already a debt equity of -- net debt equity of 0.2. And even with this entire expansion that we are planning, our total capital employed will not exceed -- currently, it's about INR800 crores, Singla, am I right?

**Sanjeev Singla:** Yes.

**Sachit Jain:** And it will -- it is unlikely to cross INR900 crores despite the full capex that we're planning. So my target will be to keep the total capital employed below INR900 crores. So we really don't need any equity.

So ideally, again, when some major capex is being sited being thought of, the next stage of all that. So that would be another trigger. So the -- I would say there are two triggers then the capex could -- when their capital would come in: one, when the complete switchover happens, which will be some time in '25 end, so that is one possibility, around that time.

And the second possibility, the plan get concretized to put up a new plant or some major capex happens or some such thing. So that's the other logical time which -- so in my opinion, both should happen around the next two to three years' time.

**Rohan Mehta:** Understood. Fair enough. Just one last question I had, sir. You've spoken about this many times in the past, it has been asked a lot -- and we know your opinion, just wanted you to weigh in on the electric vehicle impact. If you see any -- if there's any difference in how you look at it now compared to what your opinion has been in the past?

**Sachit Jain:** My view remains that in India, it will be much slower than what most people, the forecasts have been, in India. I'm talking purely India. And I believe hybrid vehicles is the right way to go forward. And hopefully at some stage, the government would realize that you can't continue to give subsidies of 23% reduction in GST over the next -- I mean, how can you subsidize car,

expensive cars, you have INR15 lakh cars or INR20 lakh cars. So giving massive subsidies on cars in a country like ours is difficult.

So However, we have focused totally on the EV sector in terms of -- for the key Tier 1s who are supplying components and gears for the EV sector. So we are fully focused on them. And we'll continue to keep increasing our share of EV in our mix. Currently, we are between -- around 7% to 8% of our steel going to the EV sector.

**Rohan Mehta:** Got it. Understood.

**Sachit Jain:** And with this approval coming in next year, which is from the European major, that will be a big increase in again, increase in our proportion of sales to EV. So let me add to this answer. Again, my personal view don't matter too much because we are a steel player anyway. And we are catering to all demands of customers. We are placed for any kind of steel requirement, whether it's for combustion engines, whether it's for hybrids, whether it is for EVs. And so we are prepared, whichever way the steel auto demand goes, and we are prepared to supply steel to that sector as the requirement is there.

And the other thing to keep in mind is Maruti has already announced doubling of their capacity. So even if EVs come in and there is a proportion of EV is higher than what we estimate, overall still the need for special steel in India is going to increase significantly in the next seven years.

**Moderator:** The next question is from the line of Manoj Rajani, an individual investor.

**Manoj Rajani:** So, sir -- it's a small question but I wanted to ask. So what has led to the other expenses -- relatively as a percentage of sales increase in this quarter?

**Sachit Jain:** I'm sorry, can you repeat that, please?

**Manoj Rajani:** Yes, sir. So what has led to the other expenses increase as a percentage of sales relatively?

**Sachit Jain:** Those are marginal changes. Nothing major has happened. Singla, if you can answer that question?

**Sanjeev Singla:** Yes, nothing major has happened in this quarter. When you are comparing with the percentage, so revenue is lower because of decrease in the prices. That is one part. And secondly, in this quarter, about INR2 crores to INR3 crores will be higher because of the job work charges, which we have explained that because there was a shutdown of our rolling mill. So we have arranged more rolling from outside on job work basis.

**Manoj Rajani:** All right. So it's a onetime thing, right, sir?

**Sachit Jain:** Yes, but part of it will come again in next Q3. And power tariff also has gone up in Punjab in April. So that is another reason compared to last year, the power tariffs has gone up. One more thing because of raw material price variations, we have increased the component of one of the inputs in terms of scrap mix, where the cost is lower but power consumption is higher.

So those are other reasons. And some other consumables also go up. So raw material price reduces on that account. So I mean there are so many factors which influence these things. So that's why I said there's nothing major as far as management attention is going. There is nothing in there.

**Manoj Rajani:** All right, sir. And sir, just one -- another thing that we have -- I mean, over the long term period, we have almost paid a good amount of long-term borrowings. But this quarter, we have -- I mean, seems like short-term borrowing has increased. So I mean, any particular reason?

**Sanjeev Singla:** Yes. This quarter, we have made a short-term investment of INR50 crores in two parts, just to offset our carry forward short-term capital loss of about INR3.5 crores in our books. So within a six months' time, so we will be able to get short-term capital gain on these investments and accordingly, we'll be able to offset the short-term carry forward loss. So by March, again, you will be seeing that the borrowing will be at its original level, rather, it's below on 31st March levels.

**Sachit Jain:** And that is why if you'll notice, I always speak of net debt because I look at net debt figures, not at gross debt.

**Manoj Rajani:** Yes, sir, that it has been decreasing on a long-term view. Sir, and just one last thing, if you can provide the revenue contribution from exports and any particular region that has been contributing heavily?

**Sachit Jain:** Exports is about 5% roughly. Roughly 5%.

**Sanjeev Singla:** It's 5% exports, yes.

**Moderator:** The next question is from the line of Ritwik Sheth from One Up Financial.

**Ritwik Sheth:** Sir, just one quick follow-up. Any updates on the greenfield plant?

**Sachit Jain:** No. As of now, nothing.

**Ritwik Sheth:** Okay.

**Sachit Jain:** As I said, I guess, everyone is waiting for all these results with Toyota to come in. That is the big trigger once the switchover happens completely. But let me share that the positive indications that Aichi team is getting when they're meeting with customers, in fact, today afternoon will basically going to visit Maruti along with the President of Aichi Steel, the Steel Division President.

So the kind of inputs we are getting from customers is very positive. So we feel every such visit when they come to make up their mind about the future, the positivity towards India seems to be increasing. Even Toyota Tsusho, the Japanese trading company for Toyota Group, their top management is sending top people continuously to India to look at investment opportunities in India.



I was in Japan in August end and September beginning. Clearly, this positive view towards India in terms of manufacturing investments is increasing everywhere. So all that is positive for India, which I think is positive for India as a whole as well as, I would say, for our company.

**Moderator:** As we have no further questions, I would now like to hand the conference over to Mr. Mudit Bhandari for closing comments. Over to you, sir.

**Mudit Bhandari:** Thank you, Darwin. Thank you, everyone, for joining this call. If Sachit Jain would like to add some comments or else, we can close this call.

**Sachit Jain:** Ladies and gentlemen, thank you once again for showing interest in our company. We are not very happy with the results of the first half, though it is within our guidance. But as I said, it's towards the lower end of our guidance. And we strive to improve this performance that we can be in the middle or upper end of the guidance.

And of course, we are excited about the way the business is continuing and the opportunity ahead of us, primarily because of renewable and sustainability effort, ESG effort is coming in. We expect the next year or two to actually see business gains out of these. Thank you all, and we will see you again in January.

**Moderator:** Thank you. On behalf of IIFL Securities Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.