Vardhmān
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VARDHMAN SPECIAL STEELS LIMITED

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The Deputy General Manager, Corporate Relationship Deptt, Bombay Stock Exchange Limited, 1st Floor, New Trading Ring, Rotunda Building, P.J Towers, Dalal Street, Fort, **MUMBAI-400001.** **Scrip Code: 534392**	The National Stock Exchange of India Ltd, "Exchange Plaza, Bandra-Kurla Complex, Bandra (East), **MUMBAI-400 051** **Scrip Code: VSSL**

SUB: COMPLIANCE UNDER REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.

We refer to our letter dated 27th April, 2018 regarding the intimation of Analyst / Investor Conference Call on the audited financial results of the Company for the financial year ended 31st March, 2018 Scheduled on 3rd May, 2018 at 12:00 noon.

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

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

Thanking you,

Yours faithfully,

FOR VARDHMAN SPECIAL STEELS LIMITED

(Sanjay Gupta)
Authorised Signatory

"Vardhman Special Steels Limited Q4 FY2018 Earnings Conference Call"

May 03, 2018

ANALYST: **MR. URVIL BHATT - IIFL INSTITUTIONAL EQUITIES**

MANAGEMENT: **MR. SACHIT JAIN - VICE CHAIRMAN AND MANAGING DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED**
MR. SANJEEV SINGLA – CHIEF FINANCIAL OFFICER - VARDHMAN SPECIAL STEELS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Vardhman Special Steels Limited Q4 FY2018 earnings conference call hosted by IIFL Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Urvil Bhatt from IIFL Institutional Equities. Thank you and over to you Sir!

Urvil Bhatt: Thank you Raymond. Ladies and gentlemen, good afternoon and thank you for joining us on the 4Q FY2018 post results conference call of Vardhman Special Steels Limited. I am Urmil Bhatt from IIFL and it is my great pleasure to introduce the senior management team of Vardhman Special Steels Limited. We have with us Mr. Sachit Jain, Vice Chairman and Managing Director and Mr. Sanjeev Singla, Chief Financial Officer. We will begin the call with an overview of the financial performance followed by commentary on the business by management. Post this we will open up the call for Q&A session. I would now like to hand over the call to Sachit and Sanjeev to take it forward. Thank you and over to you Sachit!

Sachit Jain: Thank you Urmil. Ladies and gentleman, good afternoon and thank you for joining us on our earnings call. We are now going to make it a quarterly event and we also hope to have a physical investor meet sometime after our first half results. Since we are new to the capital markets after this raising last year, so many of you may be for the first time, so very quickly I will give you brief overview of the Company and then talk about the results.

The steel business began in 1973, a small unit in Faridabad and then organic growth and then there was an acquisition in 1987-1988, which led to the current location where we are present today becoming part of the steel business. Later the old unit in Faridabad was closed and this Ludhiana unit was upgraded and modernized to start making alloy steels and it continued to be part of Vardhman Textiles and it was hived off in 2011 and 2012 this Company got listed as a separate entity in 2012 roughly May. I have been involved in the steel business from 2010 and became MD of the company in 2011 and earlier I was giving almost half my time to the steel business for the last one year. I am giving about 90% of my time to the steel business.

Over the years, our steel Company has emerged among India leading steel bar producers for automotive applications. We have state of the art manufacturing facilities in Ludhiana and our total installed capacity has now reached 200000 tonnes of steel melting and 180000 tonnes of rolling mill and 36000 tonnes of bright bar. Now we are fully balanced as a plant. Earlier melting capacities were lower than our rolling capacity. This year we are fully balanced and overall we plan to continue growing.

We are currently having an expansion plan, which will take our melting capacity to 240000 tonnes, which should get implemented by January or February this year, so we should enter the next financial year that is 2019-2020 with a capacity of 240000 tonnes of melting and rolling hopefully we will get some more debottlenecking done and we will be able to improve our capacity from 180000 tonnes to maybe 200000 tonnes; however, overall we have an investment plan of roughly Rs.200 Crores over the next three year, which includes upping the rolling mill capacity also to 230000 to 240000 tonnes. So the increase we are expecting in the next one-year is going to be with incremental benefits without much capex. The capex for the rolling mill will come later.

Overall over the year's consistent quality, efficient service and strong customer relationships are what sets us apart from our competition. We have amongst the widest set of customer approvals. Our business is 100% linked to OEM approvals and our largest four customers as far as OEMs are concerned are Hero, Maruti, Hyundai and Bajaj. We were I think the first company approved by Toyota. Small quantities from our company go into such iconic brands Porsche, Mercedes Benz, Volvo cars and Jaguar. In fact, we have also exported a very small quantity of steel to Germany for Mercedes. Now these are all very small quantities, but it does shows that the quality that we have is accepted in global markets.

Overall our exports are just about 4% to 5% of our total volume, but it goes to sophisticated customers. Thailand is our biggest market for exports. The other markets are Germany, Turkey, little bit in Taiwan, little bit in Russia and Italy and once in a while in Spain.

As far as this quarter is concerned, we had sales of Rs.231 Crores and EBITDA without other income Rs.17 Crores and net profit was Rs.7 Crores. For the full year, we had a 16% increase in volume, 252000 tonnes of sales and revenue was Rs.859 Crores, a growth of 27%.

EBITDA has not grown much and this was something that we were disappointed because overall EBITDA per tonne for the year has been about Rs.4400 a tonne whereas we are saying moving forward we should be between Rs.4500 to Rs.6000 a tonne EBITDA. The main problem of last year was almost like a black swan event, which was the graphite electrode prices, which went up almost six times and which really hit the first quarter very hard and of course the price setting with the customers happens every six months, so every April 1, and October 1, so on October 1, we could get the prices increases from the customers, which is what you will see the third quarter results were far better.

The second half our EBITDA per tonne was north of Rs.5000 roughly around Rs.5300 and the first half was around Rs.3300 to Rs.3400 a tonne. What happens in our company is in a rising raw material scenario we will always have an EBITDA squeeze because the raw material costs keep changing. Some material we are buying on a day-to-day basis and some materials we will have some stock, but overall in a rising raw material cost scenario, the margins will get squeezed because the price adjustment happens only after six months.

In a falling raw material price scenario, we will see margin expansion. Unfortunately, the raw material prices continue to rise even now. Again as we see this year, we have got a price increase from April 1, of about Rs.4100 from most of the OEMs; however, the raw material prices will be rising further, which means October again we will get another price increase, so again we will see second half would be better than the first half as far as this year is also concerned; however, we expect the first half of this year to be better than the last year.

Moving ahead as I said we are seeing Rs.4500 to Rs.6000 is what we would expect EBITDA per tonne in normal circumstances. In a rising price, raw material price scenario it will be at the lower end of this and the falling raw material price scenario it will be the higher end of this.

Last year, we also had two capital rising. The first was rights issue of Rs.68 Crores and the second was QIP of Rs.50 Crores. We got two anchor investors, Sundaram Mutual Fund and DSP Blackrock. Of course, our approval from the shareholder was to raise up to Rs.175 Crores, but market conditions were tight at that time and we decided to go ahead with a Rs.50 Crore raising and debt equity of course has become very comfortable now at 0.65 on March 31, 2018.

Considering we were at 2:1 debt equity about three and a half years ago, we have improved significantly since then. With this capital raising, our current expansion plan, which is on the Greenfield site, which includes the land that we have just purchased, which is part of the Rs.200 Crores that we are talking about all this can be funded without any further dilution requirements; however, if we look at any acquisition or some such opportunity comes in, we may need some extra capital from outside.

The reason for the QIP, the reason for two equity offerings in quick succession were rights issue of course was to strengthen the balance sheet and then the QIP was to basically impart with the liquidity to the company and get institutional shareholding, so after this we do have two stronger institutions as well as the intention was to improve liquidity in the company in terms of trading liquidities for share visibility in the market as more and more investors were talking to us that they wanted share and shares availability was a problem, so that was the reason and as of now our rating is AA minus by CRISIL, but that rating is of course there is a letter of comfort from the shareholders, letter of comfort from the group promoters for Vardhman Special Steels, so based on that we are AA minus rated company with the positive outlook.

The unfinished agenda from the past continues to be we are still looking for a strategic partner in our automotive steel business. We are looking for a possible JV in a downstream value this business of bright bars and we are now seriously looking for a partner for getting into high alloy steels of more specialized steels, which go to this route of steel manufacturing. Those kinds of products of course will get into business segments like bearings or looking at tool and die those are under study at this point. Over the next year or so the study will continue whereas the continued look for a partner in that area.

Overall, we have a strong team and our cost come under control with the increase in production. The biggest advantages we now have are two, in addition to our own operations. Punjab government lowered cost of power tariff has kicked in from January 1, 2018, so power tariff today is now roughly around Rs.5.70 paisa per unit, which was around Rs.6 40 paisa per unit, so that is one element of power and second element of power is there is an incremental power consumption over last year is at a lower tariff, which is why there was a bump up in the fourth quarter because of power.

Operating EBITDA was lower because of the continued increase in raw material prices, which has got adjusted partly with the Rs.4100 price increase what we got in April 1, 2018. The second unfinished agenda from the government was the government incentive. We are happy to announce that the government has cleared 31 Crores of past incentives on an interim basis pending final status from the government, so which means we are going to get this 31 Crores. The government has accepted up to 62 Crores worth of incentives; however, as per the policy that the government has taken out, which we are disputing, the incentive overall is going to be about 26 Crores over the next eight years, which includes the two years gone by we will get pending arrears. We are of course contesting that in as per us the incentive has to be higher because of a flaw in the interpretation of the government policy, but at least this part of the incentive is now come out in terms of a notification from the government.

So this is all and I would like to of course thank our team, all our stakeholders, our customers have been very supportive, banks have been supportive and we now have a new investor relations firm Bridge and they are also on the call with us. We hope they will be of course communicating this more of you on a regular basis and our CFO, Sanjeev Singla who is on call and Jasmeet, Group Head of Finance is also on the call, Purva, Investor Relations Advisor she is on the call and Sanjeev will start visiting the capital markets and next trip to Mumbai. He will visit me, so he will be getting exposed to the capital markets as per as Vardhaman Special Steel in concerned. So this is all I have to say and we are now open for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Dhruv Agarwal from Crecsita Investments. Please go ahead.

Dhruv Agarwal: Good afternoon Sir. Congratulations on a good set of numbers. Sir, my question is regarding the volume estimate for the coming year FY2019 and FY2020, for FY2018 you have done a total of 152000 around metric tonnes of volumes, so what can we expect for FY2019 and FY2020 going forward, any percentage growth rate or any absolute number if you can tell us?

Sachit Jain: Market conditions continue to be good and demand is robust, so we will still be constrained by our capacity and the capacity additional will come in only later part of the year plus we have a shutdown coming, which will enable the capacity expansion to happen. So we are expecting between 165000 and 170000 tonnes of sales as far as the financial year is concerned.

Dhruv Agarwal: For FY2019?

Sachit Jain: Yes. For FY2020 we expect to get about 200000 to 210000 tonnes.

Dhruv Agarwal: Sorry, around?

Sachit Jain: Around 200000 tonnes.

Dhruv Agarwal: 200000 tonnes and just this present year volume has been from the total capacity of 180000 or 200000?

Sachit Jain: 180000, the capacity of 200000 has just about reached now, so let us say March, April, so it has just now reached, but even now we cannot consistently make 200000 tonnes because this is one off, I mean we have hit that run rate in one month. We need some more balancing capacity to make sure that this can be done on a regular basis that balancing capacity will be coming in by September, October. So really on a consistent basis to be able to get that production through the year, October will be the right place, but one month we have already shown that that capacity of 200000 tonnes has now been met.

Dhruv Agarwal: Sir, one more question is regarding the realization per tonne, for FY2018 your realizations were around Rs.56500 per tonne, so going forward how do you see that growing, what will be traction in that?

Sachit Jain: This is all raw material linked. Already Rs.4100 is the price increase that we have got from April 1, 2018 for most of the OEMs. One OEM is still pending, which would happen in the next 15 to 20 days and by the market trend they should also give the same. So, 4100 is the price increase that we have got from April 1, 2018 and October 1, 2018, it depends on the negotiations at that point in time, but the way we see it, the price increase at that time should be somewhere between Rs.2000 to Rs.4000 a tonne depends on how the raw material shifts further.

Vijay: Sir, this is Vijay here. Just wanted to understand one more thing in terms of the capacity and the growth that you have talked about, so as we are moving ahead with the capacity constraint environment that we have and growth seems to be robust, so how we are looking at a business or we selecting business as per the better margin profile or we are sticking with what all is coming to our plate so is there a scope of margin expansion or realization increase coming in?

Sachit Jain: Yes, there is. Already the process of shedding unprofitable so there are three categories of businesses. One is strategic and profitable, one is unstrategic and not profitable, and one was strategic and not profitable. So the unstrategic and not profitable businesses have already been shed last year. Now, we are concentrating on the strategic, but not profitable business and we have started very solid discussions with on the customers and we have found that wherever we have taken a firm stand, there is a change in the approach from the customers and we have got some improvements. I do feel that moving ahead there would be possibility of margin expansion, which is why for the first time we have even imagine the figure of 6000, I am not saying we have hit the figure of 6000, but I can now visualize the possibility of hitting margin in the range of 4500 to 6000. This is something that we will see overtime.

Vijay: That is great and Sir, just wanted to understand the debt profile now given the rights and the QIP, so how much is the debt currently?

Sachit Jain: Net Debt on March 31, 2018 was 220 Crores.

Vijay: And have we got cost benefit also in terms of the overall debt cost?

Sachit Jain: No, that does not change.

Vijay: That does not change?

Sachit Jain: That will change only when our rating changes, but of course overall in the market there is a little steepening of the yield curve so I am not seeing any reduction in debt cost.

Vijay: So it is around 11% currently or more?

Sachit Jain: No, it will be less than that.

Vijay: Thank you very much.

Sachit Jain: And since we are AA- rated, so we are able to also borrow in the CP markets. Our working capital is borrowed in the CP markets, long-term should be roughly on 10 and short-term would be lower than that.

Vijay: Great Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Mangesh Bhadang from Param Capital. Please go ahead.

Mangesh Bhadang: Good afternoon Sir and just a couple of questions from my side. Sir, firstly for your pricing reset earlier the graphite electrode was not part of the formula, so from the price hike that you mentioned from April 1, 2018, do it include the variations in graphite electrode that is the first question and secondly, Sir when you mentioned that you can do Rs.4500 to Rs.6000 EBITDA next year?

Sachit Jain: No, I am not saying next year and this is the range that we can see overtime. Each year if the raw material prices keep rising then we will not hit that figure this year because we will be paying catch up, but my belief is at least one element of raw material seems to have stabilized, shredded scrap seems to have stabilized, so it seems that within a couple of months or so the raw material price could start stabilizing, so once raw material price starts stabilizing then we hit these numbers.

Mangesh Bhadang: So that is the number basically we can expect in the scenario as you had mentioned in your opening remarks when actually the raw material prices started going down and since the reset takes time probably that is the time you will enjoy?

Sachit Jain: Yes, they are stable. I am saying when the raw material prices are stable then we should see this kind of situation. We do not predict exactly quarter-by-quarter what is the situation is going to be.

Mangesh Bhadang: Basically I just wanted to understand can we hit that 10% EBITDA margin so assuming even the Rs.6000 of realization is it possible to reach 6000 without any, so can we have the pricing power?

Sachit Jain: One thing the EBITDA per tonne will be in this range and as prices keep rising the percentages will keep falling, so a 10% seemed possible at Rs.5500 a tonne .

Mangesh Bhadang: Sir the first question that Rs.4500 it just covers the cost or it still leave us something on the table to add it to the EBITDA?

Sachit Jain: No of course it leaves this much on the table, so we expect an increase in net profit again this year also even at a lower end of the whatever EBITDA we get.

Mangesh Bhadang: Got it. Thanks a lot.

Moderator: Thank you. Next question is from Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Two questions from my side; first on the incentives from the government, can you just repeat you have received Rs.31 Crores out of how much?

Sachit Jain: No, we have not received it. The government has approved it and this includes arrears of two years plus moving forward; however, we are contesting the government figures and we are saying we are due for a higher incentive than this and those discussions are going on, but as per the current approved policy we will get Rs.26 Crores over the next six years including the past two years, so over eight years we will get Rs.26 Crores.

Dhaval Shah: So Rs.26 Crores each year or over eight years?

Sachit Jain: Overall over the eight years' period, but this is as per the government's understanding of the current policy; however, there is a section of the government, which has got convinced that their reading of the policy is wrong and therefore we should get a significantly higher incentive those discussions are going on.

Dhaval Shah: So in terms of your additional cash flow for you in FY2019 this year and FY2020, so from the government side how much you are expecting?

Sachit Jain: I do not know because as I said this is as per what the government has approved. This year we should get Rs.3.5 Crores of pending from last year and Rs.2.5 Crores from this year, so we can easily get Rs.6 Crores straightaway; however, we are contesting this and we believe we should get significantly more than this. Enough is on the table we can take it right now and it is approved by the cabinet.

Dhaval Shah: Okay Rs.6 Crores is on the table, so in terms of – is this reflecting in the margin?

Sachit Jain: This is not reflecting in the margin, this will be over and above what we are talking about.

Dhaval Shah: Now Sir second question is on the industry, I remember two calls back we had discussed about couple of players in industry are not in a good financial state, so this helps little bit, we have the existing players in terms of growth and bargaining power with the customer, so what is the current nature in the nature, how are the competition, has the players started regaining, have they become started getting topper in terms of financial health?

Sachit Jain: The weaker players will continue to remain weak and stronger players will continue to become stronger, so the gap between the good and the weak will I think start increasing.

Dhaval Shah: So you had also named the couple of players also like Modern Steels, Heavy Steel, which were not in a good state, so they all will be going for this some of the other may be acquisition from someone or they might go for liquidation or something?

Sachit Jain: My understanding is Remi Steel the promoters are now trying to revamp the company and investing more money, so then they have strong promoters, so they will be able to revamp it.

Dhaval Shah: Okay, so our addressable market size is annually 5 million tonne am I correct?

Sachit Jain: That is the rough estimate.

Dhaval Shah: So for the demand of 5 million tonne current supply is more than the demand or adequate, how is it?

Sachit Jain: There is an interesting part for the good quality companies everybody is tight on supplies, so all the companies at the top tier are all very tight on capacity and when we increase our capacity ,we should be in a good spot in our ability to service our customers.

Dhaval Shah: Sir when the good companies are short of the supply, so should not there be a better bargaining power and the pricing power with you guys competing, when taking a price hike, so currently you take price hike, so cannot this frequently change?

Sachit Jain: Understand when you are talking to the big boy like a Maruti or Hero; howsoever, strong you think you are you are still a much smaller company, so I will never say that we have a strong bargaining power with any of these customers. We have good relationship with them. We serve them well and we have good discussions and fair negotiations, so to say any day that our bargaining power going to be stronger company to any of these big giants that would be highly, highly unlikely.

Dhaval Shah: Over the next six to eight months to one year you expect the supply side to gets stronger or the market place is growing?

Sachit Jain: It is very difficult because you see what happens is there is a very strong approval process, which takes time, so the entry barriers are very, very high in this business and the business is a sticky business, so it is not so easy to just get in a replacement.

Dhaval Shah: So for example just for my understanding if a weaker player could not supply the required volume because of lack of equipment?

Sachit Jain: They would not be approved by the superior quality companies.

Dhaval Shah: So who are your clients they will not be approving it?

Sachit Jain: They will not be approving, so our competition in the companies where we are approved are the stronger companies.

Dhaval Shah: There would be in terms of number would be 3 to 4 in India?

Sachit Jain: About five players including us.

Dhaval Shah: Including you about five players?

Sachit Jain: Yes.

Dhaval Shah: Okay and Sir just last on the volume side, so this year your rolling production was 162?

Sachit Jain: Yes, so one there is a rolling production all will be higher because we also have this process of bright bars, which consumes rolled production and there is wastages there one. Two, we are building up some rolling stocks now because we have a shutdown in our rolling mill coming up in August, so we are building up some stocks for servicing, so production is little higher than what we have sold.

Dhaval Shah: What is our billet production this year?

Sachit Jain: Billet production was 167000.

Dhaval Shah: So broadly this should also growth should be around 20% in the billet product the next year?

Sachit Jain: Because we have a shutdown coming, as I said 25 days' shutdown, so we will not have that level of production and really the capacity will start going up from September, October then we have a shutdown coming and then again from about February this capacity should go up after stabilizing shutdown, so which is why we are talking of, but we are still talking about an increase in sales to 170 around, 165 to 170, so about 10% increase in sales.

Dhaval Shah: Sir was not this number around 15%, 20% like two quarters back you said the industry given the way industry is growing 15%, 20% growth is what?

Sachit Jain: I said we have a capacity constraint which is why we are talking.

Dhaval Shah: That is right. Thank you.

Moderator: Thank you. Next question is from Ritesh Poladia from Girik Capital.

Ritesh Poladia: Thanks for the opportunity Sir. This Rs.200 Crores capex over three years, so will that utilize the existing facility or the new land, which is acquired?

Sachit Jain: I am sorry I did not get you. Can you just repeat the question, please?

Ritesh Poladia: The Rs.200 Crores capex over three years will that utilize the existing facility or even that takes care of your new 8-acre land?

Sachit Jain: It takes care of the new 8-acre land, so about Rs.40 Crores is the investment in the land just buying of the land, government fees, etc., so Rs.40 Crores goes there, so Rs.160 Crores goes into capex, which is a combination of the expansion of our melting, expansion of our rolling, normal capex some quality equipment, some safety equipment, R&D, little bit of investment in bright bar, so combination of all is about Rs.200 Crores.

Ritesh Poladia: What I want to ask is will this Rs.160 Crores capex would happen on the new land also means new land would be utilized for this capex?

Sachit Jain: New land would be utilized partly. Yes, we will be shifting we plan to shift our bright bars to the new land.

Ritesh Poladia: Okay Sir, both lands put together how much capacity can be setup?

Sachit Jain: Every time I think, I think we reach the ultimate, so earlier we thought 200000 tonnes of billet making was our limit; however, our team works hard and broke bottlenecks and we are now seeing a capacity of 240000 tonnes. As of now the 240000 tonnes is our limit; however, our team murmuring has already begun that we can probably improve this further from this, so I do not know, but as of now 240000 tonne is our limit on this plant.

Ritesh Poladia: In this new land?

Sachit Jain: Including the new land any further capacity will have to go to a new location.

Ritesh Poladia: Sir, one request. If you can give us sales and production volume every quarter that would be wonderful.

Sachit Jain: I am sorry sales and?

Ritesh Poladia: Sales and production volume number every quarter.

Sachit Jain: Sure we will do that.

Ritesh Poladia: Okay and last what is the Q4 EBITDA per tonne?

Sachit Jain: Q4 is about I think, 5000 odd, but as I said there are factors helping increase the EBITDA and their factors depressing the EBITDA, so the power tariff part led to the increased part and the raw material increase led to reduction of the EBITDA. Fortunately, both balanced and in the end we got 53 kind of thing but otherwise I was expecting lower than this.

Ritesh Poladia: One more last if I can see, in presentation you had mentioned, there would be some joint venture further downstream valued players, so if you can elaborate a bit more on that? What is your purpose?

Sachit Jain: This is under discussion with a potential partner so beyond this I cannot say anything because as and when the discussions continue and take shape that is something that will be declared. As of now I can only say we are discussing with the potential partners.

Ritesh Poladia: It is into which area like you will go for much more value added bright bars?

Sachit Jain: We are adding some more value addition within this bright bar area.

Ritesh Poladia: That is all from my side. Thank you very much Sir.

Moderator: Thank you. Next question is from Abhijith Vara from Sundaram Mutual Fund. Please go ahead.

Abhijith Vara: Thanks for taking my question. First question is what will be the accumulated losses you have and how long will the tax incentive?

Sachit Jain: The tax benefit I think will stay the full 2018-2019 and partly 2019-2020, so 2019-2020 is going to start paying tax. But we will be paying MAT so we also have MAT credit.

Abhijith Vara: Second, I wanted to clarify bulk of the QIP rights issue money was used for bring down the debt is it?

Sachit Jain: Partly paying down the debt and partly for the expansion because we already paid all the entire money for the land then we have already given a notification earlier that there is a pending entry tax case, so we have paid money for that plus some advances for equipments started going out, so it will be combination of both. We have not paid back any debt from the QIP from the rights issue we paid back some debt, but from the QIP it is all going primarily for the capex plus some extra working capital require because of increased sales.

Abhijith Vara: The third question I wanted to understand out of roughly Rs.3100 per tonne of cost some raw material how much will be electrode cost?

Sachit Jain: Electrode is not for raw material. Electrode is part of other manufacturing consumables. You can see there is a maximum increase in raw material cost, which is squeezing the margin and which is leading to a price increase with a lag so which is why the first April price increase of 4100 and this thing is continuing even in April, May so the raw material prices have risen further in April and May, which is why we are saying that in October we should get another price increase.

Hopefully it looks like things seem to be plateauing but we cannot comment on that because these are factors beyond our control.

Abhijith Vara: The profitability should not be too different from H2FY2018 right for the H1FY2019?

Sachit Jain: It could be bit lower but it will be higher than the first half of previous year, because the raw materials cost have risen much more than what we anticipated.

Abhijith Vara: Got it Sir. Volume guidance is at 170?

Sachit Jain: We will catch up from October 1, 2018; so second half would be better than second half of last year.

Abhijith Vara: Sure one last question, volume guidance you said 170000 for FY2019 and 200000 for FY2020?

Sachit Jain: 165000 to 17000 and yes 200000 tonnes in the next year.

Abhijith Vara: I will get back to you. Thank you.

Moderator: Thank you. Next question is from Chandrashekar N who is an Individual Investor. Please go ahead.

Chandrashekar N: Good afternoon gentlemen. I have two questions, both technical. First thing you mentioned you would start dye steel, would you be getting into high-speed steel or tungsten steel. I understand nobody makes in India.

Sachit Jain: I said we would start examining these areas. Our knowledge about these areas is close to zero at this point, so these are all areas we will explore and examine and we have plan over the next three to five years, so this is a diversification plan to build up a new product category and we are talking to potential partners. Depending on who wants to come into India, who is interested we are talking about all those possibilities, because all these areas are present in Indian terms of demand, and as I said, there are not too many players in the country. So any of those areas in the area of ingot casting and high alloy steel they are looking at potential partners and once we have a couple of partners in mind, we are also doing market studies, we will figure out which specific area we want to get into. As I understand it will not be one specific area, there will be a combination of areas that we will get into with this technology of ingot casting, so this is currently under study.

Chandrashekar N: Okay, my second question is about the mode of manufacture, Vardhman makes mostly through electrode when heating?

Sachit Jain: Electric arc furnace.

Chandrashekar N: Arc furnace compared to people starting a sponge iron, I mean other people are making coming there, what is the difference in economy, will it increase or decrease going forward?

Sachit Jain: My belief going ahead and this is purely my belief. As of now, the blast furnace route people they do not use as much of electrodes, so clearly there is a cost disadvantage and we are currently facing. Going ahead in the future because of these humongous profits, these electrodes manufactures are making, there will be more capacity coming up, more suppliers coming up, so year or two down the line, we should see price correction beginning to happen. Second as end of life compulsion coming in the country, shredding plants with any of the country, shredded scrap availability in the country will increase and therefore in times to come the shredded scrap availability in the country should increase. Overall operating costs for electric arc furnace route is relatively higher but the capital cost per tonne is relatively lower and as environment concerns come up more and more in the country from the blast furnace routes many of them will face challenges of putting in investing more money in pollution control equipment and so on. As we can see in China, many of the older blast furnace routes have been also closed down. So this is something, we have to see what is more environment friendly the electric arc furnaces are clearly more environment friendly.

Chandrasekar N: Thank you.

Moderator: Thank you. Next question is from the Resham Jain from DSP BlackRock. Please go ahead.

Resham Jain: Good afternoon Sir. Just one question on the inventory, which we carry as your price revision happens six months frequently, typically what kind of inventory we keep and typically our risk on the probable orders, which we are going to have on which the inventory is not hedged is for which duration or of what period?

Sachit Jain: So normally our finished goods inventory is about 25 days to a month and when we are facing a shutdown coming up then the inventory would be a bit higher, because we have to cover for 15 days or 10 days' plant shutdown, so we cannot allow our customer lines to stop, so we will have little more inventory, but on a normal basis about 25 days to a month, I think is the normal inventory that we would have with us as far as finished goods are concerned. As far as raw material is concerned, shredded scrap we normally have about 100 days of commitment, some physical in stock, some in transit on the shore, some on the sea so about 100 days is roughly our commitment as far as shredded scrap is concerned. The other scrap that we buy, we buy normally on a week-to-week basis and we may have about a month's stock. So really there is a huge amount of working capital risk, which is there and since the price revision take average price for the last six months, so it is not a spot price or the end of the six months or particular date, so there is really no risk, risk could be for a particular quarter, the volatility would be high, but on an overall basis it catches up. The orders that we make or all pretty much fixed, so we have production schedules of our customers or OEMs, so we do not make anything to stock otherwise everything is made to schedule, so really risk on that part is also extremely low.

Resham Jain: Thank you Sir.

Moderator: Thank you. The next question is from Devang Sanghvi from ICICI Direct. Please go ahead.

Devang Sanghvi: Thank you for the opportunity. Most of our questions have been answered. Just wanted to know this power cost savings have already started to flow through the P&L or it will be also coming in next quarter also?

Sachit Jain: It has started coming from first January.

Devang Sanghvi: In terms of the new capacity what we are setting up, would there be any value addition in terms of product profile or it will be similar to what we sell currently?

Sachit Jain: Similar to what we are producing currently; however, we expect little extra demand from the better customers so we are trying to control the customers where the margins are lower and hoping to have more sales on the customers who pay little better.

Devang Sanghvi: Okay, can you throw some, which particular vertical like two wheelers or passenger cars, is this particular segment?

Sachit Jain: The best vertical is of course the very specialized product like piston pins, etc., but those are very small volumes, overall four wheelers are better paying than two wheelers and HCVs and tractors are the lowest at the end. So tractors are out from our portfolio. HCV also the local HCVs are almost out, it is superior HCVs like Daimler, Meritor, which supply to HCVs in the US so those are kind of customers we track.

Devang Sanghvi: In terms of price hike what you had taken of Rs.4100 per tonne this covers all the increasing roughly so prices are may be that could be?

Sachit Jain: It is very difficult to say it covers because when you go to the OEMs, you discuss the total cost increased, which is based on raw material as well as electrodes. They use a composite figure, they do not give figure that this is on the account of raw material, and this is account of electrodes. But as you saw in the Q3 performance that we have shown in last year so more or less the electrode prices have been compensated more or less.

Devang Sanghvi: Okay any trend you see going forward as a customer of graphite electrodes, how do you see that shaping up?

Sachit Jain: We expect them to be stable now, to be plateauing now. This is our expectation, okay we can be wrong, but we expect this to be plateauing and then may be year-and-a-half or two down the line we expect this is start falling.

Devang Sanghvi: Okay and in terms of the realizations on margin, is export a good focus area going forward, may be that could have better realization or better margins is that assumption correct?

Sachit Jain: It keeps changing depending on currency so three years ago when the rupee headed 68 or 69, exports were far more profitable, at 64-70 when the rupee was 64, exports were less profitable, again with the rupee depreciation exports have become definitely better so it is keep changing.

Devang Sanghvi: It is more like it depends on the currency, is that good the way to look at it?

Sachit Jain: Because prices are international prices and we will continue to be in that business so the profits will fluctuate depending on the rupee dollar situation.

Devang Sanghvi: Okay but do we plan that 5% share to go to say 10% or 15% for next three to five years?

Sachit Jain: I really would like to go to up about 10%, but I do not think we will be going beyond 10%.

Devang Sanghvi: Thank you for the time and all the best.

Moderator: Thank you. The next question is from Dhruv Agarwal from Crecsita Investments. Please go ahead.

Dhruv Agarwal: Sir I wanted some two clarifications, one is we have not paid any tax for this year so FY2019 will also be zero tax?

Sachit Jain: Yes.

Dhruv Agarwal: Okay and FY2020 we can expect around 20%, 25% or what figure should it be?

Sachit Jain: About 20%.

Dhruv Agarwal: About 20% for FY2020 and no tax for FY2019 correct?

Sachit Jain: Yes. There will be deferred tax that we will pay in 2018-2019.

Sanjeev Singla: In 2018-2019 some deferred tax provision will be there.

Dhruv Agarwal: Okay and Sir can you just breakup the capex for us, so out of Rs.200 Crores capex, which we have earmarked for the next three years so Rs.40 Crores for the land purchase is already included in this Rs.200 Crores figure right?

Sachit Jain: Yes, that is right.

Dhruv Agarwal: So out of Rs.160 Crores on capex, which remain how will you be funding this capex?

Sachit Jain: Internal accruals alone and very little bit of marginal incremental debt and debt equity, we will remain below 0.8 so as I said with this QIP of Rs.50 Crores, we do not need incremental equity coming in as far as the current foreseen expansion plans in this current location is concerned.

Dhruv Agarwal: Okay Sir I guess you have around Rs.48 Crores of QIP money remaining so that will be used in this Rs.160 Crores of remaining capex?

Sachit Jain: I do not how much is remaining so see you are talking of March 31, 2018 as of today already a chunk of that money has gone.

Dhruv Agarwal: Okay so the rest of the money you will be able to do it with internal accrual itself and very marginal debt is that you are saying?

Sachit Jain: Correct so debt equity we expect to remain below 0.8 for the current plans of this location and I am repeating that and expansion when this idea of this ingot costing and all these things take up shape and then will require another plan of investment.

Dhruv Agarwal: Yes, that is fine. That is what is under study right now, but I am only talking about this 200-capex thing, not beyond that?

Sachit Jain: This does not require any more equity.

Dhruv Agarwal: Equity dilution or margin. Thank you so much Sir.

Moderator: Thank you. The next question is from Samarth Shah who is an Individual Investor. Please go ahead.

Samarth Shah: I wanted to ask about are we looking at certain NCLT cases companies in schedule in Kolkata, giving really good proposals, so are we looking after them?

Sachit Jain: For your specific question the answer is no.

Samarth Shah: Answer is no. Do we plan to do so after couple of months?

Sachit Jain: Again specific question the answer is no.

Samarth Shah: Okay and wanted to know how frequent can we do the pricing reset?

Sachit Jain: Every six months.

Samarth Shah: Yes, can we get it lower something happened in oil, we are deregulated and we are doing it daily basis, cannot we get it five months, four months the regulations?

Sachit Jain: No you cannot argue with the Maruti or Hero.

Samarth Shah: That is the industry norm, six months?

Sachit Jain: These are the industry norms, yes.

Samarth Shah: Six months' industry norm?

Sachit Jain: Yes.

Samarth Shah: Okay and wanted to know in a very macro perspective if we are going into the whole country might be going into EV culture by 2025 or 2030 so how are we shaping for that?

Sachit Jain: One, my expectation is 2025, we have been doing all the research talking to OEMs, talking to top tier I's globally, nobody expecting this the way the government is talking. So EVs are coming, but the proportion at which they will come is going to be way slower than the way the government is thinking and if you see the government announcements have also changed. A year ago they were talking from the rooftop by 2030 so now currently you do not hear EVs from the government. So directionally that that point is correct so we do not know but my personal view is going to take longer. One, so what we are doing is we are developing certain products that will go in EVs also. So this downstream JV that we are looking at will be producing some special products, which we will be going into EVs if the JV goes through one and two we are also this diversification ingot casting and higher alloy steels etc., is also part of the same move to reduce our dependence on automotive steel.

Samarth Shah: Okay and wanted to know I think you mentioned five to six competitors in our space, could you list couple of them?

Sachit Jain: Our main competitors where we compete on a regular basis are Mukand, Sun Flag flat, Kalyani Steel, these are the companies we come across on a regular basis.

Samarth Shah: Okay but so what I feel is going through these companies that their margins are in double-digits, which are very heavy compared to us?

Sachit Jain: Correct as I said, the margins would be higher, but their capital employed would also be higher.

Samarth Shah: Okay so these are ISPs that is why their margins are higher?

Sachit Jain: Yes, and the other advantage that we will be more flexible and we can make smaller lots and gives better customer service.

Samarth Shah: Okay 0.2 mm and those dimensions?

Sachit Jain: Not our lowest mm is that we have is about 16 mm.

Samarth Shah: 16 mm okay. So we would never be able to catch up with their margins?

Sachit Jain: Margins we are comparing apples and oranges.

Samarth Shah: If I look at it in a different perspective from Vardhaman Group perspective from an investor perspective we are making a share low impact of Rs.45 Crores taking into tax of 20%, which would bring in return on debt equity of 12%, 13% so how is this capital allocation from a group perspective or from company perspective?

Sachit Jain: This profit is clearly inadequate and we expect the next two years when we fully utilize the full expansion that we have we expect this ratio to improve.

Samarth Shah: Yes, that is what I am saying. I am taking EBITDA less PAT which is NOPLAT Rs.45 Crores-Rs.50 Crores and which is still giving me return of…

Sachit Jain: I am saying this will improve. We are expecting to improve significantly with the increased expansion.

Samarth Shah: Sir I will repeat again. I have taken the increased number and I have taken optimistic scenario still the numbers are sub 12%, the returns or Rs.30 Crores capital is employed equity returns are like in the range of Rs.40 Crores, Rs.45 Crores, which right now we are doing Rs.28 Crores of Rs.25 Crores of PAT, when I am taking NOPLT, net operating profit less taxes?

Sachit Jain: I will say let us talk next year. Shall we talk next year on this?

Samarth Shah: Okay and one last thing how will the JV, for the JV if we make breakthrough so what we require another round of funding for that because….

Sachit Jain: No we will not require too much of funding, may be little bit extra marginal debt would come in little bit of debt that may be taken. So we do not foresee any capital raising for the existing plants I will repeat it and two, within the debt equity of about 0.8 may be go to 0.85, but within that we expect to be there within that range.

Samarth Shah: Just want to understand what are the offerings the international player to have JV?

Sachit Jain: All those things we will discuss and this is just matter of governance. We said that we are talking to somebody but the biggest advantage they give is assess to the Indian market and very strong brand name with access to most customers and the one of the strongest customer approval list and stronger player in North India nobody else is no other strong player exists in North India.

Samarth Shah: Thank you.

Moderator: Thank you. The next question is from Nitin Gandhi from KIFS. Please go ahead.

Nitin Gandhi: Thanks for taking the question. Sir when you said date would not increase but I presume net working capital needs will be up is when the expansions start?

Sachit Jain: Correct but also there will be an improvement in cash accruals from the company and we are also expecting number of days, there is an improvement in our working capital cycle overtime.

Nitin Gandhi: Fine. Thanks.

Moderator: Thank you. That was the last question. I would now like to hand the conference back to Mr. Urvil Bhatt for closing comments.

Urvil Bhatt: Thank you, Raymond. I would like to thank the management team for taking out the time to participate on this call and also I would like to thank all the participants for joining in. Thanks again and with that we conclude this call. Thank you.

Sachit Jain: Thank you so much. Thank you for being with us.

Moderator: Thank you very much. On behalf of IIFL Institutional Equities that concludes this conference call. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.