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Ref. VSSL:SCY:JUL:2024-25 **Dated: 30-Jul-2024**

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 – Q1 FY25

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 26th July, 2024 to discuss the Company's operational and financial performance for Q1 FY25.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN SPECIAL STEELS LIMITED

SONAM
DHINGRA

Digitally signed by SONAM DHINGRA
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(SONAM DHINGRA)
COMPANY SECRETARY

"Vardhman Special Steels Limited Q1 FY-25 Earnings Conference Call"

July 26, 2024

MANAGEMENT: **MR. R. K. REWARI – EXECUTIVE DIRECTOR, VARDHMAN SPECIAL STEELS LIMITED**
MR. SANJEEV SINGLA – CFO, VARDHMAN SPECIAL STEELS LIMITED
MS. SOUMYA JAIN – EXECUTIVE DIRECTOR, VARDHMAN SPECIAL STEELS LIMITED
MRS. SONAM DHINGRA – COMPANY SECRETARY & COMPLIANCE OFFICER, VARDHMAN SPECIAL STEELS LIMITED

MODERATORS: **MS. DEEPIKA MURARKA – CHOICE EQUITY BROKING PRIVATE LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to Vardhman Special Steels Limited Q1 FY'25 Earnings Conference Call.

As a reminder, all participant lines will be in a 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 the "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Deepika Murarka. Thank you and over to you, ma'am.

Deepika Murarka: Thank you. Good afternoon, everyone. On behalf of Choice Equity Broking, welcome to the Q1 FY'25 Post Earnings Conference Call of Vardhman Special Steels Limited.

I also take this opportunity to welcome the Senior Management Team. On today's call, we have with us Mr. R.K. Rewari – Executive Director, Mr. Sanjeev Singla – CFO and Ms. Soumya Jain – Executive Director.

This Conference Call may contain certain forward-looking statements based on the beliefs, opinions and expectations as on the date of this call. These statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict.

I now invite Mr. R K Rewari for the "Opening Remarks" to be followed by a question-and answer session. Over to you, sir.

R. K. Rewari: Good afternoon, everyone, and thank you for joining us on our Earning Call for the 1st Quarter ended 30th June 2024.

On the call with me is Ms. Soumya Jain, who is our Executive Director, Mr. Sanjeev Singla – our CFO, Mrs. Sonam Dhingra who is our Company Secretary and Compliance Officer and Ad Factors PR our Investor Relations team, I once again welcome all of you.

As you are aware that our board meeting which concluded yesterday, we are pleased to inform you that overall numbers are looking good. So, in Q1 FY'25, the volume sold stand at 50,000 plus, that is 50,298 MT. Q1 revenue is Rs. 415.78 crores which is a nominal increase YoY at 1.32%, EBITDA is a good number; it is Rs. 48 crores, and it has increased by 31.71% and PAT is also higher at Rs. 26.08 crores. These are double digit vis-à-vis our corresponding quarter.

So, first of all, let me start sharing that overall, our operations were stable. As I said, sales volume has crossed 50,000 tons this quarter and we are in the vicinity of achieving our annual… not in the vicinity, it is likelihood that we will achieve our annual target of 2,10,000 tons of steel.

So, I have said the revenue has also increased. On the marketing front, the quarter was I'd say calm, it was little I will say subdued because some of the shutdowns were there or after shutdowns, the OEM started picking up the production and some of the sales which we will book in this quarter also because not booked in the Q1.

On the marketing front, things are looking good. We had a conference our team attended with Maruti, which they have shared that maybe in the things to come the EV penetration, which was envisaged at 30% or 25%, will be about 15%. So, that looks good for IC engine, that we see demand will remain the same. So, that is a little good news for all of us.

Overall, there is not a major impact of the budget on our business. However, it looks that one of the raw materials item on which the import duty has been slashed will give a little bit of benefit and the tax benefits for society middle class segment may spur the consumption and increase the sales of motor or bikes.

First of all, I am sorry that Mr. Jain could not attend this meeting because he is travelling to Bangkok. He has been saying that we will be increasing our billet capacity. So, in Q4 FY24 and in Q1 FY25 we tested our capability to achieve the target of 2,60,000 MT per annum, that has been tested and we have been able to achieve these targets.

As you all are aware, we are undergoing some revamping and expansion programs in our company. So, those are like capacity expansion by putting up Kocks block and new Re-heating furnace is going on as per plan and things at this moment look quite under control.

To undertake this, we have planned two major shutdowns for seven days in the month of July and the latter for two weeks to 2.5 weeks in the last quarter or third quarter of this year. So, in order to cater to our customers during this shutdown, we have built up the adequate inventory which will help us meet the requirements of our company. At this moment, our WIP and the closing stocks might look a little higher, but these will be taken care of in due course of time.

Raw material prices in Q1, raw material prices was up by 8% to 10%. Its impact on profitability was neutralized by the compensate increase in inventory valuations. However, in July '24, again, the prices have come down and came closer to what these were in the beginning of Q1. So, the prices remain at this level. The inventory valuation loss is a possibility in Q2.

Price decrease from OEMs in this quarter, still, discussions are going on by our marketing team with the OEM teams and still there is no final decision on this. Our green steel initiatives, which we have discussed with you a number of times are in line with our plans.

So, now I will request Mr. Singla to share exact numbers with you.

Sanjeev Singla: Thank you, sir. I think Rewari sir has comprehensively covered everything.

The only thing is that in the financial, you will see, as Rewari sir has said that inventory levels are going up, inventory has really increased in this quarter by Rs.62 crores. But yes, after the shutdowns, which is a seven-day shutdown in the month of July and another shutdown for three weeks, which we are planning maybe in Q3 or in Q4. This increased finished goods inventory will be eaten up and by the end of the financial year we will be close to our normal levels.

And as of now, our debt-equity ratios are well within the range; it is close to 0.12. And going forward also with the expansions we are expecting to be in the same range because of savings or a reduction in the working capital. That's all on financials.

Now, I request the question-answer session to begin.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Anil Kumar, an individual investor. Please go ahead.

Anil Kumar: Sir, I just want to know about the Greenfield project you have mentioned something like that. Can you share that and what is the realization level in this quarter?

Sanjeev Singla: Realization level for the current quarter is Rs.82,000 per ton. So, on Greenfield as it has been discussed in the previous con-calls, so we are continuously working on decreasing our CO2 emissions, and in that direction we have already signed our purchase agreement for setting up 55 MW power plant. Hopefully, it will be in place by March '25. So, as of today we are having 0.73 CO2 emissions per ton of steel. After setting up the solar plant our CO2 emissions will come down below 0.45.

Anil Kumar: You are talking about green energy. Actually, I was thinking of Greenfield plant.

R. K. Rewari: Greenfield plant is still under discussion. No final decision has been taken.

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

Ritwik Sheth: Can you quantify what is the benefit of using pipe gas versus earlier fuel and what would it be going forward?

R. K. Rewari: Yes, it is quantifiable because earlier we were buying gas from THINK Gas and now we are buying from GAIL. There is a substantial difference between the price of that.

Sanjeev Singla: It is currently lower by about 40%, 45% in terms of pricing.

Ritwik Sheth: Where does it sit, because if we look at our power and fuel cost, it is flat quarter-on-quarter, where do we expect this number to flow in?

R. K. Rewari: Power and fuel, if you will be comparing from Q1 of the corresponding year to this year, it is slightly lower also and primarily it is because of fuel cost, which has come down in spite of the increase in tariff in power from 15th of June in the current quarter and also the highest ever billet production which we have achieved in this quarter, whereas in the corresponding quarter of last year the billet production was lesser than this quarter.

Ritwik Sheth: So, this power and fuel cost of 44 crores, which is there in the quarter, that is a sustainable run rate?

Sanjeev Singla: Yes. At this level of production, this is sustainable. But the only difference will be the increase in tariff by 3% of power, which is effective from 15th of June 2024.

R. K. Rewari: And it will keep on happening every year because this is a kind of advance from the power suppliers that we will be increasing the power cost by 3% every year.

Ritwik Sheth: In your opening remarks, you mentioned about the pricing discussion is currently going on with the OEMs. So, what kind of decrease are we looking at whenever it happens like can you throw some light on that please?

R. K. Rewari: It is a very difficult question to answer because if you look at the cost of one quarter, the cost was up but if we start looking at the current quarter cost and it is down by 8% to 10%. So, OEM being on the other side, they will always choose to benchmark whatever the lower costs are available in the market. So, to give you or share a number expectation will not be appropriate for us to say, but we are trying together with all the OEMs to reach on amicable, mutually acceptable level.

Moderator: The next question is from the line of Harshil Patel, an individual investor. Please go ahead.

Harshil Patel: I just have a few questions. The first question is, can you share the update on the Aichi steel related work going on?

R. K. Rewari: So, I think the activities with the Aichi steel are going on well. So, there are two, three parts of their cooperation with us. One is on the technical front. As everyone is aware, three of their representatives are stationed at our works. So, that is going on and accordingly, our teams are working with them very closely and taking their guidance on existing activities and future activities. So, this is going on very well and I think if I have to say in one sentence the relations and the activities are positive and are happening in a very progressive environment.

Harshil Patel: Please provide some colors on ESG initiatives and towards the green steel?

R. K. Rewari: Sorry, say it again.

Harshil Patel: Can you please provide some color on our ESG initiatives and towards the green steel?

R. K. Rewari: ESG initiatives, as our vice chairman has also explained number of times that we have kept our initial benchmarking with the existing steel making mills, where we stand out because at this moment our carbon footprint comes in the vicinity of 0.70 tons of carbon emission per ton of steel manufactured. Now, most of these carbon footprints are because of the power we use, which is coal-based power. So, you can say one of the idea which was a good idea was to move to the solar. So, we have already as I said earlier initiated and cooperated with third-party to provide us 55 MW of green power or solar power to us. So, that work is already in progress, and I think by the end of February or March '25, we shall be able to get the benefit of that. So, this is the major thing which we are currently undertaking. Besides this, we are also evaluating and seeking some external help to see what else can be done as a manufacturer to further reduce it.

Harshil Patel: So, how does the export market look like -- have we got inroads in Southern Asia market through the Aichi?

R. K. Rewari: Yes, first of all, I must reclassify that in automobile industry, the approval process is quite long, it takes more than a couple of years to get into the new product and to the new customer. Still, we are undertaking these for the last two years. So, new approvals will start happening. As far as export is concerned, the one destination we have earlier chosen and still is in our mind is the Thailand market. Thailand market at this moment is subdued because there is a low demand in that area. We hope that this demand will also pick up. However, our volumes which go to Thailand, Indonesia and Philippines for Aichi Forging is continuing at the same pace. While we were looking at this area as a potential growth area, our senior team and along with the Aichi team has also visited Europe and met many major European OEMs where we find that there can be a big potential for us because the entire Europe is looking for carbon footprints & green steel. So, that's all about the export market. If you want to know the numbers, our exports are in the vicinity of around 10% of the total sales including the indirect export of Aichi.

Harshil Patel: Can you share some light on the overall industry growth as per like what you said the industry growth in FY'25 as well as the growth of our company and EBITDA margin for the FY'25 whole year, what do you see in the future coming?

R. K. Rewari: We see the industry growth with lot of optimism because all of you are aware that Maruti, which is the largest manufacturer of automobile, has already announced the expansion. So, Maruti will be growing very big and maybe they will be doubling their capacity if I go by their saying by 2030 or so. So, similarly, Hyundai, etc., many new car manufacturers from China are also coming. So, overall, the situation at this moment is looking quite good. However, in steel, as far as you have said, we think prices will almost remain in the vicinity of the current prices. However, they are influenced by the raw material price. We hope that the availability of raw material can come under some pressure in the times to come. But to mitigate that pressure, Government of India has already end of life kind of things are already in place. So, we feel that lot of those kind of support will also be available. As far as EBITDA margin is concerned, our vice chairman has already informed that EBITDA margin maybe next year onwards will be in the range of Rs.8,000 to Rs.11,000 per ton.

Harshil Patel: On the overall outlook for FY'25, what percentage of the growth as per the revenue, what we can expect and as well as the EBITDA margin, just an overall percentage?

Sanjeev Singla: You are asking for the growth in volumes of our company?

Harshil Patel: As per the revenue and the EBITDA growth for a whole year FY'25, what we can expect?

Sanjeev Singla: As of now, we have targeted volume of 2,10,000 tons as against 1,95,000 tons achieved in the last year. So, EBITDA exactly it would be difficult but every time we are saying that we will try to be in the range of Rs.7,000 to Rs.10,000 a ton because it is again a result of various factors depending upon the raw material prices as Rewari sir has explained, it is always moving up and down; last quarter it has increased by 8% to 10% and this quarter again it has come down by 8% to 10%. And prices with the OEMs are still under negotiation, but in all we can confirm still that for the full year we will be well within the range of this stated range of Rs.7,000 to Rs.10,000 a ton.

Moderator: The next question is from the line of Radha from B&K Securities. Please go ahead.

Radha: Sir, you mentioned that you wanted to achieve 2.1 lakh tons in volume. This is despite the one-month total shutdown that you have announced. So, is there any capacities that you are planning for job work or how is it as compared to last year?

R. K. Rewari: We have a two-pronged strategy for this. One is that we have jacked up our production now. So, we are preparing some stock which will be used at times. The second part of the strategy is that we are also getting outsourced, we are getting it from outside and we were doing about 2,000, but now we have started getting done in the range of around 4,000 tons per month. So, we will try the stock equivalent to one month shutdown should be available with us during the shutdown period and customer needs are fulfilled. But still, if there is any unplanned requirement or not so regular kind of a product, there could be a little bit of loss of sale, but we'll try to make up by the end of the year.

Radha: Secondly, out of the 2.1 lakh tons, could we assume that around 25k to 30k tons would be job work and that the margins would be slightly lower compared to what it would have been?

Sanjeev Singla: Yes, it will be even more than this.

Moderator: The next question is from the line of Miraj from Arihant Capital. Please go ahead.

Miraj: My question is more regarding understanding some business aspects. So, from the presentation, I can see that we have billet capacity of 2,60,000 tons, rolling bar of roughly 2,00,000 tons and bright bars of 48,000 tons. So, what I've heard over the call you've mentioned guidance for only the billet part. So, are these rolling bars and bright bars or forward integrated products that you use the billets in that or how is this, if you can just explain that first part?

R. K. Rewari: If billet capacity is 2,60,000 tons, then about 2,30,000 tons of rolled product can be rolled from this quantity. So, out of this, currently, we are rolling around 1,20,000 or so. So, part of the billet will be used for outside rolling, and at that time, we would have completed our Kocks block and RHF new reheating furnace project. If we calculate mathematically, the increase in the capacity that will be about 18,000 tons per annum with Kocks block. So, that will also give us the scope for expanding our production.

Sanjeev Singla: Just to add to this, I think first, we are manufacturing a billet, and that billet is then used in the rolling mill for making a rolled product and then out of the total rolled product, about 25% goes for the peeling. So, our finished product is rolled 75% as it is of the rolling mill and about 25% after rolling it is peeled in the peeling shop, then it is done. So, as Rewari sir has said that from billet to saleable product, it is about 10% wastage. So, whatever billet we are producing, so 90% saleable production comes after the wastages.

Miraj: So, billet 90% is used in rolling mill and 25% is the remainder you said? Okay. And -

R. K. Rewari: Yield is 90% from billet to rolled product. So, you can say if we will be using 100 tons, rolled product coming out will be 90 tons and what Mr. Singla has said that in this total black bar, some portion of this used for peeling, that is known as bright bar production.

Miraj: Secondly, so your current guidance would stand the same only, right, 2,10,000 tons in the billets part and that is how we will calculate for the rolled part if we want to assume what will happen in the rolled volumes?

R. K. Rewari: 2,10,000 tons is our sales target.

Miraj: Sir, billets that you make would be directly from molten steel only or is there anything else that you source in raw material?

R. K. Rewari: No, no, it is only coming from our operation, steel melting shop. We have an electric arc furnace, and we use scrap as a material and this billet will come out of that.

Miraj: And the end use is 100% in auto industry only or is there any other industry also that you're supplying to?

Sanjeev Singla: Majority is in the automobile industry, more than 95%.

Miraj: And in this, sir, we only manufacture round billets or any other shape of billets also because some, if I am correct in understanding them?

Sanjeev Singla: Our product is rolled bars, and these are round rolled bars.

Miraj: In the EBITDA guidance that you gave right now, is it Rs. 7,000 to Rs. 10,000 per ton or Rs. 8,000 to Rs. 11,000 per ton because I heard that also earlier?

R. K. Rewari: This year, Rs. 7000 to Rs. 10,000, next year maybe Rs. 8,000 to Rs. 11,000.

Sanjeev Singla: After this CAPEX in place, our EBITDA range will increase to Rs. 8,000 to Rs. 11,000 per ton.

Moderator: The next question is from the line of Hitesh from ULJK Securities. Please go ahead.

Hitesh: I have a few questions. What kind of prices do you expect in the coming quarters regarding sales volume?

R. K. Rewari: Price will be the end result of the negotiations which are going on with the OEMs. But our past experience is that it should be almost in the current range, a couple of thousand, maybe down or little bit up. So, it will remain on that. And there are many grades which we make. So, the price you see is the sum total of our product mix and sometimes depending on the product mix it varies and changes also.

Hitesh: What was the production for bars in this quarter?

Sanjeev Singla: In-house and outside, both put together, we have been able to roll more than 55,000 tons to 57,000 tons and our sales in this quarter is 50,000 tons, so rest of the quantity is going for building up of inventory.

Hitesh: Can you please give me the last few quarters' number?

Sanjeev Singla: So, we can connect separately for this because as of now we are not having those readily available.

Moderator: The next question is from the line of Akshat Mehta from Ladderup Wealth Management. Please go ahead.

Akshat Mehta: One clarification that I had is that in this quarter, the prices have gone up or the prices have come down for scratch steel, because I heard Mr. Rewari say that prices have gone up by 8% to 10%, whereas you've gotten a benefit of lower raw material prices in this quarter.

R. K. Rewari: Yes, raw material prices had gone up in that quarter, but those raw material prices in the same quarter does not impact the price, because price is quarter to quarter is stable.

Akshat Mehta: So, next quarter maybe we'll realize the effects of higher prices then along with some inventory losses because the price has gone down after July now?

R. K. Rewari: Yes, yes, yes.

Sanjeev Singla: We are asking for the price increase, but OEMs are again asking for the price decrease. So, let us see after negotiation what will happen.

Akshat Mehta: Secondly, sir, any light on graphite electrode price is also going up because that is the second most large raw material for you?

R. K. Rewari: No, I think they are stable, there is no increase.

Sanjeev Singla: From last one year, almost same.

R. K. Rewari: At least I remember correctly the last two quarters the prices have been the same.

Moderator: The next question is from the line of Bhuvan from Tiger Assets. Please go ahead.

Bhuvan: I would like to know how do you source raw material -- is it imported or domestically sourced? And would like to know your insights on discussion of anti-dumping duty in steel?

R. K. Rewari: What is your second part of the question?

Bhuvan: Industry is in talks with finance ministry for duty in steel. So, any insights on that, and if that is imposed, how does your raw material expense spike up on that?

R. K. Rewari: As far as we are concerned, 80% of our scrap is recycled. So, that means our raw material is recyclable scrap, out of which a large part is from domestic market and sometimes based on prices, we import shredded, but that is based on availability as well as the price factor. So, to answer your question, most of this is sourced domestically and maybe 5%, 10% sometimes we import. As far as anti-dumping is concerned, I don't think it has any impact or any linkage with our kind of thing.

Sanjeev Singla: Frankly, there is no linkage of any of these anti-dumping duties. Directly, maybe it will be impacting the demand or supply of steel. But as of now directly we are not impacted by these anti-dumping duties.

Moderator: The next question is from the line of Angad from Sameeksha Capital. Please go ahead.

Angad: I have a general question on the supply side of the specialty steel industry. As we are aware one of the large steel players coming up with the large capacity, green steel plant in Ludhiana, how do you see the raw material sourcing getting impacted?

Moderator: I'm sorry to interrupt, Mr. Angad. Could you please pick up your handset and speak?

Angad: So, I was saying that one of the large steel players is coming up with a large green steel plant in Ludhiana. How do you see the raw material sourcing getting impacted due to the same? And a follow up to that over let's say three, five, seven years, how do you see the supply side developing for the green steel in India in terms of capacity build up?

R. K. Rewari: First of all, you said about green steel plant in Ludhiana. As far as my information goes, it is Tata Steel and it is not actually totally the green steel, it is a normal TMT bar manufacturing operations which is not going to impact the special steel. However, the availability of scrap and raw material, yes, it will be impacted, because it is always a demand and supply and if consumption is more, then definitely it will impact. Having said so, we also feel that normally the gap between the scrap requirement and domestic supply is around 8-10 million tons per annum and this much amount of scrap is always imported. In the good times earlier, it used to be 5 million tons and we learn that last year it was 7 to 8 million tons and the same speed is going on for the last 12 quarters. So, that scrap is coming from Europe, US and other areas. However, as I mentioned earlier, the end-of-life phenomena and this act is already in place and many operations are being set up, who will be crushing this or bundling the scrap of the scrapped vehicles. So, this will also give some additional supply in the domestic area. So, that will help in integrating to some extent, or otherwise, if still the gap is there, then the only way is importing the scrap. Because at the same time Maruti also is putting up a plant in Kharkhoda in Haryana. So, they also will generate a lot of scrap. Mostly scrap whatever we use is of two types; one is domestically household generated scrap, and the other class of scrap is which is the outcome of forging, auto component makers. And if Maruti's plant will come, that will also generate some quantity of scrap which will also help. But yes, your point is right, from the business point of view, it is an important area where I think our company will be strategizing in the near future to see that how do we secure some kind of arrangement by which we get our required scrap consistently.

Angad: On the second question, how do you see the industry current capacity and how do you see that build up over the next five years, if you could throw some light on that, that would be helpful?

R. K. Rewari: Yes, sure, I can only talk generally because we do not have the exact data, but if you look at the scenario, most of the big steel plants are planning expansion, and those expansions are largely based on lot of government expenditure on the infrastructure. So, that will spur the demand. This is what I know. We don't have any specific knowledge about what big plants are coming in the near vicinity.

Moderator: The next question is from the line of Akash Sharma, an individual investor. Please go ahead.

Akash Sharma: I have a few questions. Just wanted to ask what are the key trends and demand outlook in the special alloy steel market and how is the company positioned to capitalize on this trend?

R. K. Rewari: Key trends of our special alloy steel is linked with the manufacturing of automobiles, whether it is two wheelers, three wheelers, four wheelers, commercial vehicles, passenger vehicles. So, we see a lot of I mean say demand going up in this area. This gives us a good feeling that overall, it looks that once these numbers are achieved, definitely, steel requirement will also go up specifically in our automobile kind of area.

Akash Sharma: So, sir, we are only planning to cater the automobile sector, is it?

Sanjeev Singla: Yes, our focus is this automobile. Unless we go for a larger expansion plan, then accordingly it will be reviewed that whether current product mix or current customer mix will fulfill that, we need to look at some other areas.

Akash Sharma: On the distribution model, do we directly supply it to the OEMs, or do we have a distribution model differently something like that?

R. K. Rewari: Every OEM has arrangements with the tier-1 and tier-2 manufacturers or forging units, auto car makers. So, most of the time it is finalized at the OEM level, but our supply will be going to tier-1 forging units.

Akash Sharma: As most of the steel is used in automobile sector and as EV is coming in, so the engine part, right, where the steel is used, is being replaced. So, do you see any concerns over there?

R. K. Rewari: We earlier had some concern as EV penetration was happening, but recently Maruti has stated that EV penetration, which in the long-term was envisaged at 25%. Now, they have scaled down to 15% because the most preference is going to hybrid engines rather than only electrical engines. So, that shows that IC engine will still be there, and it will not affect. Even if 15% goes to the electric vehicle still the IC segment will also grow at this kind of a percentage. To us, it looks that there may not be a major impact on us.

Akash Sharma: Do we have any geographical concentration just like most of our products are catered to only East, West, South or North side?

R. K. Rewari: No, geographical concentration I think we have major zones, North zone which includes Punjab, Haryana as well as the NCR and a few other areas, two is our NCR and that one is our Punjab area. So, total I think 65% to 70% of the sales will be in both these areas.

Sanjeev Singla: Even more than closer to 75%.

R. K. Rewari: To answer your question, the concentration is North as well as West. We do have our presence in South also, but it's not a big number, maybe 10% to 15%.

Moderator: The next question is from the line of Supun Parekh, an individual investor. Please go ahead.

Supun Parekh: Just a couple of questions. So, I wanted to ask how we are different from our competitors if we look at the long run?

R. K. Rewari: I think we belong to a well-established group which is Vardhman group number one. Number two, we have association with Aichi with our stakeholders now in our company plus they are providing us technical knowhow. We have a very forward-looking Vice Chairman, Mr. Sachit Jain, who has intellectual ability to connect with the various stakeholders in time. And we have a good quality with us, and our relationship with our customers are based on our good product, we have a good customer service. I think we are associated with all major OEMs in the country. I will say that firmly that we have a competitive advantage on this front.

Sanjeev Singla: Just to add one more thing. We are into the electric arc furnace production facility as against our competitors who are mostly into the blast furnace. So, going forward because of the lower carbon emissions we are having an edge over our competitors that currently we are almost one-fourth in terms of CO2 emissions as against our competitors.

Supun Parekh: Can you name any major OEMs that we are serving?

R. K. Rewari: I think you name any OEM; we shall be working with them. Maruti is one where we are associated, and we are part of their growth plan. I must say, we are there with Hero Moto Corp, even Honda also somewhere or the other side.

Supun Parekh: I would like to ask, are we doing any major R&D investments, are we expanding our R&D or what, anything on that side?

R. K. Rewari: Yes, we are taking many steps. First is the testing capabilities of VSSL. So, we are adding lot of sophisticated equipments in our lab. We have already constructed a new block which will house our metallurgists as well as the new equipments. The new equipments like a very sophisticated microscope to understand the quality of the steel we are adding. And similarly, we are also planning to invest in non-destructive testing lines which will assure our quality which is an objective way to test the quality of the steel, number two. Number three, as I said, we are closely associated with Aichi. So, wherever required, we are taking the help from them as far as the testing facility is concerned. The new development is always there because each of the OEMs and each of the product has a different requirement. So, I think most of the time we are busy developing new products for new parts with the new customers. Of course, as I said earlier, it takes two to three years to get approval. Sometimes, there is a resubmission, sometimes there is a multi-level long-term testing. So, a lot of effort is done on this front. Be assured.

Supun Parekh: What is the cost of green steel manufacturing unit and where are we sourcing it from?

R. K. Rewari: We have not said that we are having green steel. We will convert our existing steel making to try to produce green by using solar power on our own as well as from the grid if we can buy.

Supun Parekh: Is there any margin improvement expected from green steel?

Sanjeev Singla: As of now no, but going forward because of the sensitivity in the OEMs, we are expecting that we will be getting some advantage over.

R. K. Rewari: We are hopeful, but as you know that this will be a little costly affair. So, we hope for I think better margin. If not better margin, at least better volumes are assured and you can become a preferred supplier if you are having a green steel, that is for sure. So, that benefit will accrue to VSSL and then VSSL will develop relationship which will help us to do the margin better also.

Moderator: The next question is from the line of Radha from B&K Securities. Please go ahead.

Radha: Sir, I wanted to ask what is the realization difference between us versus producers who are using blast furnace route?

Sanjeev Singla: Realization level as far as OEMs is concerned will not be much of difference because any increase or decrease in prices which is given by the OEMs is for the industry as a whole.

R. K. Rewari: The cost difference is there. Blast furnace will have a lesser cost than us.

Radha: What is that percentage?

Sanjeev Singla: It is always Rs.6,000 to Rs.8,000 a ton lower cost in blast furnace, but on the capital employed side it is much, much capital intensive than electric arc furnace. On the RoCE front, we are comparable or even better.

Radha: If I understand correctly the cost of production via electric arc is Rs.6 to Rs.8 per Kg higher as compared to the other route, whereas the realizations are similar for the industry. But the capital employed for which one would be lower, sir?

R. K. Rewari: Arc furnace will be lower. Blast furnace is higher

Radha: And RoCE is similar?

R. K. Rewari: Yes.

Radha: And sir, secondly, I missed one point in the opening remarks. You mentioned, if I remember correctly that some of the import items on which tax rate has been slashed, could you highlight what was spoken with this context?

R. K. Rewari: I will highlight. this is not a very major thing. On ferro nickel, some of the minor additions which we make in our steel making, on that, some relief on custom duty has been given. So, it is a very minor this thing, it's not a game changing kind of a thing. But we are hopeful there might be a little bit of nickel prices will come down, but that's not too significant.

Radha: You mentioned that from this quarter onwards, we see the impact of higher power tariff. So, that was 3% you mentioned, sir.

R. K. Rewari: Yes.

Radha: 3% increase in tariff every year?

R. K. Rewari: Yes. 3% means if it is Rs.7 per unit, then 21 paisa per unit will go up.

Moderator: Ladies and gentlemen, that was the last question for today's conference call. I would now like to hand the conference over to the management for their closing comments.

R. K. Rewari: I think once again I thank all of you who have participated in this con call and I hope that we have been able to answer your queries and your questions. However, I will sum up that, VSSL is doing well, everything appears to be under control on the cost front as well as on the market front, things look good. But as I mentioned that most of the things will depend on the raw material prices, price finalization with the OEMs. But we are optimistic that everything will be in a good shape. As we said that Sachit Jain's endeavor is to move fast on the ESG front. Carbon footprint I have already discussed. He's spearheading another initiative, which is the circular economy with the major OEMs. Circular economy means that we will be getting the scrap from them which will be coming to us and we will be using that scrap to make the steel for them and steel so made will go back to them. So, this way we shall be part of the circular economy efforts of one of the big OEMs. On the current basis we are trying to work on that. So, he is still very keenly following up his initiative of making Japanese Forest by the name of Miyawaki. He has a big target. But in the last year our CSR team under his guidance has been able to develop about 15 acres of forest. So, I think so far so good. All is well at this time. Thank you.

Moderator: On behalf of Choice Equity Broking, that concludes this conference. Thank you for joining us and you may now disconnect your lines.