Vardhman

Delivering Excellence. Since 1965.

VARDHMAN SPECIAL STEELS LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN SPECIAL STEELS LIMITED – Q2FY25 AND 1HFY25

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 8th November, 2024 to discuss the Company's business and financial performance for Q2FY25 and 1HFY25.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN SPECIAL STEELS LIMITED

SONAM
DHINGRA

(Sonam Dhingra)
Company Secretary

"Vardhman Special Steels Limited Q2 & H1 FY '25 Post-Results Earnings Conference Call"

November 08, 2024

MANAGEMENT:	**MR. SACHIT JAIN – VICE CHAIRMAN AND MANAGING DIRECTOR - VARDHMAN SPECIAL STEELS LIMITED**
	MR. SANJEEV SINGLA – CHIEF FINANCIAL OFFICER - VARDHMAN SPECIAL STEELS LIMITED
	MR. R.K. REWARI – EXECUTIVE DIRECTOR - VARDHMAN SPECIAL STEELS LIMITED
	MS. SONAM DHINGRA – COMPANY SECRETARY - VARDHMAN SPECIAL STEELS LIMITED
MODERATOR:	**MR. MUDIT BHANDARI – IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Vardhman Special Steels Limited Q2 FY '25 Earnings Conference Call, hosted by IIFL Securities Limited.

As a reminder, all participant lines will be in 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 touch tone 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, Palak. Good afternoon, everyone. On behalf of IIFL Securities, I welcome you all to for 2nd Quarter and first half of FY '25 Post Results Earning Conference Call of Vardhman Special Steels Limited.

On this call I introduce Mr. Sachit Jain – Vice Chairman and Managing Director; Mr. Sanjeev Singla – Chief Financial Officer; Mr. R.K. Rewari – Executive Director over this call.

Now, I hand over to the Management for their "Opening Remarks", which will then be followed by a question-and-answer session. Over to you, sir.

Sachit Jain: Thank you so much. Ladies and gentlemen, very good afternoon to all of you and thank you for joining our call today. In addition to the names mentioned, we also have Sonam, our Company Secretary on the call.

We have just closed a very interesting quarter. We have had our highest sales ever in a quarter, so that has been very interesting. We have also just finished a physical board meeting because Ito san, the Board Member and President of the steel division of Aichi was here, and we have had very interesting discussions. And as I said earlier, serious discussions on our proposed new plant have begun. We are discussing costs, layouts, machinery selection, product mix, all those discussions are going on. I think we will be ready to make a final announcement sometime in the middle of next year, but that's the thinking as of now. And we are on track with our plan for when we will need our Greenfield plant to start operating.

In the interim, we have had some very good developments in the plant. Earlier we had announced that we had tested a capacity of 265,000 tonnes, which gave us a rolled product capacity and sellable material of about 225,000 tonnes. We have now tested 285,000 tonnes of melting capacity, which means that once the rolling mill expansion is completed, we should be able to produce 250,000 tonnes of saleable material. And now our team is working, can we extend this further? Our next target will be to touch, test and then consolidate if we are successful at the 300,000 tonnes, which is the limit for our license from the Environment Ministry.

If we are able to reach this level of 300,000 tonnes, then we will make an attempt to get a license to increase the environmental approval for more than 300,000. But that's some distance in the future. So, the point was that at least once we mark it, orders and all start growing. The plant is keeping ahead and will be able to meet the requirements of the market. And so, growth for the next three years is now visible to us.

In addition, I wanted to also share a very important development. A new Board Member, Mr. Kalsi, who has been a member of the Executive Board of Maruti Suzuki, 40 years with Maruti, as well as his last assignment has been Head of Marketing of Maruti. Overall, he has had a stellar career across several functions. And the entire Board is very excited to have him join the Board and get a perspective from an OEM's perspective. And of course, Mr. Hemant Bharat Ram from the DCM Group has also joined us as a Board Member in the last Board meeting. So, two new Board Members have joined us this year as one Board Member retired, and two more Board Members are expected to retire next year. So, in succession planning at the Board, we are doing that in a planned manner.

Working capital utilization of course has increased because of increased sales, but our debt levels remain reasonable, which gives us the ability to fund all on going expansion plans. The new proposed plant, when it comes up, will require reasonable capital. So, in the next year or two there would be some capital infusion in the company. But as the plans get finalized, as we announce the project, then those plans for fundraising, etc. also would come in. We have also talked to bankers, so there is sufficient funds available, all that also seems to be on track.

Two other things I wanted to share with you before I turn over to Mr. Singla – our CFO. The trend towards green steel, circular economy, etc. is on. And indications coming in from various auto OEs from their sustainability teams, and the interest in this topic is high. And hopefully, in the next year or two, we will start seeing big signs of this in terms of translating into business results. Talks are always the forerunner of actual action happening and we are having serious discussions with some of the OEs.

I am also happy to report that we have been successful in getting approval for replacing Japanese imported steel with our steel in one of the large automobile OEs. And for this, we will become a direct supplier to the OE. As of now, we are normally suppliers to Tier-1 and sometimes Tier-2s. But in this case, we will become a Tier-1 supplier directly to the OE. So, this is something I think our team has worked very hard and our partners, Aichi, have supported us very strongly in getting this approval. So, we will be replacing direct Japanese steel, which is coming from Sanyo and Daido, so we will be replacing that. We are working with another Japanese OE in India to replace steel coming from Japan.

So, those are the kind of efforts going on. As our quality levels have stabilized with Toyota, and with support from Aichi crossing two years, five years actually, two years of the second three-year term, I think the confidence that they have in our processes also have increased.

So, that's all as far as my opening remarks are concerned. Mr. Singla will take you through some numbers. And then we will have a Q&A.

Sanjeev Singla: Right, sir. Thank you, sir. Good afternoon, everybody. For this quarter two, we have decent sales numbers. We have achieved ever-highest sales in terms of quantity, it is 59,000 tonnes as against 49,000 tonnes in the previous corresponding quarter, registering a 20% increase. And in terms of rupees also, it's a 20% increase, it is Rs. 494 crores over Rs. 415 crores last year. Our EBITDA has grown by 31%, it's a combination of various factors, raw material prices, valuations, and of course the increase in sales. So, EBITDA per tonne in this quarter is Rs. 8,200.

For H1, for the first half H1, the total sales in terms of quantity is 1,09,000 tonnes as against 96,000 tonnes in the corresponding H1 of last year, registering an increase of 13%. In terms of rupees, revenue is Rs. 909 crores as against Rs. 824 crores, with an increase of 10.31%. EBITDA is Rs. 96 crores, registering an increase of 31%. So, EBITDA per ton for the full H1, currently it is Rs. 8,800, well within the stated range of Rs. 7,000 to Rs. 10,000. As a resultant, our PAT for H1 stands at Rs. 51.9 crores as against Rs. 37 crores corresponding H1 of last year.

So, that's all on this "Financial Performance" for the quarter. So, I request now for the question-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Jain From RU Investments. Please go ahead.

Jain: First of all, congrats, I think every quarter we are having good result, I mean, the bonus and the plan expansion is on track. A couple of questions, number one, on the micro, the other will be on the macro thing. First is, the recent trend of the record top line we are talking, we are making new records, can it be continued? Because the reason is, if I am not wrong, correct me, Q3 or Q4 we have a shut down planned, as always. So, that's the question number one.

Question two is on our EBITDA or EBITDA per tonne, as per the industry standard we know it's around Rs. 8,000 or whatever. But again, the trend, is it is it possible we can continue or make it higher considering the latest developments on specifically the latest one the Trump policy, tariff on the Chinese. And even India, I think as you have recently heard in the last couple of months, they are trying to put tariffs on steel imports from China. So, is it safe to assume that our EBITDA per tonne will be moving up for even what month, or even for the overall Indian steel industry? Thank you.

Sachit Jain: So, one, it's not that every year we have a shutdown in Q3 and Q4. The shutdown that we are having is for the expansion we are having. We are adding a new equipment called Kocks Block for which we will be having a shutdown which was earlier planned in third quarter, which will go into the fourth quarter. Yes, so we are having about a month's shutdown, and which is why sales in the second-half are definitely going to be lesser than first half. In any case, 2nd Quarter is the highest sales because the auto OEs all prepare for Diwali sales, which is a bumper sale.

So, as a steel supplier, for us, it becomes Q2. So, Q2 is normally the highest sales. But once this. shutdown is complete, the Kocks Block is ready, then we will have another five days shutdown probably in quarter two of next year, four or five days shutdown, when we attached a new reheating furnace. After that, our rolling mill capacity will be complete, which means it should be able to take 300,000 tonnes of input, giving us out 275,000 tonnes of rolled product, which will translate to eventually 268,000 to 270,000 tonnes worth of saleable material.

The next question you asked is about EBITDA per tonne. Our stated range is Rs. 7,000 to Rs. 10,000 EBITDA per tonne, and we are within that range. Currently the markets are weak, as you rightly mentioned, because of imports from China. And therefore, there's a huge influx of imports, not in our product category as much but more in HRCs, hot rolled coils, which puts a downward pressure on steel sentiment. And which is why there is pressure from the OEs to reduce prices. Our costs have also come down, but prices did come down in Q2 beyond what we anticipated. So, that's why the Q2 margins are a bit lower than Q1 margins. Moving ahead, we have already indicated, next year our guidance, we should be able to up our guidance from this Rs. 7,000 to Rs. 10,000 range to Rs. 8,000 to Rs. 11,000. So, there are a few reasons for that.

One, our solar plant will be commissioned most likely by March, which will lead to, one, reducing our carbon footprint as well as reducing some costs of power. So, that is one. Second, today to meet our sales, we have a lot of job work outside processing charges because of lower rolling capacity than what we have been selling and the shutdowns for this project. So, after August of next year, it will come down in Q1 itself from next year, but the second half of next year it will come down drastically. So, those margins will also get added from that, the profit element of that will get added to the bottom line, and a few other savings we have in mind. So, overall, we should be able to, very confidently, move upwards to Rs. 8,000 to Rs. 11,000 EBITDA per tonne range. I hope that answers both your questions.

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

Angad: Congratulations on the good set of numbers. My first question is on the sale of billets this quarter, we sold around 2,600 metric tonnes of billets, should we expect a similar trend going forward? And can you throw some light on the realization and EBITDA from billet sales, if you can give a number on that?

Sachit Jain: Billet sales is not part of our plan. So, this is very opportunistic. At times when we cannot take more rolling and, as I told you, our melting capacity went up, we tested higher capacity levels. So, it's just that since we tested higher capacity, we sold it. There is almost zero margin on this business. So, this is just to make sure to test our billet making capacity. So, we are ready that once the rolling mill is ready by August, or the expansion rolling capacity is ready, and as markets pick up, hopefully next year the markets will be better, then our ability to keep producing and to meet the market requirements would be higher. So, this is on and off kind of a thing and a zero margin business. So, please do not look at this business at all.

Angad: Sure, clarity is helpful. My second question is on, we are seeing kind of a slowdown in the automobile OEMs, we are reading news on increasing inventory with dealers. Can you throw some light on your end, what you are seeing since you interact with them regularly?

Sachit Jain: No, so there clearly is a slowdown, both in terms of domestic market, commercial vehicles are not doing well, cars are flattish, and tractors are also slow. Two wheelers and motorcycles are doing well. Also, exports have got affected, so some of our sales to exporters have got a bit affected. So, market conditions are not too bright. But that's why I said, we hope market conditions will be better next year.

Angad: So, are we still giving the guidance of 2.1 lakh volume sales for FY '25 or any change in that front?

Sachit Jain: Yes, as of now we expect to do about 2.1, that's our thinking. But we will see how things go along. It may go a little lower. See, we are not too worried about sales just now because our products are moving in the right way. And just now we are also capacity constraint in our rolling side. So, once rolling mill capacity comes up after August, then of course volumes become an important issue into the market. We have a big shutdown coming, as I said, there is a shutdown of 30 days, so if sales slow down a bit, we are not worried just now.

Angad: And one last question on, any updates on the forging plant along with the Greenfield?

Sachit Jain: No. See, with our Japanese partners, please understand that a lot of planning has been done, visitations happen, and decision making takes its own time, so nothing on the anvil immediately.

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

Radha: Thank you for the opportunity and congratulations on achieving the highest sales for this quarter. So, my first question was, this Kocks Block CAPEX that you mentioned, so how much CAPEX are we doing in this? And what will be the benefit that you will get out of it? So, apart from reducing the time for shifting the sizes, can it also bring down the wastage?

Sachit Jain: So, we have two major investments coming up, the Kocks Block and the reheating furnace together is going to cost us about Rs. 160 crores. The main benefits after this CAPEX are going to be the following; one, our capacity will go up. And therefore, we will be able to save all the margins on the outside rolling. So, that will immediately get added to the bottom line. Second, our billet size will go up, so our realizations will go up, our yield will go up. Third, with the Kocks Block, our inventory levels will come down and our able to serve big customer will become better. And quality will become far more precise. So, some of the approvals that we have got recently, they want very precise diameter control, that is not possible without a Kocks

Block. So, the kind of market segment we want to enter into and consolidate our position in, they require very precise diameter control, that is not possible without this kind of a block.

Radha: Sir, how much margins can we expect improvement maybe in terms of broad ballpark?

Sachit Jain: And I have said that our range from Rs. 7,000 to Rs. 10,000 is likely to move up to Rs. 8,000 to Rs. 11,000. So, once things consolidate, we will give further guidance. And I have already said in the past, aspirationally I want to move to Rs. 10,000 to Rs. 12,000 range.

Radha: What would be the payback period?

Sachit Jain: It is not 10 years later, but in the next three or four years we want to reach those levels.

Radha: Sir, just considering the investment in the Kocks Block and the benefits that you stated, so what could be the payback period from this investment?

Sachit Jain: We do not look at these things in that manner. Overall, if we are able to increase our volumes and if we are able to, so look at it this way, from 210,000 tonnes we were able to go to 250,000 tonnes, that's 40,000 tonnes more, and lot of costs already taken into account, so incremental EBITDA is way higher than the existing business. So, you can please do your calculations yourself. So, on Rs. 10,000 to Rs. 12,000 we are targeting, I am not saying we are ready to announce that we are confident of that, but our target will be between to around Rs. 250 crores of EBITDA. Again, please, let me reemphasize. I am not giving a guidance that we are ready at that level, but I am saying that that is the target we will aspire for.

Radha: Second question is that you spoke about becoming a Tier-1 supplier to the OEs from a Tier-2 supplier. And also you spoke about you are in talks with some other OE also. So, currently, as I understand, our direct supplies to OE is zero because we are a Tier-2 supplier. So, in future, in next three years, what percentage of your sales do you expect to go to the OEs? And will this also have an improvement in your margin profile?

Sachit Jain: So, very few OEs have their own gear making operations. So, mostly OE's business is all buying components and assemblies from Tier-1s. So, steel companies of our kind, which is alloy steel companies for forging industry, are normally always Tier-2 or Tier-3 suppliers. This is one of the very few cases. So, as a percentage terms, it will be a very small one. But from a prestige point of view it is very high. And yes, margins will improve with this business.

Radha: Sir, the third question is that, in this quarter we see that our receivable days have increased. In FY '24 it was around 58 days, that has gone up to 64 days. Sir, just wanted to know, why the increase in this quarter in the receivable days?

Sachit Jain: The increase in this quarter is because there is an overall slowdown, to maintain volumes we have gone to certain other segments which are non-strategic customers, where outstandings are higher. And that is the reason. This is a temporary thing. Once the regular markets pick up, then we will be back to our normal levels.

Radha: Sir, in this quarter the quarterly volumes that we have done, how much of it has been outsourced?

Sachit Jain: We will get back. Can you send a mail, we will get back with the answer. The exact figure is not available out here.

Radha: Okay sir. Because our volume growth is significantly higher compared to the auto industry growth.

Sachit Jain: Yes. As I said that we had tested higher capacity, and therefore we took in orders which are not part of our regular order profile at lower margins, and those with higher outstandings also. This is not our regular product mix. So, this is a temporary thing to sell what we could produce. So, this is not part of our regular product mix. So, which is why we have grown beyond what auto industry has grown.

Radha: So, our user industry mix in this quarter would have changed compared to the previous quarters, and it will go back to previous levels?

Sachit Jain: Basically, what would have happened was, if he had not done what we did, our sales would have been lower and EBITDA per tonne would have been higher, and our outstanding would have been lower than what we have today. But absolute EBITDA would also have been lower.

Moderator: Thank you, ma'am. The next question is from the line of Mudit Bhandari from IIFL Securities. Please go ahead, sir.

Sachit Jain: Sorry, may I? I have the answer now. So, Rs. 9 crores of job work have been done in this quarter. That was an answer to how much money has been paid for outside job work. Go ahead, next question please.

Moderator: Mr. Mudit, your line is unmuted.

Mudit Bhandari: Just one, first, basic question on what is the difference between Tier-1 and Tier-2, Tier-3 suppliers in general with the industry regarding the product they are supplying? And what incremental product will we be supplying which will be qualified as Tier-1 supply for the OEM?

Sachit Jain: Normally Tier-1 suppliers would be gear manufacturers, crankshaft manufacturers, connecting rod manufacturers, piston pin manufacturers. So, basically, our customer base are the ones who would be Tier-1s, or steering systems. So, people like Sona Comstar, they would be Tier-1s or Shriram Pistons would be Tier-1, or Highway Industries would be Tier-1. These companies who are forging and machining companies would be Tier-1s. And steel companies are normally Tier-2s or in some cases Tier-3s. So, in this particular case, this OE has their own gear shop, so they have their own gear making rather than getting these gears made from outside. So, therefore, they buy steel. So, this is a unique case of OE directly buying steel. So, the difference is, in this case we are supplying steel to the OE. In other cases, the OE buys gears or connecting rods or crankshafts or piston pins and so on, those kind of products.

Mudit Bhandari: And previously you mentioned that there has been a little impact because of the global commodity prices, especially because of China effect on us. The reason you mentioned was, it has more impact on HRC pricing. So, I believe we are not completely immune to the HRC prices because our process --

Sachit Jain: No, no, we are not immune. No, I never said we are immune. I said we are not directly affected by imports, but sentiments got affected because of lower prevailing steel prices. And therefore, the OEs pressed a higher reduction than what was, in our opinion, due. And therefore, our Q2 margins are lower than Q1 margins, but still within our normal range.

Mudit Bhandari: So, any number which you would like to quote for realizations for Q1 and Q2, either percentage or number?

Sachit Jain: There was a Rs. 1,500 per tonne reduction in price between Q1 and Q2. So, from 1st July prices came down by Rs. 1,500.

Mudit Bhandari: And we have not taken any price hike or decrease after Q2 in Q3?

Sachit Jain: Yes, Q3 has not yet been finalized.

Mudit Bhandari: And how does it work for the auto components, like whether they fix the prices as far as I know for the half yearly basis, is it like that?

Sachit Jain: No, this is quarterly changes of steel prices.

Mudit Bhandari: And lastly, upon your EBITDA per tonne guidance, the range you mentioned, the reason you mentioned for the increase was because of solar plant commissioning. So, broadly, just whether Rs. 1,000 EBITDA per tonne increase, is it wholly attributable to solar plant commissioning? The number seems quite big.

Sachit Jain: No, no, I said there are several factors including these factors.

Mudit Bhandari: So, probably I missed it, can you just quote the factors?

Sachit Jain: So, solar plant is one, the outsourced material that we will be rolling within the plant, this job work charge that I mentioned, Rs. 9 crores per quarter of this quarter. So, those would all largely become in-house. So, the margin part of that will get retained in the company. Then our yields will go up because of bigger billet size. Those are the main benefits. And some benefits of Kocks, which have to be trialed. I mean, we anticipate some benefits coming because of the Kocks Block also in terms of cost saving. There will be inventory reduction because of the Kocks Block, but we believe there could be some improvement in yields because of quality improvements. But those have to be tried, we cannot commit on those figures.

Moderator: Thank you, sir. The next question is from the line of Pramod Kumar from Grow Wealth. Please go ahead.

Pramod Kumar: Sir, just a couple of booking questions. What is your cost of funds, sir, if you could help us with that, or your cost of borrowing?

Sachit Jain: Can you repeat that, sorry.

Pramod Kumar: Sir, what is the rate of interest that you are paying for the amount that is borrowed?

Pramod Kumar: So, working capital is around 7.5%, and term loans are negligible. But whatever numbers are there are around 8%.

Pramod Kumar: Right. Sir, if you look at FY '24, we were about 10% our rate of interest. And if you look at the first half, the rate of interest is coming to around 7%, 7.5%. So, like how is it that you have got a reduction in rates?

Sachit Jain: We have never borrowed at 10%. In my last several years I do not remember being borrowing at 10%. So, please check with the CFO directly if you have clarification. We have never borrowed at 10%. Next please.

Pramod Kumar: Sir, the interest cost.

Sachit Jain: I am saying we have never borrowed at 10%. If you have a clarification, please have separately offline check with our CFO, we will be happy to clarify whatever doubt you have.

Pramod Kumar: Sure, sir. I will do that. And in terms of the aspiration of your debt to equity, what range would you be more comfortable with?

Sachit Jain: Debt to equity currently in the new plant, in this plant, unless the expansion comes up we will be down to zero in the next three to four years. So, with the new plant, once things get firmed up and the capital structure of the new plant come up, then there will be borrowings, there will be some equity. Overall, we hope to remain below 0.5:1, and in any case below 1:1, but our target will be below 0.5:1.

Moderator: Thank you, sir. The next question is from the line of Hardik Shah from Patel Family Office. Please go ahead.

Hardik Shah: Congratulations on all the numbers. Sir I just wanted to ask a basic question, like what percentage of your revenue is generated by your top 10 clients?

Sachit Jain: Very difficult. We are very diversified but go ahead.

Sanjeev Singla: Just top 10 customers, I think we are disclosing in our balance sheet for the top five customers. But as per your question, top 10 customers will be contributing around 35% to 40% of our revenue.

Sachit Jain: You can specifically send an e-mail to get an exact answer. But we do not target it this way, we do not target these things this way. We take all markets; we do not target a specific number or a range for the top 10 customers. I am just saying this is not a metric that we monitor at the management level. As long as it's diversified, it's not too concentrated.

Hardik Shah: And sir, secondly, on the financial front, what is the benefit that we are getting from any step towards the sustainable initiative, like for reducing the carbon footprint?

Sachit Jain: As I said, as of now there is zero benefit. Either in terms of financial or in terms of business which already we have got. But in terms of indication, we are getting from customers and indications we are getting from government and in talks with governments, both will follow. So, there will be financial benefit in terms of carbon trading mechanism coming up in the country, element has been fixed at limit of around 2.2 carbon footprint tonnes of carbon per tonne of steel is going to be fixed at the norm. So, the figures below 2.2 will be treated as green steel or there will be some definition, but we will be at, by then, 0.45. So, significantly below 2.2. So, we will be beneficiary of any scheme that the government comes up with.

Secondly, as far as OEs are concerned, whether it is the large European OE that we talked about earlier, which is looking at buying from us, they have come to us purely because of our lower carbon footprint. What I feel is that this will lead to better quality business coming from car manufacturers, which is a better business than two-wheeler manufacturers, which is a better business than commercial vehicle, which is a better business than tractors. That is the hierarchy. The best, the most stringent and therefore overall better business is the car manufacturing. So, our target is to increase our car segment from currently 38% of sales to about 50% of sales in the next few years.

Hardik Shah: Sir, that's really encouraging. And sir, one last question is that, so basically what would be your repayment plan for the short-term borrowings? Has it kind of increased in the last few quarters?

Sachit Jain: There is no repayment plan. As cash flows come, we pay. And as we need money, we borrow. We have a CAPEX plan, we have an Rs. 300-odd crores CAPEX plan ongoing for the existing plant. So, cash is required for it. So, that is money coming in. So, when LCs are open for equipment, then we will have borrowing coming in at that point in time.

Hardik Shah: Sir, one last small question, what is the interest rate on it, on the short-term borrowings?

Sachit Jain: 7.5%, around that.

Moderator: Thank you, sir. The next question is from the line of Adit Shah from Meteor Wealth Management. Please go ahead.

Adit Shah: Sir, I just wanted to know, is there any update on any current or upcoming capacity expansion from the company?

Sachit Jain: We have said that our plant capacity was 285,000 tonnes, which we have tested. So, we are now in a position to make 285,000 tonnes of billets. As far as the rolled production is concerned, the rolling mill expansion is in place, and by August we should be ready. Let's add one more month of stabilization. The second-half of next year, our capacity will be on track, which is 300,000 tonnes of billet input, which means 270,000 tonnes of rolled product. So, all this will be in place by September of next year. Then we have said that we will target to reach towards 300,000 tonnes of steel making, which can then be fed entirely into our rolling mill. But 285,000 tonnes which was our capacity has been tested. And now we do not sit still, so we try for the next level of 300,000 tonnes. Sorry, I am repeating, let's not be misunderstood, we will be trying to reach 300,000 tonnes.

Adit Shah: Trying to, okay sir, that's why August is like that?

Sachit Jain: Yes.

Adit Shah: Noted. And one last question, sir, like what is the company strategy for securing raw material supplies, especially given in these volatile prices for critical inputs like iron ore and scrap?

Sachit Jain: So, we do not buy any iron ore, we buy scrap. And scrap is, we have a long-term arrangement with one of the shredded scrap producers. And other areas, as this circular economy becomes more and more prominent and as we are learning from OEs, this is what they are moving towards, we should be able to secure scrap directly from the OEs. But this is something that is being talked about, nothing concrete on the ground. Further, we are looking at the possibility of having some strategic investments in some scrapping companies because scrapping companies' plants are coming up across the country. So, we are examining any such opportunity of doing that, taking a minority state. So, we do not intend to get into that business ourselves, but a minority stake if it comes up is something that we will very positively look at. But scrap availability is not a problem.

Adit Shah: And just one last generic question, sir, like how do you see the industry going forward for the next five years?

Sachit Jain: I think industry will move more and more towards companies like us, because of carbon footprint and green steel, and pressure from the government to use more recycled materials. So, as of now, I think compared to all our competitors, we are by far the best placed in terms of lower carbon footprint and the necessary approvals in place. So, having both these factors. And with the Japanese collaboration and the reputation for quality and reliability that we have, so those things give us an edge. So, I am focusing constantly on seeing how we can continuously increase our four-wheeler business, so the car business, that's what we are targeting.

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

Radha: Sir, my first question was, in the next three years we are expecting single-digit volume growth, and this is primarily because of the capacity constraints that we have. So, I was wondering that why are we doing growth CAPEX in a slow manner? So, in future, for growth CAPEX or for fast tracking the current CAPEX plan, do we need to take approvals from our Japanese partners or do we have the independence to make such decisions by ourselves?

Sachit Jain: So, first of all, we do not need approvals from our partners. But look at it this way, when you have the world's, arguably in my opinion, the world's best company in a business, would you not want their full involvement and full participation and full inputs into the whole thing? So, they are fully onboard, and their whole process of discussing what products to make and so on. So, this is one part. So, they are fully onboard. The second part is that this is not a business where you can expand in a modular manner. The new plant will suddenly come up with a capacity of 350,000 tonnes. We have to be very careful. So, when we are seeing the trends, as this approval from this OE has happened, this gives us a lot of confidence. As this trend towards green steel is gaining steam, as this approval from the European OE comes through, which is at the final stages, but as it comes through, as this circular economy becomes a bigger and bigger concept, and as the government comes out with clear regulations of carbon trading, all these things are very positive factors which are supporting our growth, and which will enable us to take this decision. So, as I said, planning is going on. And I have already said that next year we should be ready to announce. You cannot go faster than that. In the existing plant, we are continuously increasing our capacity by debottlenecking, by taking trials and testing. So, just a few months back I said we have tested a capacity of 250,000, then we said 265,000, and today I am announcing that we have tested 285,000. So, we are gradually increasing our capacity.

Radha: Sir, just continuing with this, so for supply to Aichi Group, I understand that we need Aichi approval. However, for applying to non-Aichi customers, do we also need their approval? So, I just wanted to understand as the only investment partner and --

Sachit Jain: No, we do not need any approval from them. We are selling to all customers including Hyundai, which is a Korean company, and to all Indian OEs and to other Japanese OEs in India. And I have already said that we are at advanced stages with the European OE for supply of steel to them for very specialized projects. So, all these discussions are going on. So, they are fine because everybody wants this company to grow and become stronger.

Moderator: Thank you, ma'am. The next question is from the line of Sanaa Mehta, an individual investor. Please go ahead.

Sanaa Mehta: Sir, my first question is, despite the decreasing steel prices, the cost of raw materials per tonne has gone up in comparison to the previous quarters. So, could you explain on that please?

Sachit Jain: So, those factors keep changing here and there, there are also inventory valuation losses because the prices have come down. So, any specific question, please direct to our CFO as an e-mail separately. But normally we do not answer such questions because there's a mix which changes also. It's not a standard mix which is constant. And various components of raw material, the prices are different. So, sometimes prices may go up of raw material and other costs may come down. So, it's a very complicated and complex factor, it's not just one raw material leading to one particular thing.

Sanaa Mehta: And the other question is, what is the revenue split between bright bars and rolling mills?

Sachit Jain: Bright bar is roughly about 20% of our total sales. And it's rough, because these figures keep changing depending on which particular customer orders have come through and so on. So, that's a rough idea.

Moderator: Thank you, ma'am. The next question is from the line of Aniket, an individual investor. Please go ahead.

Aniket: I have a few questions. Sir, I just wanted to understand, can you throw some light on the activity that we are doing with the solar panel installation?

Sachit Jain: So, we have a joint venture, because under the government policy of a group captive power plant, so we own 26% in this power company, and the implementer is a company called Amarenco from France, they own 74% of the company. And they are implementing a project which will be about 55 megawatts. They have showed us that by March of next year, hopefully, the plant will be commissioned, and we will be able to get solar power, which will be roughly 45% of our total power consumption.

Sanaa Mehta: And sir, by when will it start having a positive impact on controlling our cost?

Sachit Jain: So, if it gets commissioned by March, from April we will start getting benefits. Yes, there is no stabilizing period in this, so it's on/off. Either you are getting the benefit, the moment it's commissioned, from next day we start getting the benefit.

Sanaa Mehta: And what is the contribution in terms of revenue from domestic and export?

Sachit Jain: Our exports are roughly 5% to 7%. It varies, but our target is to eventually move to 20%. Currently, because of Chinese dumping, the prices are low, so not many people are wanting to buy more from India. And Japanese currency is also weaker, so the cost advantage in buying from India is not as much. But gradually, slowly we are progressing and increasing our exports into Southeast Asia primarily.

Sanaa Mehta: And sir, how do you plan to expand your reach in the coming years, especially with the plans of this new capacity?

Sachit Jain: So, one, we will make deeper inroads in the four-wheeler, as I said, from 38% we want to move to 50%. With the growth in the Indian economy, the expectation is that the automobile industry itself is going to become much larger. In fact, Maruti Suzuki plans to double its capacity to 4 million cars per year, 3 million for the domestic market and 1 million for exports. That is what I think I have heard from their people. So, with the increase in Maruti Suzuki, with the increase in the two wheeler companies, and four wheelers, commercial vehicles will eventually come back. And then exports of auto components from India because of sea ban coming in, so there are massive opportunities.

Then you look at Southeast Asia, with this new plant coming up the limitations of our existing plant will go away, which means that the quality levels will improve further from the current levels. We will be able to make more stringent quality than what we are able to make today. And which will mean that there should be bigger export opportunity in Southeast Asia. And eventually, as Africa opens up for Toyota and other companies, those possibilities of making components in India, people would make and export to Africa, those opportunities would open up. Because new plant, by the time it comes up, it will be five years from now. So, the market scenario is going to be way bigger, Indian economy is going to be way bigger. So, there will be many opportunities. We will also look at other segments like railways. So, there are other segments to start examining. Again, let me repeat, those all are things that we will examine, we will study and so on. So, there are no major commitments at this stage because this is five, 10 years in the future.

Sanaa Mehta: Sir, one last question, are there any government subsidies or incentives being leveraged for this solar panel installation?

Sachit Jain: Not to my knowledge.

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

Sachit Jain: So, ladies and gentlemen, thank you again for the interest you have shown in the company. I am repeating that currently the market conditions are not that bright and we are coping as best as we can. And the hope is, as all of you know, with Trump coming in, hopefully if the war stops and the mood starts changing next year sometime, we will see a much brighter situation. And we are ready for that in terms of the capacity expansion we are putting in place. So, we will be ready for any such requirement as it comes up. And I remain optimistic about the medium- and long-term future. The current situation looks, as all of you know, the auto industry is currently not too great. So, I remain optimistic as always. And we should come up, in the next six months we will come up with a more concrete announcement about our new plant. Thank you so much for being here today.

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