Vardhman

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VARDHMAN SPECIAL STEELS LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN SPECIAL STEELS LIMITED – 3QFY25 / 9MFY25

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 conference call of the Company held on 30th January, 2025 to discuss the Company's financial performance for 3QFY25 / 9MFY25.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN SPECIAL STEELS LIMITED

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(SONAM DHINGRA)
Company Secretary

"Vardhman Special Steels Limited
Q3 FY '25 Post Results Earnings Conference Call"

January 30, 2025

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

MODERATOR: **MR. SAILESH RAJA – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Vardhman Special Steels Limited Q3 FY '25 Post Results Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sailesh Raja from Batlivala & Karani Securities India Private Limited. Thank you, and over to you.

Sailesh Raja: Good afternoon, and thanks to everyone who have logged into Vardhman Special Steels Limited 3Q FY '25 earnings conference call. Now let me introduce you the management participating with us in today's earnings call. We have with us Mr. Sachit Jain, Vice Chairman and Managing Director; and Mr. Sanjeev Singla, CFO; Mr. Rajendar Kumar, Executive Director; and Ms. Sonam, Company Secretary.

I would now like to turn the call to Mr. Sachit Jain for the opening remarks followed by Q&A. Over to you, sir.

Sachit Jain: Thank you so much. Ladies and gentlemen, good afternoon, and thank you so much for attending our call. We've had an interesting quarter and interesting 9 months so far. As we've shared with you that we have big 2 projects coming up and there have been shutdowns for that and inventory buildup for the forthcoming shutdown in March second half and part of April.

So the 2 projects that we are talking about are Kocks Block that we're putting up which is a sizing block meant for giving precise sizes for customers as well as the new reheating furnace which both of these together will help enhancing our capacity of our rolling to 300,000 tons input as well as improving the quality and reducing some costs. So a combination of all 3 would happen.

The questions that were coming earlier for us was where is the runway for growth because we had a capacity limitation. And we were testing our melting capacity continuously. And I'm happy to report that in the month of December, we have tested making 25,000 tons for the whole month, which means that now we have tested albeit only for 1 month but a run rate of 300,000 tons for the full year, so which means for the next 3 to 4 years, the growth path is clear.

We will be able to declare a capacity of 3 lakh tons of melting and 270,000 tons of rolling by the end of the next financial year. So we have a runway for growth up to 270,000 tons. And then, of course, we'll have a possibility of some outsourcing and so on.

Apart from that, the market conditions have been pretty tough and there is pricing pressure, and all of us are facing that pressure. There are 2 reasons for that pressure. One is on the demand side, after the very good growth last year. This year, growth in cars have been also much lower. Commercial vehicles and tractors, so nothing is very exciting. And the mood is not great in the markets overall.

Now that puts more pressure on the bigger companies to try to undercut and sell more. The second reason is imports from China of -- not for our products too much, but HRCs and commodity products, but that reduces the steel prices and spoil the sentiments in the market, which gives the leverage to the OEs to drive a harder bargain than what is warranted. And therefore, the price reductions which happened in our belief, have happened a bit more than what were warranted, which has led to lower margins and lower profits than what we were anticipating.

However, the profits that we have are still within our stated range. So, we are still within the range of INR7,000 to INR10,000 EBITDA per ton, but definitely lower than what we were anticipating. Part of the lower margins have been offset by improvement in our operating parameters. And as we test at a higher level of production, our other costs also some of the semi-variable costs also go down, fixed cost gets absorbed better. So all that leads us to a confidence that in the times coming ahead, we are standing on a good package.

A couple of other things before I ask Mr. Singla to talk about the results of this quarter. The solar plant is coming up well. In all probabilities, it should be ready by March end or latest in April. So more or less next year, we should get the full -- almost the full benefit of this plant.

The second thing is there is an inventory buildup in the company that is for the shutdown coming in March end. So after that shut down, the finished goods inventory should come down to a reasonable level. And of course, after the Kocks Block installation, our attempt will be to bring down the inventory levels even further.

The other interesting thing is there was a news in the market, which came out from the Chief Minister of Punjab's office about our new plant. So we are not yet ready to announce the new plant. But yes, plans are being made for the new plant. In all probabilities, the major planning on the gross level will be done by April, and we should get ready to announce the contours of this plan.

And hopefully, the Board approves in the April Board meeting, we should be able to announce. We are looking for land in Punjab. So the new plant is going to come up in Punjab, hopefully, in Ludhiana District itself, we are in the last stages of negotiation for some land.

The third thing I wanted to bring to your notice is plans for forging also more talks started happening. I have a strong feeling that within the next year or 2, these plans will get concretized and we should start taking some concrete steps on the forging journey. The other issue, which we have said and people have asked us questions they passed is what about capital equity infusion and stakes and so on.

So again, talks are going on, have been going on with Aichi for some time. And, it is part of the plan at some stage, they will increase their stake. And my feeling is with the announcement of the new project in the next year or 2, even that possibility of their increase in the stake is looking brighter than -- I mean, it was always on the cards, but timing looks to be now maybe next year or 2, this may happen.

Once this happens in all probabilities, the promoters also would then put in more money in the company to see that the stake doesn't get diluted too much. It will get diluted, of course, whenever if Aichi increases the stake, but there probably would be an equity infusion from the promoter side also.

So this will all go towards the capex for the new plant. So first, the new plant has to be announced. The contours have to be announced, and then later all these other things will follow after that. That's all for the opening remarks. I'll ask Mr. Singla to quickly take you through some numbers, and then we are open for Q&A.

Sanjeev Singla: Thank you, sir. Good afternoon everyone. On financial numbers, this quarter, we have been able to achieve 52,600 tons of rolled sales which is higher by 7.5% over the last year. In terms of value it is INR426 crores of total revenue. It is higher by 7.39% mainly because as Sachit sir has already explained that we have to give a higher price decrease than what was warranted.

So total revenue in terms of rupees, it is higher by 7.5% whereas in terms of volume, it is 13.5%. EBITDA per ton is INR8,000 per ton in this quarter. And for the 9 months, our total volume is 162,000 tons which is higher by 13.5%. And in terms of value, it is higher by 9.5%. EBITDA per ton for the 9 months as a whole is INR8,500 well within our stated range. As a result, our PAT for the 9 months is INR73 crores as against INR58 crores of 9 months in the last year, higher by 25%.

So that's all from -- on the financial numbers. Now I request for the question answers.

Moderator: Thank you very much. We'll take our first question from the line of Gargi from Value Investment.

Gargi: Sir, my first question was you mentioned that in this quarter, there was a muted demand scenario, in the press release as well as in your opening remarks. So if you can highlight, sir, what is the user industry mix for us in 9 months FY '25? And how is this as compared to last year?

Sachit Jain: I'm sorry, can you repeat the last part, I didn't understand after the muted demand, you said 9 months, you asked the question, I couldn't hear you clearly. Can you repeat that?

Gargi: Yes, sir, sure. So what is the user industry mix in 9 months FY '25 as compared to the same period?

Sachit Jain: We don't share. it's marginally different. The tractor and commercial vehicle segment would be a bit higher than -- marginally higher and some nonautomotive sales also would be a bit higher.

Gargi: Okay, sir. Sir, secondly...

Sachit Jain: But these are all marginal differences. It's not something very major. And that kind of shift can easily happen year-to-year, quarter-to-quarter, some order matures here and there. Because we have strategic customers, and we have certain volume always of nonstrategic customers. So there, the volumes will fluctuate a bit here and there.

Gargi: Sir, second question is previous year, you had guided for 215 to 220 say, metric tons of volumes for FY '25. So given the volumes that we have done, the balance for 4Q comes to 48,000 tons. So considering that we have almost 1 month of shutdown next quarter, so are we still in line with the guidance or...

Sachit Jain: Yes, we are in line. When we made the guidance, we knew there was shutdown coming, and we have planned inventories with us. So, which is why if you analyse the balance sheet, you'll see working capital significantly higher than our norms. So we believe that, yes, around that figure, exact figure is difficult to predict. But around that figure is where we should end up.

Gargi: Alright, sir. And the third question was on the power and fuel costs. So that has gone up by around INR1.2 per kg. This is despite the shifting -- fuel shifting sourcing needs from GAIL and also solar power. So, what led to this.

Sachit Jain: No. Per ton figures haven't gone up. They've gone down actually, the per ton figures. So maybe separately off-line we can send an e-mail and will answer your concern. But the cost of power and fuel has gone down per ton.

Gargi: Okay. Sir, out of the INR47 crores power and fuel that is reported...

Sachit Jain: See the sales are higher, our production is higher than our sales. So the consumption is more on the production, not on the sales.

Sanjeev Singla: If you will consider the increase in inventory of INR53 crores in the revenue because in this quarter, production was higher but the sales were lower, so the inventory has gone into stock. So a percentage to the total sales and stocks our power and fuel cost has come down.

Gargi: Okay, okay. Understood, sir. Out of -- generally out of this INR47 crores of power and fuel is mentioned. So how much would be power and how much would be fuel on a general basis, if you can give a breakup, sir?

Sanjeev Singla: Out of this, about INR38 crores is power.

Gargi: Okay, and in power, sir, so I think you mentioned in the opening remark...

Sachit Jain: Can you allow another question to come in and then we can come back. And these are very, very detailed question on numbers. You can send an e-mail to the company, and we can answer that separately. Line items we don't normally address in a call, that can be sent separate to the company.

Moderator: The next question is from the line of Anil Kumar Sharma, an individual investor.

Anil Kumar Sharma: Sir my question is, we have earlier discussed that we will announce the -- we do have that we have clarified. But the return on capital employed the target we have taken 20%, 25%. Is that still there?

Sachit Jain: So, first of all, thank you for calling these numbers good. We internally are not very happy with the numbers. But thank you. And yes, we stick with the return on a capital employed figures of

EBITDA on capital employed of 20% and the target of 25%. We stand by it. I mean, this year-end, maybe marginally a bit lower or I don't look at the numbers on an exact number because at the end level, what is the inventory because we have -- the inventory that we have, as I said, is high and a lot of inventory is made in anticipation.

So making inventory 4 months, 5 months in advance, there could be a little bit of chance of some items becoming a little extra, which will get sold in the next quarter. But -- so this quarter, that may be an issue, but from next year and onwards we'll be back on track from 20% to 25%. Even this year we should be around that, round 20%.

Anil Kumar Sharma: Sir, my question is regarding after the installation of the solar project, how much about power costs in percentage or it can be reduced? What is the economy of costs?

Sachit Jain: We have not shared those numbers just now. So, roughly power would be around 40% to 45% of our power will become solar, roughly 40% to 45%. So we haven't shared any details just now. But suffice it to say, there will be a cost reduction. So next year we have 2 items which will be helping to improve our margins. One is power costs are going to come down because of the solar power.

And two, you would have seen -- noticed an item of job work. So a lot of outside rolling is going on because of shutdowns and so on. So with the shutdowns over and second, with the increased capacity, there'll be no need for such major outsourced rolling. So those figures will come down in the second half of next year.

So solar project will get the full impact in the full year itself. And the outsourced job work part will come down substantially in the second half. So these are the 2 positives which will happen next year. And most positive, as I said -- sorry, may I just add to that. So these 2 positives are in addition to the positives of quality improvement and better servicing to customers. And the capacity increasing and therefore, some costs coming down, which has to be seen.

Moderator: Next question is from the line of Kirtan Mehta from Baroda BNP Paribas Mutual Finance. Kirtan, can you use your handset mode, your line is not very clear.

Kirtan Mehta: After we are completing a sort of capacity expansion to 270 kt rolling capacity. How do we expect the volume growth to come through? And how much years of growth runway that this capacity expansion provide us?

Sachit Jain: We are still making those forecasts, but assuming 215,000 tons we do this year, next 3, 4 years, growth is visible to us. We should be able to hit 270,000 tons in 3 to 4 years from now.

Kirtan Mehta: Understood, sir. And in terms of what is the present cost of your power in unit cost terms? Is it close to INR7 or so?

Sachit Jain: Yes, it is around INR7, but that is including fixed and variable. The variable cost is lower. So the fixed cost will remain what it is, the variable cost only that part will be saved with the solar plants coming in. So you should look at a cost of INR5.65 as a variable cost and compare any saving from solar will be on that INR5.65, not on the INR7.

Kirtan Mehta: Understood, and this would be entirely on our books, the solar plant?

Sachit Jain: I'm sorry, no, no, no. The power plant is putting up in an SPV. Only our share of the equity, 26% of the equity, which is roughly INR18 crores. I'm sorry, my CFO has corrected me, INR19 crores. So about INR19 crores would be on our books. Everything else, including debt, obligation, everything else is on the books of the operator.

Kirtan Mehta: And what would be the -- when this group captive plant would charge us in terms of the solar power cost?

Sachit Jain: We haven't shared those figures.

Kirtan Mehta: Would it be in the lines of the industry where the cost is typically under INR2.50 or so?

Sachit Jain: I think your figures are way off, INR2.50 maybe for government norms, for supply. And so there is a cost of supply into the grid. And then on top of that, there are billing charges, there are transmission and distribution losses, there are banking costs, so there are other costs also. But INR2.50 kind of a thing is for a government kind of bidding and super large projects where land is very often provided by the government. So please don't compare with those kind of things. This will be in the range of the power input for the grid will be in the range of INR3 to INR4 in that range.

Moderator: Next question is from the line of Angad Katdare from Sameeksha Capital.

Angad Katdare: Sir, my first question is on the government, I think, has announced another PLI scheme for specialty steel. How do you see the benefits and can you just throw some light on the same?

Sachit Jain: We haven't examined that scheme, so I can't answer that question.

Angad Katdare: Are we planning? Are we interested in it or like...?

Sachit Jain: We are not planning. We are -- no we are not. We are approved in the PLI 1 scheme.

Angad Katdare: Sir, my second question is on...

Sachit Jain: And the new project when it comes up. So first, you have to have a detailed project plan before you apply it. So we will hope that a PLI 3 scheme will come in, and if it comes in, we will apply for it.

Angad Katdare: Noted. Sir, my second question is on green steel. So government has come up with the definition of 2.2 CO2 per ton. We are already at 0.73. And you know further planning to go down to 0.4. I just want to understand the unit economics, how we will be benefited from green steel, like let's say, if we manufacture 2 lakh tons of -- if we produce 2 lakh tons, how will we get benefited from the green steel definition and even the carbon credit?

Sachit Jain: So all those things are getting clarified as we speak. So this financial benefit will come once carbon trading begins in the country. And the government is serious about carbon trading, and people like us with 0.45 or 0.48 is where we should end up maybe within May, we'll be at 0.45

or so. So we'll be way lower than the norms. And therefore, whenever carbon trading begins, we will be beneficiaries. So but very difficult to find out what is the financial impact of that. Suffice it to say, it will be a positive impact. And all our competitors will be significantly above 2.2. So the relative advantage we will have over our competitors would be positive for us.

The second thing is in terms of share of business, so clearly, we are getting signals from OEs that they want to move to lower carbon credit companies, which means that chances of increasing our share with the target customers is going to increase. And at some stage, there will be a stage in the country of low-carbon footprint companies. In which case, if the government mandates come in, in terms of so much everybody has to use from low carbon credit companies, then there will be a premium for our steel.

But all this is speculation and conjecture at this point in time. Suffice it to say that the tailwinds are in our favor. We are facing tailwinds favouring us, not headwinds ahead of us. So, all this thing is moving in our favor and we are getting ready with the new plant also, hopefully by the time all these things can concretize, we will have a new plant. Also we will have sufficient capacity to take full advantage of it. The European customers that are talking to us are coming to us primarily because of this. So that is a very clear thing we're getting from Europe.

Angad Katdare: Got it sir. Sir, one...

Sachit Jain: Sorry for being very vague, but -- I'm sorry for being so vague, but as of now, it's all talk. And -- but the seriousness of the talks that I'm seeing in some of the OEs is very, very heartening. So to answer your question, there's some specific benefit we have seen so far.

I guess only the European large OE, their inquiry that came to us and whose samples we have sent and I'm able to meet them later this year. That inquiry came only because of low carbon credit. They were very clear. That's the only reason they approached us. And they have never sourced from India. And they are huge. If that happens and if other large European OEs follow suit, then we are sitting pretty.

Angad Katdare: So sir, suffice to say, the 25% export target is on track?

Sachit Jain: Difficult to say because some of it could be export of steel, some of it, they may say, no. We will take the forgings from India. So they may ask us to supply the steel to forging companies. So these are global supply chains. So very difficult to say whether steel will be exported or they will increase their sourcing of forgings from India.

Angad Katdare: Got it. Sir, 1 small clarification. We are planning to do a shutdown, a planned shutdown of 25 days in this quarter. So we have sufficient inventory buildup?

Sachit Jain: So first of all, one, it will be partly March and partly April, so it will be partly this quarter, partly next quarter. Second, we have chosen a time where anyway, demands are low because everybody is trying to reduce their inventory. So March end is not a time where customers are looking for large amounts of material. So we have chosen that kind of time. And third, we built up sufficient stocks.

Angad Katdare: Got it. And sir, a small clarification, the...

Sachit Jain: Sorry, let me repeat. May I just complete this? The outsourced rolling mills that we are doing, we are getting some work done on outsourcing. That will continue. So there will be -- it's not that we'll be in a complete shutdown. It will be partial shutdown of capacity.

Angad Katdare: Got it. Sir, another small clarification on the upcoming forging and the action plan, both we are going ahead with Aichi or is it another entity or are we going stand-alone?

Sachit Jain: One thing about Vardhman is when we partner with somebody, then we go the whole hog with them. And Aichi is the world's third largest forging company and 1 of the best in quality. So when you have such a partner, your partner has all that, why would you go outside? They have forging plants all over the world. Their mother plant is in Japan.

They have a forging company in Indonesia. They have a forging company in Thailand, in Philippines and the U.S. India is a missing part in their plan. And India, when it comes up, will be meant for Indian market, will be meant for Africa in the future and will be meant to export to Europe in the future. Sorry, they are also in China. I forgot to add. They're also in China.

Moderator: Next question is from the line of Aniket Redkar, an individual investor.

Aniket Redkar: Sir, just wanted to understand, are we looking for any export opportunity in terms of -- I mean, from the long-term perspective or the short-term perspective?

Sachit Jain: Of course.

Aniket Redkar: Hello?

Sachit Jain: Yes, we are -- yes, yes, I said of course, we are. If you want to be a world-class company, you can't be a domestic company alone. You have to be exporting. So yes.

Sanjeev Singla: So we are looking for export opportunity.

Aniket Redkar: So -- and sir, related to this Aichi, are we supplying products directly Toyota or through Aichi?

Sachit Jain: No. Toyota is a car company. They don't buy steel. They buy -- in some cases, they buy forged components and forged machine components. In some -- they will buy assembly. So steel company would be Tier 2 or Tier 3 supplier. But we are approved by Toyota only then can you supply to Toyota. The audits are done by Toyota and they apply, approve our plant for certain grades of steel for certain products we send to certain customers. They specify all that.

Aniket Redkar: So sir, can you...

Sachit Jain: Sorry, Aichi supplies roughly 70% of Toyota's requirements of steel globally. And therefore with the announcement of Toyota's new plant and expansion in India, this will open up an opportunity for us to supply more volume in India also to Toyota.

Aniket Redkar: And sir, can you give me the guidance in terms of revenue and the bottom line for FY '25 and '26?

Sachit Jain: FY '25, we've already said, 9 months are out. So, 1 quarter is left, we will remain in the range of INR7,000 to INR10,000 EBITDA per ton in the fourth quarter also and '25, '26, we had said we will be INR8,000 to INR11,000. We will try to raise the range we said. That remains to be seen as we close the year because the market conditions have turned adverse. So whether we'll be able to hit that figure next year or the year after that. So '26, '27, we are now reasonably confident we will be able to hit the figure of INR8,000 to INR11,000. But for next year, for now, we -- I would like to retain the forecast of INR7,000 to INR10,000.

Aniket Redkar: Okay, okay. Got it, got it. And sir, 1 last question. Are we looking for any capex for the upcoming fiscal year?

Sachit Jain: Yes. This is already part of the announced capex. The rolling mill part will get completed only next year by September. So it will get commissioned both the Kocks Block as well as the reheating furnace and some additions the cooling beds and other things. So roughly INR160 crores to INR170 crores worth of capex will be capitalized next year. In addition, we will be starting work on the NDT line, the second non-destructive testing line. So that work will start next year and will get commissioned in the year after that.

We will attempt to see if we get commissioned within the next year. But after this, after the NDT line is done and some more pending work in the furnace and some environmental investments. So merely speaking, '25, '26 will signal the end of the capex plan for as far as this plant is concerned largely. Then normal capex kind of a thing will continue, but this plant will be then almost done, I would say.

Moderator: We'll take our next question from the line of Saket Kapoor from Kapoor Company. Mr. Saket Kapoor. Please check if your line is on mute.

Saket Kapoor: Sir, firstly, as you were alluding to the previous participant about the capex for the existing plant to be over by financial year 2025, '26. So already, we have -- our melting capacity has risen to 3 lakhs per ton. How much have we spent -- how much have we spent on this part of the story? And what part of the capex is left to be spent in amount -- absolute amount terms, if you could quantify?

Sachit Jain: So on the melting side, we have not spent much money. The more process improvements that've gone in and a new transformer was put in. There's some pending environmental work, which is, again, not too major less than INR10 crores kind of a thing which is pending. So there's not much investment done in the melting. For the rolling side, we have said about INR180 crores or something, which is largely 2 items, INR160 crores, and then smaller items here and there would be another maybe INR20 crores, INR15 crores, INR20 crores within the NDT line.

And this is not increased capacity, that is required for testing for high-quality customers like Toyota and Maruti for the import substitution for -- so for the other -- for the more sophisticated customers and sophisticated products, you require that kind of continuous testing for quality reliance, quality assurance.

Saket Kapoor: Sir, you mentioned NDT line, can you just provide the full form?

Sachit Jain: Non-destructive testing, NDT line. These are continuous lines. There are continuous lines for quality checking and any defects are immediately pointed out. If you can rectify the defect, you can send the goods. If you can't rectify the goods, then the goods are rejected. Each bar is rejected or approved. The earlier method is manual checking. This is automatic checking by machines.

Saket Kapoor: Correct sir, for the quarterly challenges going ahead with the additional rolling capacity would be to the tune of 70,000 plus for the first quarter going ahead?

Sachit Jain: Can you repeat the question, please? I'm sorry, I din't get that.

Saket Kapoor: With the new addition...

Sachit Jain: First quarter will be less. Because one, we are having a shutdown extending into April, plus the first investment coming up is the Kocks Block, which will get commissioned in April that will increase our capacity by about 15,000 tons of input. Then the next investment coming in is the reheating furnace which will get commissioned by September or October. That will have a bigger chunk of impact on the capacity.

Saket Kapoor: Okay. So sir, second half, what should be the quarterly run rate for us?

Sachit Jain: Sorry. Sorry. Sorry. Let me just elaborate a bit. Plus after the Kocks Block gets commissioned, there will be a few months of stabilization, getting approvals from customers that they are okay in using this pump, but it's a major change. So the customers have to get satisfied and so on, that whole process begins again, much shorter process than a fresh approval, but still that takes time. So which is why next year, we are not looking at a major increase in capacity or so on.

Till December or so when customers get fully confident and then maybe in the last quarter, we'll get a benefit of capacity. That's why I said next year is a year of more stabilization and consolidation, project implementation and consolidation. And then the year '26, '27, we are ready full blast. And as I said earlier, this whole process was delayed by a year -- a little over a year because of the delays in some capex, some capital deliveries and so on. So the whole process got delayed by a year.

Saket Kapoor: Yes, sir. I got your point is that the project implementation got delayed by a year's time. And we have spent around INR160 crores to INR180 crores in these all activities. This is what the total capex would be.

Sachit Jain: Some invested. Some will be invested, but the capitalization will be to that kind of amount and the entire capitalization will happen in next year, in the year '25, '26.

Saket Kapoor: And then from '26, '27, the run rate would be what sir on a quarterly basis? How will the tonnage go up?

Sachit Jain: That depends on the sales position, market forecast and so on. But this year, we've done 215,000 tons. Next year, we'll try to do 225,000 to 230,000 around that. We have not finalized the figures. We are -- after that, we should try to do to 245,000 to 250,000 and the year after that, we should try to do 270,000. We target a growth of about 7% to 8% which is the rate at which the economy is growing.

If there is a scope, things are better, we'll be happy to take that growth. But all that will be discussed in the year '26, '27 once capacity problems are behind us. Then we can put a foot on the accelerator, no? Otherwise, if you have capacity shutdowns and so on, you have to be careful. So you can't put the foot on the accelerator.

Saket Kapoor: Correct Sir, for the raw material mix that you were mentioning about once this green aspect comes into full throttle, there will be scarcity part on the same. So what is that currently our raw material sourcing strategy and how much of the scrap goes also in the raw material mix?

Sachit Jain: Scarp is roughly 80% in our raw material mix, and we have tested that we can go up to almost 100% of scrap also. So that has also been tested and some customers have liked the idea very much that we can do 100% scrap. As a country, there is a shortage of scrap. However, in the north, we do not face that shortage of scrap.

So that is why our second plant also, we are looking to locate that plant in Punjab itself. In our opinion, Punjab is the best state to put up a secondary steel, which is our kind of steel plant. The brand, there's a concept of circular economy, which is coming in and already with some OEs, we have had advanced levels of talks of circular economy, which means scrap generated from the OE will come to the steel company.

The steel company will make the steel, send it to vendors of the auto wheel company and go back to the auto company. Also end-of-life scrap will also come from the OE and come to the steel companies. So for example, Maruti has a joint venture with Yadak Tsusho for scrapping cars. 100% of that scrap comes to us and goes back to Maruti.

Saket Kapoor: Correct, correct sir. And this entire...

Sachit Jain: That is still a very small quantity just now. But those concepts are being tested and so on that as government regulations are clearly coming in this area. So all companies, the OEs are getting ready for this kind of a thing. Once this thing happens, we are the best placed company for implementing the circular economy concept.

Saket Kapoor: Correct sir, and currently, all the scrap...

Sachit Jain: Sorry, go ahead.

Saket Kapoor: No, sir, you answer, sir. I'm there to listen. Please.

Sachit Jain: So there are 2 concepts of green steel and circular economy. These 2 are the positive steps which are going in our favor. Green steel will be implemented, we will have an advantage in India and overseas, whether for steel or for forged components. Circular economy is a local concept. It will benefit us with the North Indian companies. So whether it's Maruti, whether it's Hero, whether it's the other plants in the Northern region. So we have Honda is present. Bajaj has a plant in the north and then depending on how seriously the government implements this, even the companies in other parts of the country may want this material from us.

Saket Kapoor: Correct, sir. And sir, there is also another steel company that has started in a small way. I think Tata Steel has also commissioned their scrap-based EA fruit plant in the state of Punjab only that is complementing to the...

Sachit Jain: That is not for automotive steel. No. No. So first of all, it is not yet commissioned and two, it is not for automotive steel to our understanding. Our understanding is it is meant for construction steel.

Saket Kapoor: Correct, sir. And lastly, sir, when we're talking to the state government in terms of ...

Sachit Jain: Sorry, I'm saying this is our understanding. It is not right for me to comment on another company.

Saket Kapoor: Absolutely right sir. Lastly sir, when we have an understanding with the government of Punjab going ahead with the another greenfield facility. So the type of incentives which we are accruing right now in terms of the benefit and the tax refund and the electricity duty and all. So should that will again be the very likelihood that will be a part of the project going ahead that will -- that incentive. So should be a part going ahead?

Sachit Jain: That's a reasonable assumption. But until things are finalized, I don't want to comment on that, but that's a reasonable assumption.

Saket Kapoor: Okay, sir. And as of now, sir, we have accrued, I think so for the 9 months, INR22 crores. So, what is the total time limit for accruing the benefit, when will this come to end, How much time is left to accrue the benefit?

Sachit Jain: I'll let Mr. Singla answer that question. I don't have the knowledge to answer that question.

Sanjeev Singla: So there are 2 components. One is GST refund. And GST refund is available to us up to September '26, and electricity duty exemption is available up to September '29.

Saket Kapoor: Sir, how much will we book this year? We have booked INR22 crores in the other income category in the last 9 months Can you tell the yearly number?

Sanjeev Singla: Yes, it will continue in the same proportion. So overall, under both the heads, it is INR24 crores, INR25 crores per annum. So equally distributed under both the heads.

Saket Kapoor: So, the other expenses category that we see increased is due to variable cost or is there some one-off item for this quarter as INR67 crores?

Sanjeev Singla: Variable costs.

Sachit Jain: There's no one-off big ticket item.

Saket Kapoor: Sir, there is a request that the at your presentation or your press release you give it comes to us one hour before of con call, so we don't get much time to review. So kindly look to upload on the same day sir?

Sanjeev Singla: Yes. This time, we got late and it is uploaded today morning. So normally, we do upload on the same day itself. So next time we will take this point.

Moderator: We'll take our next question from the line of Saiganesh from Square 64 Capital Advisors LLP.

Saiganesh: I just wanted to know the opportunity size coming from Aichi to our company?

Sachit Jain: I'm sorry. Can you repeat the opportunity?

Saiganesh: Size coming from Aichi?

Sachit Jain: Opportunity size into the volume, business?

Saiganesh: Yes in volume, yes, yes.

Sachit Jain: It is still small. We are below our target of 30,000 tons of exports that was planned primarily because Toyota sales in Thailand have -- are not taking off as per their expectation. And the yen depreciated significantly over the last 5 years. And we believe in a strong rupee. So relatively, Indian costs have become higher than even Japanese costs. So now with the rupee depreciating finally, I think things should change a bit, a little bit more in our favor.

Saiganesh: Okay, sir. And do we eye any internal target like volume in volume terms from Aichi going forward 3 to 5 years?

Sachit Jain: No, we don't work like that. There's a direction towards which we will move towards and which is why even Aichi is cognizant of the fact that we are below the state of the 30,000 tons. So this forging business and all these things are kind of things are being thought of to see how offtake of steel from Vardhman Steel can be made good.

Saiganesh: Can you share the EBITDA per ton of Aichi like is it possible?

Sachit Jain: No, we don't share separately customer by customer. We talk about overall EBITDA per ton.

Moderator: We'll take our next question from the line of Gargi from Value Investment.

Gargi: Sir, my question was at many of our peers are unlisted. So is there any capacity addition happening in the next 1 or 2 years? Also, could you talk about the dynamics and ...

Sachit Jain: So from what we have heard, Kalyani Group has already come out in public. They're putting up a green steel plant. They have taken over a steel plant in the South, Kamineni Steel. So that is 1 that we've heard of. SLR is probably thinking of -- it's very difficult for me to comment on other companies, but maybe they are thinking of expanding, but nobody shares their plans with us, no?

Gargi: Yes sir. Also, could you talk about the dynamics and the reason for the pricing pressure, which you mentioned in your opening remarks. So I wanted to understand whether your opinion, whether...

Sachit Jain: I'm sorry. So currently, the pressure is, as I said, there are 2 reasons primarily. One is imports from China, which have depressed the commodity steel prices, which reduces and spoils the steel sentiment. And the bigger guys like Tata, JSW, Tata Steel results are out in the public. I believe JSW profits I heard are down by 70%, and Tata Steel profits are also down by 36%. Please, this is a figure I heard.

So I'm not standing by these figures. But the fact is that profits are down. Sajjan Jindal Ji has already come out in pipe. There was an interview in Times of India talking about this. So steel industry is under pressure very clearly. When steel industry is under pressure, then the probability that the government will step in at some stage.

So I think there's pressure from the industry to the government to put in some safeguard duties, antidumping duties. All those discussions are going on. Now when these things will take shape, when will it happen, very difficult for me to say. The second thing, which is favouring our company not directly, but by reducing our competitive disadvantage compared to our competitors with I believe on this coking coke there has been some action by the government in terms of dumped coking coke coming to the country.

And therefore, coking coke prices in the country are expected to rise. With those prices rising, which means our competitors will be forced at some stage to start raising prices. So once that pressure comes in, the relative disadvantage will come up. We are a much smaller company. So the bigger companies, they -- their pressure determines the market sentiment. So once JSW and Tata Steel start doing well, there will be tailwinds supporting us to do better than what we are doing today.

Gargi: One last question is that in the last quarter, you mentioned that there is an order win with one large Indian OE for which VSSL -- for which our company will be the Tier 1 supplier. So that is on account of OE replacing the Japanese steel imports. So, when do we expect to start supply to the OEs and also any ...?

Sachit Jain: Within a year, the supplies will start.

Gargi: Okay sir. Any progress on similar negotiations with other OEs?

Sachit Jain: Yes. There is -- so because the government is very clear that everywhere where steel is getting imported to see that steel gets localized. The certain things have already happened where we are Tier 2 suppliers. So some orders which were going from -- which imports are coming in from Korea have already shifted to us.

And some more but largely, steel had already been localized except for this OE and this opportunity is a big opportunity for us, provided we are able to make success out of this. Now please understand we'll be comparing -- this OE will compare our steel with Japanese steel directly. A Tier 1 comparing Japanese steel and an OE comparing Japanese steel is a big difference, a challenge and an opportunity for us.

Moderator: Ladies and gentlemen, since we are at time, we will take that as a last question for today. I now hand the conference over to management for closing comments. Over to you, sir.

Sachit Jain: Ladies and gentlemen, thank you so much. Some of your comments have been encouraging. As I said earlier, we are not very happy with this performance, and we hope once this plant or the expansion gets stabilized, we'll be able to focus on more improvements and very soon reach our figure of INR8,000 to INR11,000 guidance.

And we're able to show you a clearer path of growth. April meeting, as I said, we'll hopefully announce our new project also. The time line for the new project also will be announced. So a lot of things will become clearer in the next 3 to 6 months. Thank you so much, and we look forward for your continued interest in our company.

Moderator: Thank you, sir. On behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.