Vardhman Spl. Steel

Operator: Ladies and gentlemen, good day, and welcome to Vardhman Special Steels Ltd. Q2 FY24 earnings conference call hosted by IIFL Capital. 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 the operator by pressing star, then zero, on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Singh from IIFL Capital. Thank you, and over to you, sir.

Pratik Singh – IIFL Capital: Thank you, Shweta. Good morning, and welcome, everybody. On behalf of IIFL Capital, we invite you to Vardhman Special Steels Ltd. Q2 FY24 earnings conference call. From management, we have Mr. Sachit Jain – CMD, Mr. Sanjeev Singla – CFO, Mr. R.K. Rewari – Executive Director, and Ms. Soumya Jain – Executive Director. Before we begin, please note that this conference call may contain certain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as of the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Without any further ado, I will now hand over the call to Mr. Sachit Jain for his opening remarks. Over to you, sir.

Sachit Jain – CMD: Thank you. Thank you so much. In addition to the team mentioned, we have Sonam, our company secretary, with us, and we also have the Adlabs, Adfac, Adfactors, Adfactors team with us, our investor relations partner. Mr. Rewari had to step out, so he has left the meeting. He is not on this call.

We had a good quarter last quarter. One of the big highlights of this quarter has been that the foundation stone of our forging plant was laid by the honourable Chief Minister of Punjab, Sardar Bhagwant Mann. That happened at the end of July this year.

In this quarter, we had record sales. Demand was strong. Demand was partly strong because of the GST cuts that happened last year on two-wheelers as well as smaller vehicles. SUV sales have also been good, and other sales have also been good, so there has been good demand.

I also feel that demand from the non-automotive space has increased, which has started affecting various other competitors. Overall, material supply for the automotive segment was tighter.

There were one or two unscheduled shutdowns at one of the large companies. That also led to a slight shortage, or deficit, in the market.

With the demand-supply imbalance, we received good price increases in the last two quarters, which has led to good profits.

Most of the OEMs have settled the prices for Q2. We are currently discussing price settlements for Q3. Not all OEMs have settled for Q2, so those discussions are still ongoing.

In addition to that, work is going on for a new steel plant. We have finalized the equipment for the plant portion. Land has been finalized for the SMS, and we should be filing for environmental approval by December this year.

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As of now, we are on track to complete the project by September 2025 and achieve stabilization by March 2026.

In addition to that, the solar plant is running well, and we are now expanding the solar plant by another 22.5 megawatts. Of this, 20 megawatts will be for the current plant, and 2.5 megawatts will be for the HT line being set up in the forging plant. For the forging plant, solar power will be available by the time it reaches better utilization.

The forging plant is expected to come up by March 2025, and then, of course, it will take some time to fill up the capacity.

There is a slight change in the thought process regarding the financing structure of the new plant.

Earlier, we were looking at a debt-equity ratio of 0.5:1 for the company, which would have been a maximum of 0.75:1. As we spoke to some financial experts, well-wishers of the company, and advisors, we increasingly came to the conclusion that we were diluting more than required. Therefore, we may look at a 1:1 debt-equity ratio. Consequently, the debt component will become somewhat higher, and the equity-raising part will be somewhat lower.

For the equity part, we will conduct a rights issue, which will happen in the latter part of the next calendar year, in the second half of the next calendar year.

As far as the project cost is concerned, we are also reviewing the project cost. Some aspects of the project have increased in cost. Land is definitely more expensive than we had envisaged. For the equipment, the rupee has depreciated substantially after the Iran war. Sea freight has increased, and metals have also increased, so all commodities have gone up. Therefore, the project cost is going to be higher than what we had envisaged.

Also, certain equipment that we had planned for the second phase is being brought forward into the first phase. We are also looking at some product reconfiguration to better serve the non-automotive segment.

The project is therefore being modified at the conceptualization stage. Everything will be finalized by March or April next year. Suffice it to say at this point that the project cost will be higher than the 2,000 crores that we had envisaged.

However, we will also have the ability to achieve higher production than 500,000 tonnes eventually, as we are building in scope to increase production beyond 500,000 tonnes to at least 700,000 tonnes in the second phase. Further increases will also be possible after that with some additional equipment. The additional equipment that we will have to add will not be of a highly significant quantity.

The other matter we are examining, although the decision will be taken by the board, is whether to suspend the dividend for 3-4 years. It does not make sense to pay a dividend, pay tax on it, and then ask the same investors to put money into a rights issue. We are examining this, and the decision will, of course, be taken by the board at the April board meeting.

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Overall, I think the business remains good. Demand for the next quarter is also good. We have finally received approval from the European OEM, and mass manufacturing for that has started.

Also, for a major import substitution opportunity for a major domestic player, which involves a large quantity and very high-end quality, we have successfully received approvals, and mass manufacturing for that has also started. Sales for that will begin in January.

We are on track in terms of all our work. Our new HT line will be commissioned by December, and the new peeling line will be commissioned by early November.

With this, we will have some additional capacity and more flexibility to serve customers better.

The capacity increase will be for peeling. Overall capacity is still constrained by the environmental approval of 300,000 tonnes. We have applied to increase the capacity to 350,000 tonnes. We seem to have received a recommendation, and this may happen, but we have not received any letter so far. Until we receive the letter, we do not have any further information on it.

That is all for my opening comments. Over to Mr. Singla, CFO, and then, of course, we will open the floor for questions.

Sanjeev Singla – CFO: Thank you, sir. Good morning, everyone. On the financial front, we have already circulated the media release. As per this, our total sales for the quarter increased year-on-year by 27%, and revenue from operations increased by 39%. EBITDA and PAT increased by about 50% for the quarter over the corresponding quarter of last year.

The main reason for the increase in profitability, apart from the robust demand that Sachit sir has already explained, is the operational efficiencies that we have started deriving from the capex undertaken last year in the form of putting up the {? cog block ?} and the reheating furnace. We have now started getting some cost-saving benefits from this capex in the second quarter, and these benefits will increase further going forward.

This power plant is also yielding benefits. In this quarter, the GST benefit in other income was somewhat higher than in the earlier quarter because the GST benefit was sanctioned by the government for 7 years, and that 7-year period ended in August 2023. We are now left only with the electricity duty benefit, which will continue for 10 years and is valid up to August 2029.

That is all from the operational side. Now, I request that [cut off]

Sachit Jain – CMD: One more thing, I think, is that our EBITDA per tonne is at the highest end of our range. I would request you not to treat that as a standard level for now. We still believe that the EBITDA range will be between 9,000 and 12,000 rupees per tonne.

Sanjeev Singla – CFO: Currently, we are at the higher end, near 13,000.

Sachit Jain – CMD: That is all from our side as the initial opening remarks. We are now open to questions.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. If you wish to

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remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Disha from Sapphire Capital Limited. Please go ahead.

Disha – Sapphire Capital Limited: Hello.

Sachit Jain – CMD: You are audible.

Disha – Sapphire Capital Limited: Thank you so much for this opportunity. I have a couple of questions. Firstly, sir, you mentioned that our EBITDA per tonne has improved sharply. How much of this has been driven by inventory gains?

Sachit Jain – CMD: We do not separate those out, but there is an element of inventory gains. As I said, these are not sustainable numbers. If we get them in one quarter, we may get hit in the next quarter. Those factors are not in our control. Our guidance remains 9,000 to 12,000 rupees of EBITDA per tonne.

Disha – Sapphire Capital Limited: Understood, sir.

Sanjeev Singla – CFO: Sorry, ma'am. Just to add, from this year, from July 1, 2023, we shifted to asset [cut off]

Management: Yes, Farhana. In that, we are doing the valuation based on each batch, and whatever material has been issued, the valuation is done accordingly. The earlier concept was that we revalued the inventory based on the average of the last 3 months. Now it is based on batch-wise costing. Each batch has its own costing at the time of production, and accordingly, that cost is carried until the sale, after which the profitability is booked. There is no revaluation of the inventory at the end of the month or at the end of the quarter.

Farhana: Okay, okay. The volume growth for this quarter [trails off]

Management: All right?

Farhana: Yes. The volume growth for this quarter has been very sharp. You mentioned that the demand you are seeing is very strong. Do you see this momentum continuing ahead and possibly surpassing the volume guidance that you gave? Do you see that as a possibility?

Management: No. The second quarter is always the best quarter because this is when inventories are built up for the festive season. It is unlikely that this volume will continue, and we have used up our inventories of finished goods and billets. This kind of volume is therefore unlikely, but we will purely be at the higher end, somewhat higher than our initial forecast. We had earlier said about 260,000 tonnes for the year. The earlier forecast was 250,000–260,000 tonnes.

Farhana: Okay, okay. Sir, also on realizations, there has been a sharp improvement. You mentioned that this was because of the demand-supply imbalance. What kind of average realization should we expect this year and going forward?

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Management: I think the average realization will continue at the same pace because we are getting price increases. The price increase was achieved in the first quarter, and also in the second quarter. We are expecting some price increase in the third quarter as well. Therefore, the average realization will continue at about {? 52-ish ?}, or perhaps a little higher.

Farhana: Okay, okay.

Management: Just to clarify, other companies have sent out letters for price increases ranging between 3,500 and 4,000 rupees per tonne. Those are the letters that have gone out. What the final settlements will be remains to be seen. So far, no settlements have happened for this part.

Farhana: Okay, okay. You mentioned the forging plant, and we expect it to come back to be [cut off]

Management: Can you come back to the queue, please, ma'am?

Farhana: Sure, sure. Okay.

Operator: Thank you. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. The next question is from the line of Tushar Haveliwala, an individual investor. Please go ahead.

Tushar Haveliwala – Individual Investor: Hello? Yes, hello. Am I audible to you, sir?

Management: Yes.

Tushar Haveliwala – Individual Investor: Thank you for the opportunity, sir. My first question is regarding capacity. The capacity is 300,000 tonnes for billets, 270,000 tonnes for rolled bars, and 48,000 tonnes for bright bars, right? What are the current utilization levels, the principal bottlenecks, and the near-term opportunity to improve throughput without any major incremental capex, sir?

Management: The rolling mill capacity is also 300,000 tonnes of inputs, which is equivalent to 270,000 tonnes of output.

Tushar Haveliwala – Individual Investor: Okay.

Management: After the new reheating furnace was commissioned in March, the capacity increased to its full capacity. This is the full capacity. We cannot increase it beyond this because of environmental approval. If we receive environmental approval to go up to 360,000 tonnes, we will be able to produce more.

Tushar Haveliwala – Individual Investor: Okay, okay. Basically, borrowings increased to 162.93 crores as of September 30, compared with 92 crores at the end of Q4. Trade receivables also rose to 410 crores from 277 crores. What explains this movement, sir, and what actions are we planning to take to improve the cash conversion cycle and working capital efficiency?

Management: There is a reclassification this time because of changes in Ind AS. Earlier, certain creditors relating to the discounting of LCs were included under trade payables. Now, because of the changes in Ind AS, those have been reclassified under borrowings. Otherwise, if you look at

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borrowings and creditors together, there has been no increase; rather, there has been a decrease.

Tushar Haveliwala – Individual Investor: Okay.

Management: Yes.

Tushar Haveliwala – Individual Investor: Our raw material inventory carried forward from the previous quarter [cut off]

Management: Can you come back to the queue, please?

Tushar Haveliwala – Individual Investor: Okay, okay. Got it, sir.

Management: Yes.

Operator: Thank you. The next question is from the line of Pritesh Sheth from One Up Financial Consultants Private Limited. Please go ahead.

Pritesh Sheth – One Up Financial Consultants: Hi, good morning, sir, and congratulations on a great set of results. Sir, I have two questions. Firstly, on the brownfield expansion, you mentioned that the EC has already been recommended, but you are awaiting final approval, right?

Management: There has been a recommendation from a committee. When the final approval will come and whether any conditions will be attached are all matters that are awaited. Until we have something in our hands, we do not know.

Pritesh Sheth – One Up Financial Consultants: Right. Once this final approval comes, hypothetically in January 2024, how long would it take to increase our capacity from 300 to 360?

Management: It is not only a question of when; there is also the question of if the approval comes. When it comes, it will take about a year, or until December next year, whichever is later.

Pritesh Sheth – One Up Financial Consultants: Right. Got it. What would be the indicative capex for this?

Management: The reason I am saying December is that even if the approval comes at the end of October, for example, or within one month, it will still be December because we need a 15-day shutdown.

Pritesh Sheth – One Up Financial Consultants: Right.

Management: The shutdown cannot be taken during the season, so we have to look for the leanest period for a shutdown. Typically, the leanest period is the end of December, when the OEMs undertake a shutdown or maintenance shutdown for a week or 10 days. That is the leanest period, so most probably we will plan a shutdown at that point in time. Again, this is subject to when and if the approval comes.

Pritesh Sheth – One Up Financial Consultants: Right. Got it. My second question is regarding the new car OEM approval. What kind of contract is this going to be? Will it be on a spot basis, or will it

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be a long-term contract? What kind of volumes is...

Management: The auto industry does not work on spot contracts. We do not operate under any spot contract. Prices are fixed, and every quarter those prices change based on the negotiations that various steel companies have with various OEMs. Prices change accordingly. This European OEM is new to the Indian market, so they will determine with us whether they want to follow the Indian system or the European alloy system, because Europe has a different method of pricing. We are flexible and open to both because the alloys ultimately match.

Pritesh Sheth – One Up Financial Consultants: I was actually asking from the volume perspective. Is there any fixed volume that they have committed?

Management: We do not disclose volumes for individual customers in this manner. Since we are already essentially full, if the volumes increase, we will eventually reduce our lower-paying customers.

Pritesh Sheth – One Up Financial Consultants: Okay. I have a couple more questions. I will get back in the queue.

Management: Yes, thank you.

Pritesh Sheth – One Up Financial Consultants: Thank you.

Operator: Thank you. Participants, in order to ensure that management is able to address questions in the conference, please limit your questions to two per participant. The next question is from the line of Divyansh Gupta from Latent PMS. Please go ahead.

Divyansh Gupta – Latent PMS: Hi, sir. Good afternoon. My first question is regarding financials. The incentive that we receive from the government in other income: is it recognized based on accrual, or only when we receive the money? If it is recognized on accrual, what is the typical timeline between accrual and receipt of the money? Have we experienced any delays from the government?

Management: There are two types of incentives. One is GST, and the other is electricity duty. We regularly receive the electricity duty benefit in our monthly power bill. Secondly, the GST refund is essentially a centralized SGST and CGST refund by the central government. The GST refund is released by the state government. Normally, there is a lag of 2-3 years, a 3-year time gap. We recognize it on an accrual basis, but receiving the cash from the state government normally takes 3 years.

Divyansh Gupta – Latent PMS: Got it. The second related part of the question is that, when we look at the financials, we see a large jump in accounts receivable. What is driving such an increase in accounts receivable if I look at it from a number-of-days perspective? I understand that sales have increased, so the amount should increase, but it has also increased on a days basis.

Management: This is directly proportional to the increase in our sales. If you look at the sales numbers, sales during this quarter were more than 70,000 tonnes, whereas in Q1 they were only 59,000 tonnes. The incremental sales of 11,000 tonnes, which occurred in the last two months, August and September, are leading to higher receivables. It is mostly due to that.

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Divyansh Gupta – Latent PMS: Got it. But there has been no increase in days on a DSO basis; it is just...

Management: The number of days has increased by only 4–5 days because of some sales to customers who have a higher credit period.

Divyansh Gupta – Latent PMS: Got it. Got it. My second question is, what would be the export sales, deemed or direct, in this quarter?

Management: This is always in the same ratio as it was last year. Direct exports account for 6–7%, and another 6–7% is indirect through OEMs, through exports.

Divyansh Gupta – Latent PMS: Understood. I know there is a limit of two, but my very last question is, can you...

Management: Can you come back in the queue, Divyansh?

Divyansh Gupta – Latent PMS: Sure, no worries.

Management: Yes.

Operator: Thank you. The next question is from the line of Anand Doshi from 360 ONE Capital Market Private Limited. Please go ahead.

Anand Doshi – 360 ONE Capital Market Private Limited: Good morning, sir. Congratulations on a great set of results. My first question is regarding the new revised capex. You mentioned that there has been an upward revision in the capex for the business. What is the revised capex for both the new steel plant and the forging plant, and what payback period will you be assuming for the new numbers?

Management: As I said, we are still revising all those figures, and they have not yet been declared. We are not sharing this at this point. This will all be done by March or April, and then we will have a better idea. We are still reconsidering some of our plans to service the non-automotive segment, which is becoming very attractive now.

Anand Doshi – 360 ONE Capital Market Private Limited: Will we see perhaps a 20% increase in cost or something like that?

Management: As I said, we are not sharing any information at this point in time.

Anand Doshi – 360 ONE Capital Market Private Limited: Okay, okay. Right, sir. My next question is regarding the forging facility.

Management: Only the cost will be lower than what we had budgeted.

Anand Doshi – 360 ONE Capital Market Private Limited: Right, sir. Regarding the forging facility, we had planned around 475 crores of capex. Can it roughly absorb around 65,000 tonnes of steel from our facility?

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Management: No, no, no, no, no. Eventually, it will absorb about 15,000 tonnes annually at full capacity. A new business will take some time to build up to full capacity.

Anand Doshi – 360 ONE Capital Market Private Limited: All right, sir. This is in Phase 1, right? It will absorb 15,000 tonnes.

Management: Yes, we are putting up the first phase. That is right.

Anand Doshi – 360 ONE Capital Market Private Limited: Okay, okay. The EBITDA range that you have mentioned as 19% to 25% today—is that for the next two quarters, or what is your guidance for the next year?

Management: This is our guidance for the foreseeable future. When we change the guidance, we will change it. We do not look at it quarter to quarter; we look at it annually.

Anand Doshi – 360 ONE Capital Market Private Limited: Okay. Regarding the import substitutions that you mentioned...

Management: Can you come back to the queue?

Operator: Sir, I would request you to come back to the question queue. The next question is from the line of Akash Rawal from Sanvi Family Office. Please go ahead.

Akash Rawal – Sanvi Family Office: Hi. Thank you for the opportunity, sir, and congratulations on a great set of numbers. I want to understand how much capex is budgeted for the next 3 years, such as FY27, FY28, and FY29. In proportion to that, how much debt are we going to take?

Akash Rawal – Sanvi Family Office: Hello.

Management: Yes. It will be about 150 crores for the existing plant.

Akash Rawal – Sanvi Family Office: Uh-huh.

Management: For the steel plant, as I said, we are still finalizing the figures that we will be investing.

Akash Rawal – Sanvi Family Office: Okay. The debt amount [cut off]

Management: The debt amount, as I said earlier, is 575 crores.

Akash Rawal – Sanvi Family Office: Okay. If I assume cumulatively that 1,000 crore of debt can be taken in the next 2 years?

Management: When we finalize everything, we will share it in the deck and share it in April. Do not make any assumptions purely on your own. We have no comments at this point in time.

Akash Rawal – Sanvi Family Office: Okay, sir. I also wanted to understand the company's strategy regarding the non-automotive OEM segment. What steps have been taken by the company in this area?

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Management: We are starting with ingot casting, which is the route to making specialized steels. This is something that we will start at the end of November. It will take a couple of months to stabilize, and then we will determine the markets. There are attractive segments, and we will gradually enter those segments. Tool and die steel is one, oil and gas is another, and railways is the third. Bearings will come later. Eventually, there may be aerospace and defence. There are several overlapping sectors.

Today, we do not have much capacity, so we are just going to seed some of these segments. When the new plant comes up, we will have the capacity to produce higher-diameter blooms. Some of that will certainly go into automotive, but we will also be able to make steel for railways and the windmill sector. We are seeding those sectors now, and the real volume will come when the new plant comes up.

Akash Rawal – Sanvi Family Office: Okay, sir. Thank you, sir, and all the best.

Management: Thank you.

Operator: Thank you. The next question is from the line of Chaitanya Ramesh Rao, an individual investor. Please go ahead.

Chaitanya Ramesh Rao – Individual Investor: Hello, can you hear me?

Management: Yes.

Operator: Yes, sir, please go ahead.

Chaitanya Ramesh Rao – Individual Investor: Congratulations on a good set of numbers. My question is regarding VSSL's entry into the ring gear segment that you mentioned in the last conference call. What is the quantum that we are looking at? I believe there was a timeline for completing commissioning by next October, which is 1 year from now. What will be the capacity, what is the current competitive environment in India, and what is VSSL's plan regarding this sector?

Management: It will be fully stabilized, with commissioning and everything completed, by March 2028. This is a highly automated line. It is a specialized line that gives us an advantage in terms of better quality and much better yields compared with the normal manufacturing methods in India.

We have already received approval and orders from one of the large global Tier 1 companies. The process has started, but this is a new business that we are entering, so it is a slow process.

We do not have any certain plans. We have certain plans for steel, but for the forging business, Aichi, our partner, are knife suppliers. They have experts in this method of steel-making and forgings. They have dispatched a senior-level person who has been appointed as president of the forging business. Aichi, the Japanese partner, will be driving this business, of course.

Chaitanya Ramesh Rao – Individual Investor: Do you have any indicative tonnage that you are looking at, and what EBITDA levels do you expect from this?

Management: At full capacity, it will be 15,000 tonnes. It will take some time to build up to that capacity.

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Chaitanya Ramesh Rao – Individual Investor: Will the EBITDA realization be higher than the current levels?

Management: As it is a new business, give us some freedom to start learning this business before we start committing to anything.

Chaitanya Ramesh Rao – Individual Investor: Thank you so much, sir. Best wishes for your journey.

Management: Thank you.

Operator: Thank you. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. The next question is from the line of Rutwik Sheth from One Up Financial Consultants Private Limited. Please go ahead.

Rutwik Sheth – One Up Financial Consultants Private Limited: Hi, sir. Thank you for this follow-up. On the greenfield plant, has the land acquisition been completed—the entire...

Management: Land acquisition for the melting part has been completed. Land acquisition for the rolling part is ongoing, and we should complete it by January or February next year.

Rutwik Sheth – One Up Financial Consultants Private Limited: Okay. Then we will have to apply for the EC, right?

Management: The EC will be applied for within this year because the EC for the steel melting part takes a longer period. Therefore, that will be applied for within this year.

Rutwik Sheth – One Up Financial Consultants Private Limited: Okay, okay.

Management: We should have applied for the EC by December.

Rutwik Sheth – One Up Financial Consultants Private Limited: Okay, got it. Is there any ROCE or EBITDA-to-capital-employed figure for the forging plant that you would like to lay out based on the 150 crores?

Management: We are not making any comments on forging. We are not making any comments on forging at this point in time. It is one line. It is a small line. It is suboptimal. It is our entry into a business.

Rutwik Sheth – One Up Financial Consultants Private Limited: Got it.

Management: We have the advantage of partners who are experts in this area, so we are relying on their knowledge. Once we add 2 or 3 lines, that is when the EBITDA on capital employed and all of those metrics will start coming in. For now, our focus is only on successful implementation of the project, getting the production lines operating, getting the quality right, and getting the throughput right. Those are our objectives.

Rutwik Sheth – One Up Financial Consultants Private Limited: Got it. I have one last question. If and when we receive approval for the brownfield expansion from 300 to 360 ktpa of melting capacity, what kind of capex will be required approximately?

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Management: It is not substantial, but about 100–115 crores.

Rutwik Sheth – One Up Financial Consultants Private Limited: 100–115 crores. Okay. Thank you, sir, and best wishes for the upcoming festive season. Thank you.

Management: Thank you.

Operator: Thank you. We have the next follow-up question from the line of Digant Gupta from Latent PMS. Please go ahead.

Digant Gupta – Latent PMS: Hi, sir. The land acquisition that you answered was one of the questions. The other question was that we were hearing that one of the other listed specialty steel players is in the process of increasing its capacity by about 40% to 50%. The last time we discussed this, the industry was capacity-constrained. I wanted to understand how you see requests for price increases, in view of upcoming capacity from a competitor, impacting our realizations or EBITDA per tonne.

Management: I do not waste my time trying to forecast what price increase will or will not come. I focus on our operations. The price increase will depend on the market situation at that point in time. In the previous quarter, we received a better price increase than what we were anticipating. Therefore, you can easily be wrong here and there.

We focus on trying to achieve 10,000 rupees of EBITDA per tonne. My understanding is that any new plant that is announced takes 3–4 years after the announcement to start. I do not know which company you are talking about, when they made the announcement, or what the status of their project is. I have no idea. My understanding is that no new capacity will come up in the next 2 years. That is my understanding. I may be wrong.

Digant Gupta – Latent PMS: Okay. I will take it offline. Understood, sir. That is all from my side.

Operator: Thank you. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. The next question is from the line of Naresh Chandak from NK Investment Management. Please go ahead.

Naresh Chandak – NK Investment Management: Hello. Hello, sir. Congratulations on a good set of numbers. Am I audible?

Operator: Can you be a bit louder, please?

Naresh Chandak – NK Investment Management: Hello. Am I audible now, sir?

Management: Yes, now you are.

Naresh Chandak – NK Investment Management: Okay, thank you. First of all, congratulations on a good set of numbers. I have a couple of questions. First, what measurable benefits have been realized from the Kocks block and reheating furnace capex in terms of throughput, yield, energy consumption, product quality, and cost per tonne? What further benefits remain to be capitalized?

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Management: With the combination of the Kocks block and reheating furnace, we have been able to increase our capacity to 300,000 tonnes. We can actually increase this capacity even beyond that, but it depends on receiving environmental approval. We can now go up to 330,000 tonnes.

Second, quality has improved across the board. Our rework and rejections have come down.

Third, we were previously undertaking job work externally. A large part of that has now come back in-house. Therefore, our job-work expenditure has come down, and consequently, the margin has increased.

Yields have also improved because we have moved from a 4.2-metre billet to a 5.2-metre billet. Wastage occurs at each end of the billet. Now the wastage occurs at the ends of a longer billet, and therefore the yield has improved.

Naresh Chandak – NK Investment Management: Understood, sir. Yes.

Management: Also, because of the better quality, we have been able to stabilize production at one billet size. This will be fully implemented over the next 6 months. It will provide better flexibility, which means we can serve customers better using the combination of the billet, the billet size, and the Kocks block.

Naresh Chandak – NK Investment Management: That is fine. My next question is, which end markets are contributing most to incremental demand: passenger vehicles, two-wheelers, tractors, bearings, engineering, or other applications? Are any consumer sectors showing signs of a slowdown?

Management: Demand is present across the board. Regarding tractors, what I am hearing from all the customers is that it seems to be slowing down somewhat.

Naresh Chandak – NK Investment Management: Okay, got it.

Management: [inaudible]

Naresh Chandak – NK Investment Management: That is all from my side, sir. Thank you very much.

Management: Thank you.

Operator: Thank you. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. The next question is from the line of Deepesh from iWealth Management LLP. Please go ahead. Deepesh, kindly unmute your line, please. Deepesh, requesting you to unmute your line, please. As there is no response, we move on to the next participant. The next question is from the line of Vansh Rathod from JVM Advisory. Please go ahead.

Vansh Rathod – JVM Advisory: Hello. Hi, good afternoon, sir. Congratulations on a great set of numbers. I have two questions. Management mentioned that it is targeting a mix of roughly 70% automotive and 25% to 30% non-automotive revenue by FY35. Among the non-automotive verticals—railways, oil and gas, bearings, and tool and die—which segment are we particularly prioritizing first for near-term scale? Do we see any growth in the near term?

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Management: In the near term, there is very limited scope for what we can do because we are running at peak capacity. We are focused on our current pillar, automotive. We are taking trials in tool and die steels. We will start taking trials in each of these segments, and then we will have the products ready. Once the new plant comes up, we will be able to start expanding these products.

Vansh Rathod – JVM Advisory: Okay. The next part of my question is, what does management think about the outlook for the domestic automotive segment in the country over the next 1-2 years? What do you think about the sector?

Management: We are too small a player to focus on what the automotive sector will do. You all have better access to the auto companies and their conference calls. However, my understanding is—

Vansh Rathod – JVM Advisory: Yes.

Management: ...that the auto companies are bullish on growth, so we do not see any problem. More importantly, some of the auto companies are diverting their share of more sophisticated qualities to us. We do not see any problem.

Sachit Jain – CMD: [inaudible] in meeting our volume targets. As a plant, we do not see a problem in filling up the capacity. Of course, it will take 2-3 years to fill the capacities of the new plant, so we do not see much of a problem in filling them.

Vansh Rathod – JVM Advisory: Have you identified any downside scenarios or specific risks that you have factored in for your growth outlook? Any downside scenarios?

Sachit Jain – CMD: There are several risks. One, there is a project implementation risk. Two, I think that is the biggest risk that we have.

Vansh Rathod – JVM Advisory: Okay. Apart from this [crosstalk]

Sachit Jain – CMD: Everything else is secondary.

Vansh Rathod – JVM Advisory: Okay, okay, sir. Noted. Thank you so much for taking my question, sir. All the best for the future. Thank you.

Operator: Thank you. The next question is from the line of Manaswini from Oracle Investments. Please go ahead.

Manaswini – Oracle Investments: Hello. Congratulations, sir, on the good set of numbers. My first question is, revenue growth has outpaced volume growth. How have realizations changed by product category, and what is driving the price? Is it customer mix, value-added grades, market prices, or contractual resets?

Sachit Jain – CMD: The largest impact is from market prices, which means contractual resets, because we do not sell in the spot market.

Manaswini – Oracle Investments: Right.

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Sachit Jain – CMD: That is the largest element. Because commodity prices have increased, the price increase has been substantial. Over the last 2 quarters, prices have increased. For some OEMs, the increase has been around 8,000 rupees. For some OEMs, it is lower because they tend to settle with a lag. Some OEMs are still in the middle of settling, so those settlements have not yet been fully completed. Q2 is still not fully settled as of now.

Manaswini – Oracle Investments: That makes sense. I also had another question. Realistically, what market share or tonnage can {? VSSL ?} capture over the next 3–5 years?

Sachit Jain – CMD: We are too small to have a large market share. Our capacity is 200. This year, it will be about 265,000 tonnes. The market size is about 8 million tonnes, and there are several products in which we are not even present. These are questions that larger players consider when they look at market share and so on. For us, it is simply a question of how much capacity we can put up and fill.

Manaswini – Oracle Investments: That makes sense. Thank you so much.

Sachit Jain – CMD: Thank you.

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

Sachit Jain – CMD: Thank you so much for showing so much interest in our company. Your questions are all well noted, and we will have more precise answers over the next 6 months.

With the capacity that we are putting up, we will become a substantial player in the alloy steel bar market. We still will not have bright bars or wire rods, which are very large segments of the alloy steel market. We will not be present in those segments.

In the bar segment for cars and two-wheelers, we will be a major supplier in India. Overall, we remain optimistic. The business is strong, and there is a tailwind from green steel. More and more customers are approaching us to discuss green steel. There is no price benefit as yet, but a share-of-business benefit clearly seems to be visible as far as the trend is concerned.

Beyond that, we remain optimistic about the future. Thank you so much.

Operator: Thank you. On behalf of IIFL Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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