Vardhman
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VARDHMAN SPECIAL STEELS LIMITED

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SUB: TRANSCRIPT OF EARNINGS CONFERENCE CALL OF VARDHMAN SPECIAL STEELS LIMITED – Q4 FY-25

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 23rd April, 2025 to discuss the Company's business and financial performance for Q4 FY25.

Kindly take the same on record.

Thanking you,

Yours faithfully,
FOR VARDHMAN SPECIAL STEELS LIMITED

SONAM DHINGRA

Digitally signed by SONAM DHINGRA
Date: 2025.04.29 12:07:46 +05'30'

(SONAM DHINGRA)
COMPANY SECRETARY

“Vardhman Special Steels Limited

Q4 and FY'25 Earnings Conference Call”

April 23, 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. R.K. REWARI – EXECUTIVE DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED
MS. SOUMYA JAIN – EXECUTIVE DIRECTOR – VARDHMAN SPECIAL STEELS LIMITED
MS. SONAM DHINGRA – COMPANY SECRETARY – VARDHMAN SPECIAL STEELS LIMITED

MODERATOR: MS. DEEPIKA MURARKA – CHOICE EQUITY BROKING PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Vardhman Special Steels Limited Q4 and FY '25 Earnings Conference Call hosted by Choice Equity Broking Private 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Deepika Murarka from Choice Equity Broking Private Limited. Thank you, and over to you, ma'am.

Deepika Murarka: Thank you. Good afternoon, everyone. On behalf of Choice Equity Broking, welcome to the Q4 and FY '25 Post Earnings Conference Call of Vardhman Special Steel Limited. I also take this opportunity to welcome the senior management team. So, on today's call, we have with us Mr. Sachit Jain, Vice Chairman and Managing Director; Mr. R.K. Rewari, Executive Director; Mr. Sanjeev Singla, CFO; and Ms. Soumya Jain, Executive Director.

This conference call may contain certain forward-looking statements, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not guarantee of future performance and involve certain risks and uncertainties, which are difficult to predict. I now invite Mr. Sachit Jain from the management side for the opening remarks to be followed by the question-and-answer session.

Over to you, sir. Thank you.

Sachit Jain: Thank you so much, and good afternoon, everybody. In addition to the names mentioned, Sonam, our Company Secretary, is also on the line. Thank you so much for being here with us. And this has been a good year for us. We've had record production, record sales. And we have tested our rated capacity and a targeted capacity of 300,000 tons a year for 1 month, 25,000 tons of billet making. So, we tested that. That was one big achievement that we've had.

The second area, I would say, is that we were implementing our Kocks block. This is a sizing block, which comes in, in the rolling mill. It's an attachment, which gives us precise diameter control, and we can go into precise dia, including in decimal ranges also, so first decimal point. So that becomes a better value-added product for our customers.

It's a standard product for good mills. It's not something exotic that we've discovered, so no R&D involved. But for us, the important part was we could manage it with a very small shutdown. So, we were told by the Directors of Kocks, who have got 25-30 years' experience that this was perhaps the fastest implementation anywhere in the world. The mill was shut down for 23 days, and we could start hot trials. So that was something very exciting, and we're looking forward to this.

With this implementation of the Kocks block, three things would happen. As I said, one precise control would happen. Second, our capacity in rolling would increase, which means over time, our job work for outside rolling would come down. And three, our working capital inventory would come down. So, as you know, as of 31st March, we had a high working capital inventory, finished goods inventory primarily, because of the shutdown. So, it'll first come down to normal levels, then over the next 6-8 months, we hope to bring those down to the new targets.

Apart from this, this is the first year we have given a dividend of INR 3. We were able to increase the dividend from INR 2 to INR 3. We anticipate a 26% dividend payout, and our target is to maintain around 25% dividend payout. So, we are at our target. And our company policy is always to maintain as far as possible or increase dividend while trying to be around 25% dividend payout, and we'll be targeting that.

The other big thing is that we were discussing that we intend to put up a new plant. We've been discussing this over various con calls and various meetings with large investors who have showed interest in the company. And finally, we have been discussing with Aichi for the last almost a year, and finally, the Board has taken the decision in the meeting yesterday to put up the new plant.

We have selected this plant to be put up in a Punjab. We believe Punjab is a very strong location to put up an alloy steel plant. This will be green steel. It will have a solar plant right from the beginning, and our carbon footprint would be lower than the existing plant. The investment as of now is targeted to be about INR 2,000 crores.

So, in addition to more of the same, that is expansion, we'll be able to increase the diameter sizes towards the higher diameter products that we don't have. We'll be able to improve our quality from our current levels, and we'll be able to reduce costs from our current levels.

In addition to this, the new plant will give us flexibility later on at other products. No decisions taken on that, but products like wire rod, which are in short supply, high quality wire rods which are in short supply in India. A lot of them get to -- especially for top quality fasteners. This is something which we are hearing from the auto OEs that there's a shortage in this product.

And then it also gives us flexibility in the future, again, no plans as now, to move into nonautomotive steel products, which is something I've been talking in the past in my annual reports, in my letter to the shareholder in the 2 year, 3 year & I think, in 2017 or '16 or '17, I've been talking about the desire to move to non-automotive steels. Of course, with Aichi's partnership that thought was postponed.

It will never be dropped. So, with the new plant, we will have the flexibility at some stage to move into those nonautomotive steel plants also. Overall, our partners, Aichi, are also very excited about this project, and we'll be discussing with them to provide us the full technical know-how to put up this plant and all those in the next few months, we'll be discussing with them how to move forward in that area also.

The plant is going to be financed through a mix of equity and debt, so there will be equity issuance in due course. And we have talked to banks. So at least 3 banks have expressed support to the loans for this project. So again, in due course, all that will be done. So, the process of land purchase has begun. And hopefully, in the next 2 to 3 months, we should be able to complete the land purchase. And once that is done, then we'll apply an application for environmental approval and so on.

That's all for my opening remarks. Mr. Singla, our CFO, will take you through some financials and then we open for Q&A.

Sanjeev Singla: Thank you, sir. On the financial performance for the full financial year FY'25, our total sales volume is 215,000 tons which is higher by close to 11% over the previous year. And in terms of value, it is higher by only 6.2%. So, the difference is because of the price reductions happened during the year. So, first decrease happened from 1st of July and then from 1st of October. So, with these price reductions, our total revenue in terms of rupees has increased by 6.2%.

As a result, our EBITDA, including other income, is INR 177 crores as against INR 172 crores in the previous year. EBITDA per ton, we have achieved INR 8,200 per ton, well within the stated range of INR 7,000 to INR 10,000 for the year. And as a result, our PAT stands at INR 93.09 crores, marginally higher than over the previous year. So, the dividend, Jain sir has already discussed.

Solar power plant is the one item, which we are expecting to be commissioned in the current year from 1st of July. The plant will be commissioned accordingly, our 40% to 45% of the power will be met by this Solar Power Plant.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Muskan Rastogi from B&K Securities. Please go ahead.

Muskan Rastogi: Sir, my question is to reach the rolling mill capacity of 250,000 tons to 260,000 tons, what is the left-out capex? And from September once we reach full 250,000 tons to 260,000 tons capacity, what is the capex plan for rolling mill capacity for next 2 years? And additionally, what is our capex plan for 2 years for this INR20 billion investment? And will the capacity commissioning will come in phases or all at once at FY '30?

Sachit Jain: So as far as this plant is concerned, largely the capex is done, except for the reheating furnace, which is one piece of equipment, which will come up by October and get commissioned by December and maybe 2, 3 months of stabilization. And then after that, the rolling mill capex is complete, so there's no more capex in the rolling mill. The other capex which is pending is for our non-destructive line.

Muskan Rastogi Sir, how much capex?

Sachit Jain: I'm sorry.

Muskan Rastogi: Sir, how much capex we've done to reach 250,000 tons? You said largely it is done, sir, how much is it?

Sachit Jain: That amount has already been announced, but I will ask...

Sanjeev Singla: Last year, we have done a total capex of INR 127 crores. And as Jain sir has explained, reheating furnace will be done in the current year. So, another INR 50 crores to INR 60 crores and then...

Muskan Rastogi: Sir, left out capex. I'm sorry left out capex.

Sanjeev Singla: Left out capex in the next 2 years, including this FY'26 and FY'27 will be close to INR 175 crores.

Sachit Jain: So out of that, about INR 55 crores, INR 60 crores for the rolling mill remaining part and the other part for the entity line, environment expenses and other expense we have expenditures. After that, this plant is almost complete. So, no major capex in this plant. And then the replacement capex at the right time will again, that's normally going on.

As far as the new plant is concerned, in the next 2 years, the major capex is only going to be land, and then the advances of machinery and all will start sometime in the financial year, '26-27. So, no major capex apart from the land, which is going to happen this year.

Muskan Rastogi: Okay, sir. Sir, with the limited capex requirement in the existing line, can we become net debt free by FY'26?

Sachit Jain: Our target is, if you don't take the capex for the new project, then we will be net debt free in the next 3 years. Next 3 years we will be zero debt. So, we will have a roughly INR 1,000 crores net worth company with zero debt to finance the new project of INR 2,000 crores.

Muskan Rastogi: Okay. And sir, like I'm new to this industry, could you help me how will KOCKS block help reducing the inventory and increasing the quality? And what is the total investment in KOCKS block? And what is the payback return that you're expecting?

Sachit Jain: We don't separate out each individual expenditure. But it's a significant expenditure. That is one. And one, the quality improvement happened with precise diameter control. So, diameter control is very precise. So, what the really high-quality when you get into import substitution of steels, which are still getting imported from Japan, so those kind of steels to replace them, you need very precise diameter control. So, the Kocks block will help us to do that. So that is one.

Two, the changeover times become much lesser. So, the time lost and therefore, capacity lost in change over goes down, which enables our rolling mill capacity to go up. So that is a second advantage. And inventory comes down because the changeover is faster, so you don't need to stock as much finished goods as we have today. So, the inventory will come down. You need to stock inventory because of changeover costs a lot of time.

And therefore, when customers in the auto space require just-in-time delivery and therefore, you need to maintain finished goods stocks for our service purpose. We are not a commodity steel player.

Muskan Rastogi: Okay. So how much of this capacity will go up...

Sachit Jain: That will be required...

Muskan Rastogi: With this change...

Sachit Jain: About 10,000 tons, 15,000 tons.

Muskan Rastogi: Okay, sir. And sir, another question. I see many of our peers are unlisted?

Sachit Jain: I think please wait in the line. You can come back again the line because there are others in the queue.

Moderator: The next question is from the line of Jeetendra Khatri from Tata Mutual Fund.

Jeetendra Khatri: Sir, my question is, what would be the EBITDA per ton once your entire new capacity comes online and it ramps up and all? So, what would be the peak EBITDA per ton targeted by you?

Sachit Jain: See, from next year that is '26-'27, we'll be raising our target upwards to 8,000 to 11,000 in this plant. New plant, the production will start somewhere in '28-'29, so very difficult to predict it now. So, when it reaches full capacity, it should again be around the same figures as this.

Jeetendra Khatri: Okay. And sir if you can...

Sachit Jain: Very difficult to predict that far ahead.

Jeetendra Khatri: And secondly, sir, from your communication -- sorry, go ahead.

Sachit Jain: And please keep in mind that the fixed costs, all management costs, marketing costs of the top management, all those costs will be spread over a much bigger volume. So, the top management will not change. We will not be adding in top management. So, all those costs will be spread over a much bigger volume, and therefore, those costs will come down.

Jeetendra Khatri: Sure, sir. Sir, my second question is, in your talks with Toyota and Aichi Steel, so what is the communication you're getting from them on the tariff preparation? So, are there any change in plans or something on that line?

Sachit Jain: No, no change in plans. This project has been announced after knowing fully aware the tariffs are in place.

Moderator: The next question is from the line of Raman Kv from Sequent Investments.

Raman Kv: So, you said the solar power plant will be commenced by this year, and it will cater to the 40% to 45% of the power demand. Sir, how much will this have impact on the EBITDA? Like how much per quarter will the incremental EBITDA be?

Sachit Jain: We are not sharing those figures of specific changes of costs and those things. But one of the reasons that we are confident of our range going up is because of cost save initiatives like this.

Raman Kv: Okay. And sir, I just wanted to understand why did the EBITDA margin during Q4 had a 370 bps impact?

Sachit Jain: We don't see, quarter-to-quarter is very difficult to explain. But one of the main reasons is we had a shutdown of the plant, and therefore, the plant production was very low, so a lot of job work outsourcing also happened. So, all kind of things happened. We don't discuss quarter-to-quarter. We look at annual EBITDA figures and also depends on when raw material prices go up and the price changes happen later. So, quarter-to-quarter situation will keep fluctuating.

Raman Kv: No, no. I meant that the year-on-year EBITDA margin itself has decreased, like last year, it was 11%, this year, it was 7%?

Sachit Jain: Year-on-year, the EBITDA is within our range of INR 7,000 to INR 10,000 EBITDA per ton for full year, the full year. Please don't look at any one quarter and especially a quarter we've had a major shutdown. There you will get distorted results.

Raman Kv: Okay. So now the plant has the shutdown plant has -- it has been like working or it is still shutdown?

Sachit Jain: Plant has started but not running at full capacity because each size has to be tested. Please understand, we are making automotive steels. And therefore, each size has been made, tested and then given a clearance to go ahead. So full-scale production has not started, but production has started. That's the main thing. And the shutdown time was less. And all those have been taken into account in our sales forecast and inventory planning for the shutdown.

Raman Kv: Okay. Sir, I just have one doubt...

Sachit Jain: I meant to say the adjustment of quality and stabilization so far seems to indicate it is taking much less time than we had anticipated and we have prepared for.

Raman Kv: Okay, sir. Sir, I just have one doubt as to the capex, which you said earlier. So, what was the capex? And like you said, INR 175 crores capex for FY'26 and FY'27. And what was the breakdown?

Sachit Jain: It is largely for, as we said, remaining the reheating furnace, the non-destructive testing line, some R&D equipment, some strapping machines here and there, some environmental expenditure, combination of everything.

Moderator: The next question is from the line of Ritwik Sheth from One Up Finance.

Ritwik Sheth: Sir, Congratulations…

Moderator: Sorry to interrupt, sir. I would request you to please use your handset.

Ritwik Sheth: Yes. Is this better?

Moderator: Yes, sir.

Ritwik Sheth: Congratulations on the announcement of the greenfield plant. Sir, a couple of questions on the greenfield plant itself. Sir, earlier in the previous calls, you had mentioned that the capex could be anywhere between INR 1,500 crores to INR 1,700 crores. And you've announced a capex of about INR 2,000 crores. So, any specific reason that it is significantly higher than we anticipated? Or are we adding something?

Sachit Jain: So, see, those things keep changing as some of the machinery configurations that we were initially, it was just an idea. And now as an idea, they're getting more refined and some of the equipment that we need to add in the plant, those are being looked at. Just to give you an idea, this Kocks Block was something that we had not planned initially, that we said we'll postpone and put it at a later stage. And now we're going to put it up in the new line also immediately. So, stuff like that keeps getting added. As we get deeper into negotiation and start and so on, we'll get more precise ideas of the cost.

Ritwik Sheth: Okay. So, this is like a ceiling of the capex, it would be lower also, right?

Sachit Jain: It could be lower, it could be higher as you go around. This is an idea that we have as of now.

Ritwik Sheth: Got it. And sir, earlier, a couple of years ago, we had targeted for 25% EBITDA to capital employed for the existing plant. So, we are looking towards that direction. So, does this hold true for the greenfield plant as well, which we are going to set up?

Sachit Jain: We will not. At that stage, we're talking of separate plant wise because products will be allocated to a plant separately. But company as a whole, yes, when the new plant works at full capacity, we would like to target the same 25% EBITDA on capital employed.

Ritwik Sheth: Okay. And sir, one last question. What is the amount that we'll be spending on land, total amount?

Sachit Jain: We don't again give out all those specifics. It will come out later at the right time.

Ritwik Sheth: Sure. And any timelines on the...

Sachit Jain: I said, next 2 to 3 months, we want to complete the land purchase. See, funding is, as I said, equity, we have said in the past also, our partners at some stage will increase their stake. Now when do they increase their stake, that is up to them. So, in the next 3 years, at some stage, they will increase their stake, and so that will be one source of funding. And at some stage, if they invest, the promoter might also like to pitch in a bit. And then if there is a gap, we might do a QIP. So, all those options are open to us.

Ritwik Sheth: Sure. And sir, any incentives we will receive from the state government?

Sachit Jain: Yes, we will receive incentives.

Ritwik Sheth: Okay. Would it be possible to highlight that? On INR 2,000 crores, what could be the incentive that...?

Sachit Jain: No, you can look it up in the industrial policy of Punjab, it's there. It's all public information.

Moderator: The next question is from the line of Saket Kapoor from Kapoor and Company.

Saket Kapoor: Firstly, in continuation to what the previous gentleman was asking, sir. In terms of the government incentives on GST or electricity are now approved for, they are coming to the sunset, are they in comparable to that are there any capital subsidies for this new project?

Sachit Jain: Look, what is public information, please don't ask those questions on a company call. This is public information. You can see the government policy incentives.

Saket Kapoor: Sir, you have said that the tonnage will improve and I think the monthly 25% is the run rate which we have hit for the month of March. So, for the current financial year '25-'26...

Sachit Jain: No. In December we have done it for one month, we have tested it. So, we do not plan on this year to achieve that capacity. We will achieve that capacity in '26-'27 later stage, but '27-'28 for sure we'd like to achieve that kind of production.

Saket Kapoor: Okay. Just to conclude sir, what should be the tonnage we should work?

Sachit Jain: For the next year, our idea will be that this year we have 2,15,000 tons. So, around 2,25,000 tons for the next year. And for the next year, we will plan to do around 2,50,000 tons.

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

Angad Katdare: Sir, two small questions. Any plans for plant shutdown in FY '26?

Sachit Jain: Yes, there will be some more shutdown because when the reheating furnace is installed, we will have a small shutdown. But no major shutdowns now.

Angad Katdare: Okay. And sir, you mentioned during the call that the new plant will start contributing from FY '28-'29 onwards. So just want to ask, will the new plant capacity will start in multiple phases or is it on one go?

Sachit Jain: No. It will be one short commissioning. So, there are 2 parts to it, melting and rolling. Very difficult to synchronize which they'll come up exactly the same time. So, one may come up a little earlier than the other. That's all. But it's just an implementation part. As far as plan is concerned, it will be one furnace, one rolling mill, one ladle refining furnace, one vacuum degassing and one caster. So, it's all one, single line. So, it's not going to come up in phases. It will come up one short. Capacity utilization will come up in phases.

Moderator: Thank you. The next question is from the line of Maitri Shah from Sapphire Capital. Please go ahead.

Maitri Shah: So previously, you guided for an EBITDA range of INR 8,000 crores to INR 11,000 crores, was that for FY '26 or FY '27?

Sachit Jain: We will target it in this year also. But as we said that still we are not running at full capacity of our rolling mill because our reheating furnace got delayed. So, we will target this year itself, but next year we are fairly confident of this range.

Maitri Shah: And the realizations, do you see them any time going up this year or will this stay stable at this rate or they might even go down?

Sachit Jain: I don't indulge in forecast on pricing, that's something which is not in our control. But overall, in the current circumstances, I don't see the probability of prices going down from the current level. So, if at all at some stage prices may start going up. We've asked the OEs for a price increase. So, let's see how things shape up. All depends on Tata Steel, one company. They decide the pricing.

So, if you all put pressure on Tata Steel and their margins start getting affected, they'll want to increase prices and that will change the sentiment in the market. And maybe with the safeguard duty which has come in, so that may start at least the downward pressure which was there, the negative sentiment would most probably be corrected.

Moderator: Thank you. The next follow-up question is from the line of Muskan Rastogi from B&K Securities. Please go ahead.

Muskan Rastogi: Thank you for the opportunity. Sir, I wanted to ask many of our competitors are unlisted, so getting data becomes difficult. Since you're interacting with the marketing team, I want to understand the demand and supply scenario? Also, could you please talk about the dynamics and reason for the pricing pressure and will it continue or not?

Sachit Jain: So, one demand is okay in the car segment. It is okay in the 2-wheeler segment. The problem seems to be in the commercial vehicle segment. And the growth is not happening to the extent people had forecasted.

Muskan Rastogi: Sir, other industry side?

Sachit Jain: I'm sorry. We are primarily in the car and 2-wheeler segments. So, we are fine. And the other issue is exports of components which is another area where our steel goes. And in the current tariff situation there is some turmoil in the next few months. So, we'll see how that shapes up. Some customers may cut down their purchasing. My belief is that overall this tariff situation is going to eventually be beneficial for India.

So, if you leave aside the turmoil over the next 3 to 6 months, things should be better for India as a whole. But overall, when I talk to people nobody is too concerned about the demand. And the other issue is the pricing pressure. As the big boys -- see, we are smaller players. The big boys, primarily Tata Steel and JSW they come under pressure because of Chinese imports on the big steel players in the commodity steels.

So eventually when customers and OE is talking of HRC and CRC, there's a pricing pressure because of imports. So somewhere along the line, they also feel if we ask for a price increase for our product, then the other products are they'll be coming for a price reduction somewhere psychological not to allow a price increase or push for a price reduction. I think that pressure is over, but very difficult to make those kinds of forecasts.

Muskan Rastogi: Sir, I wanted to ask what is the -- in alloys?

Sachit Jain: Our focus is on internal cost improvement and efficiency improvement, but market conditions being what they are, we will try to keep improving our internal factors. And in the current market situation, we expect to be able to match this our range, 7 to 10 for this year. And 8 to 11 is the new range we like to offer from next year in the current market situation. If the market situation improves further, then we'll be at the higher end of this range.

Muskan Rastogi: Okay. Sir, I wanted to understand the dynamics, demand and supply scenario in alloy steel?

Sachit Jain: I'm talking about our product segment. So, we are currently demand is reasonable, which is why we are talking about increase in sales next year. We've had record sales this year.

Muskan Rastogi: Sir, last year exports were 5%, how was it for FY'25 and how much volume should you report from Aichi for FY'25?

Sachit Jain: We are not declaring specifically for what they are buying, but they are buying less than what we had estimated. Toyota sales in Thailand have come down a bit. So there their own sales have come down and therefore their requirements have not been commensurate to what we were expecting. And we are working on alternate plans to see where, what they had said could be made up. We are working on it.

Muskan Rastogi: How much was exports in this year?

Sachit Jain: 5%.

Muskan Rastogi: 5% only. Okay. And sir, last question, what is the market share and you mentioned that with Aichi tie up, we can get more business overseas and opportunities overseas. So, for exports, how much mix are we expecting from Aichi?

Sachit Jain: We don't give -- take out a research number. We'll see how things shape up. And I was surprised to learn from my export team that we are, by far, the largest exporter from India. Even at 5%, we are by far the largest exporter of alloy steel bar of automotive steel bars from India against Thailand, which is the biggest market in Southeast Asia.

Moderator: Thank you. The next follow-up question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: So, when we look at your Investor Presentation, we find 2 Slides wherein we are mentioning a wide range of rolled and bright bar product and diverse application of our products. So, can you make -- I'm sorry for this question, but I cannot -- what do we make of this diverse application of our products? This goes to the OEMs or these are the final products for which the bars are used?

Sachit Jain: No, no. Ultimately, it goes to the OEMs. Our entire business is an automotive business. It will either go to the car, two-wheeler, truck or tractor. 97% of our business is that. 3% of the business goes to the bearing industry, which is of the replacement market. It is not our target segment. This is the diversity in cars, two-wheelers, trucks and tractors. Then there are various kinds of parts like Rear Axle Shaft, Axles, Gears, Piston Pins, Connecting Rods. So, our steel goes to different parts of vehicles. We make grades above 400.

Saket Kapoor Sir, our end product is the bars only. And then this Axles, Gears and all, these have been done by the other manufacturers and then goes to the OEM, this is how the supply chain is, sir?

Sachit Jain: Yes. So, we would be Tier 2s in most cases and sometimes Tier 3s.

Saket Kapoor: Okay. So, the casting players and all are also buying from us and then creating that Axle Shaft parts and all, that is for the...

Sachit Jain: No, no. Our customer segment is a forging industry. Our products are all forging steel, largely forging steel. So, our products will be taken by a customer who will forge the product. Then there will be some machining, which will go into an assembly, which will go into the automotive company.

Some parts will go for direct machining. That's a smaller part of our business. But there is proportion which goes straight for machining without any forging. Largely, our product goes for forging industry.

Saket Kapoor: And just to conclude, sir, when we see players like GNA Axles or Auto Axles, are they in the Tier 2, Tier 3 to result into the end product or they do not fall in our value chain part, companies like Auto Axles and GNA Axles?

Sachit Jain: GNA Axle is a large customer of ours, and they would supply to a Tier 1 like Meritor and that Meritor will be supplying to the OE company. So, GNA Axles for our product largely would be a Tier 2 and we'll be a Tier 3. And in some cases, some of our products, they will be supplying directly to the tractor manufacturers, in which case, they will be a Tier 1 and we'll be a Tier 2.

Saket Kapoor: Correct, sir. Thank you, sir. I'll join the queue sir.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor: Sir, just to press upon the point again. When we speak of 2028 & 29, and we're running short of capacity, so can you just translate for us what gives us this visibility of 3 to 4 year down the line? Is it the historical part? Or are we seeing the end customers also planning similarly in terms of the value chain? Other players are also in the same situation, that is what has given us the -- select to come up with this greenfield facility?

Sachit Jain: So, there is visibility because we deal with the OEs directly. Also, we know the developments that are going on with the OEs, for example, we are working on import substitution of steel, which is coming into some of the OEs where we have got approved. And we know that after 1 year of testing and so on, those businesses will result in actual business coming in.

And initially, it will be gradual and then over the next 2, 3 years, we'll pick up more volume. So, we have an idea of how much business will come in. Similarly, we've talked about

European OE coming into India. They are coming in again in May. I met them in Europe in March.

So, they are very gung-ho on sourcing, forging parts from India. So again, those are developments that are going on. So, we have full track of developments which are going on with specific OEs. So that gives us some confidence.

Second, there is natural growth in the auto market. So, the CAGR over the last several years has been 6% to 7% in the auto market. So that kind of growth will keep coming in. And then in addition, there are tailwinds like green steel and circular economy as the Government of India and the world is pushing to reduce the carbon footprint.

Government of India has come out with a definition of green steel as below 2.2 carbon footprint. We are today at 0.72. And after our solar plant, we'll come down to about 0.45 or 0.48. So, we will be amongst the lowest carbon footprint steel companies in the country. And that gives us -- once the government starts putting in these norms, we will get an advantage. And as the global OEs, some of them are putting in pressure on reducing carbon footprint, then there will be better sourcing for us.

So, we believe, just now people are talking, in the next 2 to 3 years, it will start translating into business, which will lead to a bigger shortage than what we are forecasting today. And we feel that by the time a new plant comes up, it will fill up maybe much faster than any of our forecasts that we have done for getting approval of the Board. So, we are not taking any of these trends in our forecast, but these trends are very clearly visible. And as we talk to customers, they are talking about it very seriously.

One of the reasons is European OE coming to us is only because of green steel. And one more OE has already approved us, European OE. So, one has approved us, one in the process of approving us, and gradually more such companies will come in. We are today perhaps the leading company in this area or amongst the leading, for sure. But in the automotive space with our customers, we would be far ahead of most of our competitors in this area of green steel.

And the second area of circular economy, which means scrap coming in from the auto company coming to a steel company, going to a component maker and going back to the auto company, we are far ahead of our competitors in this space also. So, this all is serious stocks going on. And the moment it happens, translates into reality, we will be facing much larger orders than what we are currently doing.

But all this is currently in talks. These talks will materialize at some stage. That some stage could happen next year, it could happen 2 years down the line, 3 years down the line. As of now, we have no way of predicting that. Apart from the fact that the seriousness that these people are talking on this topic is very high. So, you have to draw your own conclusions.

Moderator: The next question is from the line of Kirtan Mehta from Baroda BNP Paribas Mutual Fund.

Kirtan Mehta: When we are planning to sort of raise our production targets from 215 kt -- to 250 kt? What are the new products or applications that we are targeting? Would you be able to give some color that what can be introduced over the next 2 to 3 years? And who could be the target customers for the same?

Sachit Jain: Well, there are no new products. There're the same products. There will be some changes in chemistry to meet the requirements of a particular customer. And one change is in nickel-moly product, a little chemistry, a little nickel going up, a little moly going down or some other grade Vanadium, another alloy getting added. Those are all minor variations. So, I would say no new product, which is on the horizon.

In this plant. And the new plant, we will have, be able to serve bigger diameter of steel than what currently we're able to supply. So that will be a product extension, not really a new product. Wire rod where we get into with a new plant that will be a new product for us. And the moment we get into non-automotive steel that will be new technology and new product both.

Kirtan Mehta: And in terms of the customer segments or customers specifically where we see the scope for expansion?

Sachit Jain: The customers are the same. There, I mean, the car companies are Maruti, Tata, Hyundai, Toyota. So cars companies are all the same, so 2-wheeler companies also. There's no new customer coming in. It will be replaced. It will be participating in their growth as they grow their volumes and maybe getting some import substitution because the Government of India is very clear that steel, if it can be produced in India, should be brought from India.

And the OEs are working very hard with steel companies like us to see if those deals can be replaced and be produced from India. And we are at advanced stages for some of these products.

Moderator: The next question is from the line of Muskan Rastogi from B&K Securities.

Muskan Rastogi: Sir, this export mix, which is currently at 5%, we mentioned in the PPT that it will reach 27% in next 2 years. So is it possible for us to reach...

Sachit Jain: Unlikely to happen now. With the current trend, unlikely to happen, and thank you for pointing out to us, we will correct the presentation. Thank you for pointing it out.

Muskan Rastogi: So, it will like there was a minor increase in the export mix or is it none of these...

Sachit Jain: We're not making any forecast for exports. We are not making any forecast for exports because the other companies, even the European OEs that are coming, we originally thought it will be taking steel from us. So, they are now looking at getting forging sources in India. So, the destination would be Europe, but the sales would be domestic from us.

Muskan Rastogi: Okay. And on volume guidance for next year, sir?

Sachit Jain: We are hoping to do 225,000 tons. So marginal increase because the capex increase is still limited by our rolling mill. The impact of the capacity increase will happen only last quarter, but that will also may be taken up in stabilization. So next year, it is '26-'27, we will be targeting 250,000 tons. So, a bigger jump coming in '26-'27.

Muskan Rastogi: Okay. Sir, like in FY '23, you mentioned that we see good traction from Maruti Suzuki and Toyota post the Aichi tie-up. Any inquiries coming through? Are we getting orders from them?

Sachit Jain: See, those things are happening. The import substitution I talked about will be happening from these foreign companies only. So those are the products which are being developed. We have got into the queue. And hopefully, from next year, we should start seeing orders coming in on some of those products.

Muskan Rastogi: Okay. Sir, in this higher dia currently, what is the size range that you can go?

Sachit Jain: Currently, we can maximum go to 90 mm dia. In the new plant, we expect to go up to maybe 130 mm.

Muskan Rastogi: Okay. And sir, one last question. Due to capacity constraints, we are outsourcing. So when will they stop so that we can see benefit in EBITDA per kg?

Sachit Jain: In '26-'27, the outsourcing will stop, largely stop. There is still some product, which is 240 by 260, which is a heavier billet that we have, which we can't use in our rolling mill, so it has to be rolled out side. So that part will continue, but that's a much smaller part. How much volume?

Sanjeev Singla: 5,000 annually.

Sachit Jain: So about 5,000 tons annually, so it's a small part. That's the only part that will be outsourced. And a little bit in our bright bar, sometimes in appealing lines for servicing reasons, we have to do a little bit of outsourcing. But the largest chunk of the outsourcing will be over in '26-'27. This year itself, you'll see a drop in the job work.

Moderator: The next question is from the line of Rama Krishna Neti from Zen Wealth Management Services Limited.

Rama Neti: Just at an industry level, one question, sir. With respect to the requirement of alloy steel within India, so what is the total domestic capacity? And what are the import status? Any breakup available?

Sachit Jain: I don't have that specific information. If you mail us, we can send that. But roughly, the market size today is about 4 million tons. And we expect in the next 10 years, this market size to reach about 10 million tons. Imports is not too big an area. But in our product segment, even if 50,000 tons is getting imported, that's a very big segment for us to target.

Rama Neti: Got it. I'll drop an e-mail.

Sachit Jain: And most of the steel which are getting imported are high quality and where we are well positioned to take advantage of that, which is where, again, our partnership with Aichi comes in strong.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Sachit Jain for closing comments.

Sachit Jain: So, ladies and gentlemen, thank you so much for being here. And the most exciting part for us is clearly this new project. Though, the results of that will start showing up much later than the horizon most people have, so as of now, our target is FY'29-'30 is the year we start production. But basically, it conveys a signal that we are optimistic about this market, and we are optimistic about our partnership with Aichi and becoming stronger over time.

This year, we'll complete our second 3-year agreement. So, it's a very important period for us. And we are going ahead with full commitment for spreading this business. Thank you so much for being with us today.

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