Vardhmān

Delivering Excellence. Since 1965.

VARDHMAN SPECIAL STEELS LIMITED

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The Deputy General Manager, Corporate Relationship Deptt, Bombay Stock Exchange Limited, 1st Floor, New Trading Ring, Rotunda Building, P.J Towers, Dalal Street, Fort, **MUMBAI-400001.** **Scrip Code: 534392**	The National Stock Exchange of India Ltd, "Exchange Plaza, Bandra-Kurla Complex, Bandra (East), **MUMBAI-400 051** **Scrip Code: VSSL**

SUB: COMPLIANCE UNDER REGULATION 30 OF THE SEBI (LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2015.

Sir,

We refer to our letter dated 2nd May, 2019 regarding the intimation of Analyst/ Investor Conference Call on the audited financial results of the Company for the financial year ended 31st March, 2019 scheduled on 6th May, 2019 at 02:30 p.m.

In this regard, we herewith enclose the transcript of the conference call as required under Regulation 30 read with Part A of Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Kindly note and display the notice on your notice board for the information of the members of your exchange and general public.

Thanking you,

Yours faithfully,

FOR VARDHMAN SPECIAL STEELS LIMITED

Sonam

(Sonam Taneja)
Company Secretary

"Vardhaman Special Steels Limited Q4 FY2019 Earnings Conference Call"

May 06, 2019

ANALYST: **MR. ANUPAM GUPTA – IIFL CAPITAL LIMITED**

MANAGEMENT: **MR. SACHIT JAIN – VICE CHAIRMAN AND MANAGING DIRECTOR – VARDHAMAN SPECIAL STEELS LIMITED**
MR. SANJEEV SINGLA – CHIEF FINANCIAL OFFICER - VARDHAMAN SPECIAL STEELS LIMITED
MS. SONAM TANEJA – COMPANY SECRETARY - VARDHAMAN SPECIAL STEELS LIMITED
MR. AKSHAY - CORPORATE FINANCE DEPARTMENT - VARDHAMAN SPECIAL STEELS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Vardhman Special Steels Limited Q4 and FY2019 earnings conference call hosted by IIFL Capital 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anupam Gupta. Thank you and over to you Sir!

Anupam Gupta: Thanks Steven. Good afternoon everyone. Welcome to the call with Vardhman Special Steels management today. We have with us Mr. Sachit Jain, Vice Chairman and Managing Director and Mr. Sanjeev Singla, CFO on this call. Without further delay, I hand over to the management for the opening comments post which we can have the Q&A. Over to you Sir!

Sachit Jain: Anupam thanks. Ladies and gentlemen good afternoon and thank you for joining our call. With me are Sanjeev Singla, our CFO, Sonam, our Company Secretary, Akshay from our Corporate Finance Department and also we have a new visitor here, my daughter Sagarika Jain who is working in Vardhman Textile, she is also joining in the call today as her exposure to investor interaction.

Of course, let me start with some key recent developments. We have last year been upgraded to CRISIL AA stable and short-term reaffirmed to CRISIL A1+ rating. We have also changed our statutory auditors to BSR & Company, I believe, they are part of the KPMG group. We have added additional Woman Independent Director, Mrs. Shubhra Bhattacharya. She is a graduate of XLRI, 1993 batch. We have also added Mr. Raghav Chandra as an Independent Director who is a Retired Chairman of National Highway Authority of India, an IAS officer from the Madhya Pradesh cadre who retired from the center.

We also wanted to share that we have already declared that we are in talks and have entered into an LOI non-definitive with a global steel company to enter into strategic alliance. So, talks are going on with this company as you all know that this has been on my agenda for the last few years and finally we have narrowed down to a company and we have started talking to them.

Moving on to the financial results. First of all I must apologize, our results have not been too good. Results can be good and bad that is part of life, but I think what I am feeling particularly bad about is, we did not anticipate the extent of the performance and we certainly did not anticipate a loss even in February when we had the investor meet at that time we were not anticipating the loss. And I will explain to you the reasons why this thing happened.

Overall volume for the quarter was 34,360 tons and year-on-year decline of 10.65% and of course as you all know the main reason is a significant slowdown in the auto industry and I believe the other automotive steel companies all have shown a decline in the fourth quarter in terms of volumes.

The revenue from operations is 243 Crores. For Q4 versus 231.3 Crores last year, growth of 5.14% and Q4 of course includes 13.5 Crores of raw material & outsourced sales, which was not part of last year.

EBITDA was 11.17 Crores versus 19.49 Crores in Q4 2018 and as we said that is because of major slowdown and resulting pricing pressure also. This slowdown continues in the current quarter also and overall, we have a loss of 15 lakhs last year against a profit of 7.21 Crores in Q4 2018. So, the question that everyone is asking is how long is the slowdown likely to continue? Very difficult to predict, I believe even Rajiv Bajaj said in his call that it is very difficult to predict when things will turnaround, but we are hearing about things, it seems that the worst is behind us that is what we are hearing from some of the auto people and the excess inventories in the auto sector are coming down, which means maybe second quarter we should see an increase in production levels back to normal to the current sales volumes. And of course then the buildup starts happening for the holiday day sales of second quarter I believe should be better than the first quarter.

For the year as a whole, volume for the year was 161000 tons, year-on-year growth of 6.25%, lower than what we were anticipating, so clearly growth but not as much as we were expecting. Year-on-year growth of 30% in revenue to 1120.76 Crores first time we have crossed 1000 Crores of sales. Of course, this also includes 70.75 Crores of raw material in outsourced sales which was not there in FY2018.

The EBITDA for the year was 69.71 Crores, year-on-year increase of 2.47% and net profit was 22.21 Crores.

Coming to the balance sheet, one clear thing we have seen is that the total debt increased from 228 Crores to 333.58 Crores. So, this is primarily because one there is ongoing capex so there is debt on account of that. In addition to that we have surplus inventory of billets, which has been built in for the shutdown, which is coming in.

This shutdown has been postponed by a couple of months because there was an accident of a truck carrying some critical equipments and that equipment had to go back to the factory and repaired. Fortunately, there were not too much damage, but since it is critical equipment it had to be reexamined thoroughly to make sure that nothing is wrong. So, if all goes well we will start the shutdown sometime in June and will continue into July.

From Vardhaman's point of view, I would believe that this slowdown in the market has come as the best possible time for us, if it had to come. Nobody likes a slowdown but really from our point of view it enables the shutdown to happen peacefully without the worry that we will have problems in serving the customers.

As you know serving the auto industry, we have to maintain inventories, we have to have inventories of all the products and to be able to service the customers on immediate basis. So therefore, reduced sales actually gives us some benefit, it enabled us to build up the inventory and also we are quite confident of meeting all our customers' needs during the shutdown.

I think these are enough for my opening remarks and I would be open to taking any questions and any financial questions will be answered by Mr. Singla, our CFO and any management related questions, I will be happy to answer. Over to you!

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Kunal Sukwani from Crescita Investments. Please go ahead.

Vijay Sarda: This is Vijay Sarda here. Sir my question pertains to two competent two parts. One is related to the slowdown that has affected the sales and second is related to the margins. So I can understand some bit of margin with a function of slowdown in sales as well, but eventually what I can gather from last two, three discussions that I had during the previous concall, in first two quarter also our margin got impacted on account of raw material pressure. So, the raw material prices were moving up and we were suffering on account of the same. But I think it has been told that what all raw material prices moves up that gets corrected subsequently and you get that rise during the next two quarters. So eventually the raw material price is totally passed on and it will not affect the bottomline. So I did not understand the benefit of that has not occurring despite that the result is getting much more worse? So just wanted to get the understanding on the same.

Sachit Jain: You are absolutely right that that has been the pattern in this industry that has been the understanding with all our OEMs. Unfortunately, we were actually expecting a much, much better second half. As I told in the beginning remarks that we were hit by surprise more than one is a result is so bad, but the surprise, because in the negotiation with the OEMs in fact this time they have not given full regards to the raw material increase and because as their profits were under squeeze the price increases that we have got are far lower than what was justified. So that is the reason for the decline in the margin whereas we were expecting an increase in margin in the second half. As you can see in the third quarter our EBITDA per ton is higher, because we had put in some provisions for the expected price increases, but the final increase happened much lower than the anticipated and therefore I would say that we need to look at Q3 and Q4 together. Those are the margin that should have happened in Q4 also, a little bit lower because the volumes were lower, but the lower volume would have been made up by reduced power cost at the end. So Q4 margin should have been very similar or marginally lower than Q3. So the reduced margin in Q4 is primarily because the auto sector was in a big soup and therefore they have forced all their suppliers to take bigger cuts than what was warranted.

Vijay Sarda: Just I wanted to understand one thing because as I understand in your agreement all other costs increases are pass through. So then it does not stand to at this kind of problem because eventually than we are always at a receiving end then how this cost escalation thing works?

Sachit Jain: One there is no written agreement of this. So it is all based on understanding and in my nine years in the industry this is the first time this has happened. So up till now we have never had any problem, so nine years of my existence in this industry and even before that this has been the way business has been going on. I think the sales drop has been unprecedented and the cost pressure on the OEMs are also unprecedented and as I can see all auto companies have shown very poor results and that pressure came on. So in fact some of the OEMs actually said please support us. So that is the kind of thing that there was pressure on us from some of the OEMs, and which is why I said even in February when I came for the investor meet, I did not anticipate the results that bad, discussions were still going on and our numbers were clear, some of the OEMs they could not fault our calculation, but they said we will not give this increase.

Vijay Sarda: Sir just last thing in terms of the technical collaboration or tie-up that we are talking about, has something concrete happened there or still we are awaiting signals, or some due diligence is going on?

Sachit Jain: Yes, first step is that you sign a letter of intent. So that has been signed and due diligence is going on as we speak. So once the due diligence is over that is when the negotiations and discussions on the exact form of the agreement would take place.

Vijay Sarda: Sir in a broader understanding is this more on the technical collaboration side whereby they will bring up their expertise and it can help us in terms of improvising our product mix?

Sachit Jain: As I said this is all in talk stage at this stage and this deal may happen, may not happen all those caveats we need to keep in mind. Now the way we visualize it, there could be a possibility of their becoming an investor in the company, there is clearly possibility of a technical alliance and when we are taking about global steel major then they also have the ability to influence customers and have better product mix and better customer relationships all those benefits are there.

Vijay Sarda: Sir just last thing you said in your remark that power cost has been lower in this quarter, but power cost seems to be higher the way round. So in fact power cost despite the sales drop is on a higher side compared to the last quarter sales?

Sachit Jain: Power cost is higher because we kept on producing. The sales have dropped. The production has not dropped as much because we were building inventory for our shutdown. The power cost is the bills paid but sales are lower and therefore it appears as a higher proportion to sales. The profits have also gone into the inventory.

Vijay Sarda: Yes, so because the inventory almost has increased by 80 Crores?

Sachit Jain: Yes and this inventory, which has gone up is going to come down by, so when you see the September 30 results the excess inventory would have disappeared.

Vijay Sarda: Sure. Now that has been the increase in anticipation of the product cut, we increase the inventory, right?

Sachit Jain: Not production cut, zero production, because we will be shutting down the melting shop and upgrading it. So, putting new equipment there and therefore there will be complete shutdown of production and since this is an auto industry where we have critical parts and in some cases, we are the only supplier we have to have inventory in place. So we will continue production.

Vijay Sarda: Sir this drawdown on the long-term debt has happened on account of the capex only because there has been an increase in long-term debt as well?

Sachit Jain: Yes, it is mostly on account of the capex.

Vijay Sarda: Thank you very much.

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

Dhaval Shah: Sir couple of questions. First Sir have you seen any new capacity getting added in the industry because of the resolutions of some NCLT cases or any stressed asset getting some help from the investor or getting funding from the bank, any sort of new supply, which has added to the total overall industry capacity?

Sachit Jain: The only one, which we expect will increase, will be eventually Bhushan Steel and Power once it gets resolved that is the only one which is likely to increase. Adhunik is another company, which was acquired by Liberty, but Liberty we believe is not going ahead with that is what we are hearing in the newspapers only. So in fact NCLT is taking them to court again there are some charges against them being framed and so on. So but these were the only two companies from the NCLT basis which were there. The third company we have changed that is Usha Martin. This has been sold to Tata Group and of course they need to invest some money to increase the capacity it may take some time.

Dhaval Shah: If I am not wrong 5 million tonne is the current size of the capacity right. The supply I assume is little less than that. So by how much will the demand supply dynamics look after this Bhushan and Usha get on their capacity started?

Sachit Jain: Bhushan's capacity already part of this, the current capacity that we are talking about and Usha Martin will be an increase in capacity. So Bhushan is actually supplying below its capacity, the capacity is already part of the capacity taken earlier.

Dhaval Shah: Okay, so already part of 5 million ton.

Sachit Jain: The 5 million is the market size roughly and not the capacity.

Dhaval Shah: Capacity would be how much total?

Sachit Jain: I would not know the figure exactly but should be 6.5 or 7, 6 million roughly 6 million, but the exact figure, I do not have the exact figure.

Dhaval Shah: No, that is fine, like 6 million. So this includes the Bhushan and Usha also.

Sachit Jain: Usha Martin we have the possibility of increasing capacity in Usha Martin, so that will increase beyond 6 million.

Dhaval Shah: Sir now if we see the realization per ton you mentioned there has been, so have you taken a cut or you did not get a price increase?

Sachit Jain: No, we got price increases, but we did not get the required price increases. So in the first half you saw that the raw material cost had gone up and there was a margin squeeze and commensurate with that raw material price increase we were supposed to get a price increase from October 1, and from one of the OEMs we got a price increase of 4300, another OEMs we got a price increase of 3200 and some people have given much lower and then some Tier I's entered the picture that okay we will not give any price increase later because it happened later, our books are closed and when you are in negotiation stage in a slowdown then all kind of things happen.

Dhaval Shah: Like if we just seeing realization per ton across four quarters so in Q1 it was 64800?

Sachit Jain: Fourth quarter would be the highest. The average price increase in the fourth quarter is about 2300 should be around Rs.2300 a ton.

Dhaval Shah: Yes so this like 64, 69, 50, 72, then 70 so this shows change in product mix also a lot of?

Sachit Jain: Yes, it is also be partly product mix change but the price increases there are only two price points April 1, price points and that is the price point there are one or two customers where the price changes from July 1, and January 1 there are only one customer of which that change happens that way. So theoretically prices in the first half and prices in the second half that is the only change should be there but the rest is all product mix changes.

Dhaval Shah: Okay, got it and Sir have we got the entire pass through of our electrode increase in cost?

Sachit Jain: No. As I said when the increases of prices happened we did not get the full price increase. So whether you say you got for electrode fully and raw material fully or raw material got fully electrode will get fully it is difficult to say. So like I said from one of the OEMs we got a Rs.4300 price increase, but some customers despite having shown on paper that the price increase is justified which they said we will not give you that increase.

Dhaval Shah: Got it and Sir during such times, do customers change their procurement cycle, do they shorten their inventory what they hold for your products at their end let us say they are trying more towards just in time inventory kind of?

Sachit Jain: No they anyway work at just in time inventory. So no change happened which is why, now I am making a hypothetical statement, but I know that when the demand pull will come the pull will come like the way we had a sudden drop the probability at our end there will be a sudden jump that probability cannot be ruled out and again I am talking about possibility and probability these are the things when they happen then we will see. Because you see what is happening is as the inventories run down then they go to the other extreme of going to bare minimum inventories and then a little bit of pull comes and they had even find that they are short on inventories in the entire cycle and then the pull will come at a redoubled pace.

Dhaval Shah: Sir just last question that is long-term in nature. Sir when you are figuring out your engagement with a foreign partner and you are making your five-year, ten-year business plan. How much risks do you see and taken into account because the electric vehicle and reduce in the demand of steel. Does anything appear on your agenda as of now? Are you seeing any change because we see a lot of bus ordering coming from the government agencies for the transport in the local within the city transport. So what is your sense on that?

Sachit Jain: First of all one, my belief is that the electric vehicle there are two kinds of electric vehicle one is 100% EV and one is a more hybrid kind of EV. So my belief is the way forward is more hybrid kind of EV. It will reduce the fuel consumption. 100% EV in my view is still some time off, but that risk is there, there is no doubt about it and one of the advantages of tying up with the global major is that the access, they have to knowledge from the OEM levels at the top most level that knowledge is passed through to us and our ability to plan for these cycles is far, far better.

Dhaval Shah: Thank you very much.

Moderator: Thank you. The next question is from the line of Abhijeet Vara from Sundaram Mutual Fund. Please go ahead.

Abhijeet Vara: Thanks for take to my questions. The first question is on the realization drop again. Just wanted to understand that you made the comment on profitability was it EBITDA per tonne or in terms of percentage Sir.

Sachit Jain: No, no, EBITDA per tonne we never talk percentages. We always talk EBITDA per tonne.

Abhijeet Vara: So my question is sir the price hike was affected in Q4 right?

Sachit Jain: No, no Q3.

Abhijeet Vara: You are still negotiating?

Sachit Jain: Yes, still negotiating in to Q4 and the negotiations completed by end of March.

Abhijeet Vara: Right, by which time Q3 results already came out, so how was the adjustment done?

Sachit Jain: So all the excess provisions taken in Q3 were all taken in Q4, rolled back.

Abhijeet Vara: So the sales would you think it would be profit?

Sachit Jain: Q3 profitability is much higher than Q4. You need to see the profitability of both together, average out. Ideally negotiations should be over before the quarter end and you should not have these provisions, but unfortunately when the price increase is happening then the OEMs tend to drag the discussions on. And if you leave zero price hike you give a wrong picture and you take the full price hike again you take a wrong picture what you estimate so you take an average somewhere in-between so on a conservative basis. But this time despite take a conservative basis the price hike was lower than the estimate we have taken in Q3. Some had already been negotiated so as I said one OEM have already taken 4300 so that was already done and the other OEM had already done 3200 so these two were in the bag and our calculations were showing higher than Rs.3500 price increase required and we had got 4300 from one and 3200 from one. So we were still feeling pretty positive on the price increase part that we were to get even in February but the final increases are happened were lower and which is why the surprise in the results, which in my 30 years of career this is the first ever seen this kind of thing. Nine years in steel and even earlier the textile industry I have never seen this kind of a price negotiation as we saw this time.

Abhijeet Vara: Sure Sir. Second question is on the volumes. Usually the OEMs would be sharing some production plans with you so and as recently as February also you were reiterated the guidance which means they went back on the production plan which they shared with you is it or the offtake plan which they shared with you was that the case?

Sachit Jain: Yes I think the auto industry themselves were taken by surprise. Nobody anticipated this kind of a drop.

Abhijeet Vara: Is there no compensation for the suppliers, supplier like you?

Sachit Jain: What happened is you have a little extra inventory or you cut down your production. So we have cut down our production, if we did not have shutdown coming the production cuts would have been bigger like Maruti has dropped production by 20%. We have already heard the news. So everybody is dropping production now. They should have seen the signs coming earlier and cut production earlier but they did not.

Abhijeet Vara: So there is no compensation for suppliers like even such extraordinary cases?

Sachit Jain: No.

Abhijeet Vara: My last question before I get back to queue is how much of capex in rupees Crores is left and what can be the peak debt now?

Sachit Jain: Currently we are at 333 Crores. The peak debt will be below 285 Crores.

Abhijeet Vara: No, you are saying 333 will be the peak, which you see in the near-term, compared on year-on-year basis?

Sachit Jain: See we are going to exceed that it is only going to come down with the inventory run down. So we are very clear that we are conscious of having a strong balance sheet to handle tough time and so on. So we are not budging from that.

Abhijeet Vara: Sure. How much of capex is left Sir?

Sanjeev Singla: Capex left is about 20 to 25 Crores of outflows which will happen in the first half of the current fiscal.

Abhijeet Vara: I will get back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Anupam Gupta from IIFL Capital Limited. Please go ahead.

Anupam Gupta: Sir just on the negotiations which you did last time. So you said the last negotiations, which were due on, October got finished by March?

Sachit Jain: For OEMs.

Anupam Gupta: Yes, so for the current cycle so let us say March end have the negotiation started what are you seeing there in terms of pricing?

Sachit Jain: Clearly the prices will either maintain or fall down depending on OEM-to-OEM and some OEMs we said that the price increase, you did not give us the full price increase last time you hold that price increase. So those discussions are going on it is very difficult to predict at this point in time how will things shape up.

Anupam Gupta: But so basically the first quarter or the first half we will see volume pressure as well as some, may or may not see some pricing pressure, is what you are saying effectively?

Sachit Jain: There will be some pricing pressure, but as of now we will take definitely some provisions, but that is why we said on the first quarter, results are going to be similar to last quarter of Q4, similar order.

Anupam Gupta: That is it. Thank you.

Sachit Jain: The reason for that is as there is a cost reduction already happening on account of electrode prices falling as well as raw material prices falling there is a cost reduction. Now depends on final price settlements at the OEMs so even if there is a price reduction we should match the Q4.

Anupam Gupta: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Devang Sanghavi from ICICI Securities. Please go ahead.

Devang Sanghavi: Good afternoon Sir. Thank you for taking my question. Sir just wanted to know the proportion of bright bar for Q4 FY2019 and the full year FY 2019 in terms of total volume?

Sachit Jain: Just a minute, Sanjeev will take this question.

Sanjeev Singla: Right now it is not available but for the whole year it is available but for the whole year it is available it is around 33000 tons of bright bars.

Devang Sanghavi: 33000 tons of bright bars. And secondly have we increased our exposure to engineering and off-highway division in Q4 is that the case because the auto was going?

Sachit Jain: Yes, there is a marginal change. Our share of business the customers are all similar. So now volume will change depending on how the customer changes.

Devang Sanghavi: And in terms of electrode pricing what type of decline we have witnessed for the current quarter and what do you expect for the next year?

Sachit Jain: The cost depends on what is the inventory also, but in terms of pricing the electrode has fallen by more than 50% from the peak.

Devang Sanghavi: I think we had a good January and February, but we had a subdued March. So do you like to give guidance for the next year in terms of volume what we are targeting?

Sachit Jain: See one at this point in time when we are at the bottom is very difficult to give a very optimistic picture. Maybe when we give our when we have the conference call after the first quarter results we would be in a better position to predict, but as of now we would be looking at a marginal growth from this year or flat, flat or marginal growth as of now, but I do believe just now we are all conditioned by the bad conditions around. Hopefully with the election coming in the results are favorable there were stable government there, mood changes and suddenly public starts buying because I am sure there is a pent-up demand because the sales had been lower in the last few months and the whole scenario can change. Today there is a newspaper report about the buyback offer from Hero for the scooters so these kind of schemes if they come in from the OEMs so suddenly you may see a demand pickup very soon. I know you would expect a clearer answer from me. But at this point in time very difficult to give a definitive answer, but I believe within three months we should be able to give you a better answer. Now our shutdown will not effect our production and our performance, our sales because we have built-up inventory. So our sales if the market picks up we have the ability to produce more and sell more.

Devang Sanghavi: Right. Any kind of money received from the Punjab Government for the power we were kind of received 3 Crores every year in this regards something like that?

Sachit Jain: Some money has started coming in. We have not accounted for that in the results because the full calculation has not come in as yet, so that small amount of money that has come is shown as advance recoverable from the Government of Punjab. So basically hopefully in the first quarter we should be able to take it into account the pending incentive of the last three years hopefully, yes, but money has started coming in. So the good part is the government has recognized the money started coming in we are not recognize the income.

Devang Sanghavi: That is all from my side and all the best Sir.

Moderator: Thank you. The next question is from the line of Ritesh Poladia from Girik Capital. Please go ahead.

Ritesh Poladia: Thanks for the opportunity Sir. On this incremental capacity when this will come into commercial operation?

Sachit Jain: It depends on when exactly the shutdown starts, but we expect the production to be operational from the month of August.

Ritesh Poladia: Sir for this 2000 Crores capex what kind of returns you expect?

Sachit Jain: No, not 2000, Crores that is a bit too much for us.

Ritesh Poladia: I am sorry 200 Crores?

Sachit Jain: The 200 Crores is sum total is over five years. Some of it is still under planning stage, so I would say at least 70 Crores is under planning still, so we have not got definitely plans to put in that as of now and now that when we have a partner coming in potentially coming in, we would like to wait for their inputs also, if this happens again I am putting in all those caveats because it is not certain, but if this partnership happens and then when it happens then we will like to take that in puts on all uncommitted capex.

Ritesh Poladia: Okay. So for this 40000 tonnes incremental capacity what is the capex amount?

Sachit Jain: The capex amount for that incremental capacity was about 45 to 50 Crores.

Ritesh Poladia: Now my other question is for this potential partner. This partner may come with the financial infusion or it is purely technical or technology collaboration?

Sachit Jain: All depends on how discussions happen with them. They have already indicated that they may examine investing in the company as a minority stake and we have also said in principle we are okay to such an idea, such a proposal comes all that depends on the discussions. The ideal thing for us is that they will take a minority stake and there is a technical assistance and there is a marketing assistance, all three that is the ideal stake for us, and a buyback if that happens.

Ritesh Poladia: If you can give us some idea what is the time frame you are looking for this discussion?

Sachit Jain: Again very difficult to say how the discussions happen, negotiations happen and so on but if the due diligence are going on, we believe in the next two to three months we could have an understanding but again this is all hypothetical, all depends on how the due diligence proceeds and then the discussion when they happen.

Ritesh Poladia: Great. That is all from my side. Thank you Sir.

Sachit Jain: From our side there will be no delay because we clearly recognize the benefits from such an association and my understanding is they also see the benefits from this association because the Indian market is very important to them. So from both sides I believe there is a value, we see in this potential deal. I believe from both sides there would be reasonable commitment to complete this as fast as possible. But again as I said this is I am just reading what they would be thinking but time will tell. Hopefully, the next quarter will actually be a much better time for us will have far more clarity on pricing, we will have far more clarity on volume, we will have far more clarity on the shutdown, how the shutdown has happened and we will have clarity on what is the mood of the potential strategic investor. So really the next quarterly August meeting, we will have will be on July or August concall, we will be able to have a much more clearer view. I am sorry I am probably a little vague at this point but that is the reality. But I am also saying that I believe that the worst is behind us. So we are going to look at similar position and then improving position after that.

Moderator: Ritesh do you have any more questions?

Ritesh Poladia: I am done.

Moderator: Thank you. The next question is from the line of Abhijeet Vara from Sundaram Mutual Fund. Please go ahead.

Abhijeet Vara: Thanks for the follow-up. Sir in terms of profitability again what I wanted to understand is earlier we were expecting the capacity utilizations to run flat out because of which we can choose the product mix and thereby have a very good profitability, but now it does not look such a good scenario. With this current scenario in mind do you think you can go back to the profitability, which was envisaged six months back at the current level?

Sachit Jain: See we had believed that our profitability would be in the range of 4500 to 6000 and this year because of the exceptional circumstances we have come to 4300. I will not say that this was the normal negotiation that we saw in the second half. So we are still I mean we had outset the range, but I would say we are in the kissing range of the lower end of the range. So I believe with the coming year, we are one year behind now because of this. So once this the volumes pickup again because we are expecting from the auto companies really 2021 is going to be a much better year because BS-VI will be behind them, the pent-up demand will be all over and will be coming in the government would have been settled in. So these are all speculations at this point in time but till the volumes pickup and the demand comes in it is difficult to expect a significant improvement in margins. But I expect within a year's time, I expect a year, year and a half's time, we should be definitely better than now because hopefully by then our partners would have come in and the plan that we have with them if they all work out we should be definitely at a better footing.

Abhijeet Vara: Follow-up on the same question, now you will have an additional capacity coming in and you will have to service the additional capacity at a volume run rate which is lower than earlier envisaged, that might also start eating into profitability plus we are looking at this quarter volume decline was, I do not know if you had but I have couple of years of data there was never a volume decline for Vardhman special steel and our volume declined on a year-on-year basis. This was the first time you are having a volume decline and the situation as of now it does not look like turning around so with these factors in mind that we have new capacity coming in plus the volume decline or muted volume growth sort of scenario. Can the profitability stay at depressed level, which is Q4 level itself not even, go to the Rs.4000 per tonne sort of levels?

Sachit Jain: No, it will definitely go beyond Q4 because Q4 has one element of lower profitability and one element of extra provisions taken in quarter three. So Q4 levels are more depressed than normal than what actual is, the reported Q4 numbers are worse than the actual Q4 numbers.

Abhijeet Vara: Would it be possible to share how much was the provisions?

Sachit Jain: We have not declared that.

Abhijeet Vara: Sir what is the trade payables increase on account of?

Sachit Jain: I am saying the best is average of two quarters you will get the idea.

Abhijeet Vara: What is the reason for trade payables increase? Was that working up to management?

Sanjeev Singla: This trade payable increase is mainly because on one hand we are increasing the inventory and we have purchased some of the materials on credit basis instead of cash basis to manage by higher level of inventory.

Sachit Jain: Some of it is temporary it will go away again by September. So in that sense it is working capital management yes.

Abhijeet Vara: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Dharmawat from Aurum Capital. Please go ahead.

Nitin Dharmawat: Thank you for the opportunity. I had just one question. Regarding this potential partner as you mentioned that it can have an impact on the customer acquisitions as well and you have not revealed the name so far. So just wanted to know the geography even if it is possible for you to let us know which geography with the potential partner is coming from that would be good enough for us to understand?

Sachit Jain: Number of players are so few in any one country, the moment we have name the country it will be very easy to spot the name immediately. So we are not at liberty to release the country at this point in time.

Nitin Dharmawat: Thank you.

Moderator: Thank you. As there are no further questions I would now like to hand the conference over to Mr. Anupam Gupta for closing comments.

Anupam Gupta: Thanks a lot Sir. Do you have any closing comments?

Sachit Jain: Thank you all. As I said we have a committed management team and it is also cognizant of the fact that the performance is below par. We have a new system of working where the senior, entire senior management around 15 people, they will be getting zero increments because they are all linked to performance of the company. If the profits are lower their increments are zero. So all of us are suffering and the entire senior management have also suffered if the performance goes downs. So we are all very keen and redoubling our efforts to see that we quickly come back to where we should be. I am reasonably hopeful that if this partner comes in, in a time, which is what we are working towards within a few months, we should start seeing signals of improvement coming in because clearly they are a superior company. I am looking forward to this. I have been working on this company for the last eight years and this is something which has been the last unfinished item on my agenda to complete phase I of our company's work but we will be having better answers when we speak in August. Thank you all. Thank you for your interest in Vardhaman Special Steels.

Moderator: Thank you. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.