



Vardhman

Vardhman

Delivering Excellence. Since 1965.



DREAMS OF STEEL

Vardhman Special Steels Limited
Annual Report 2018-19

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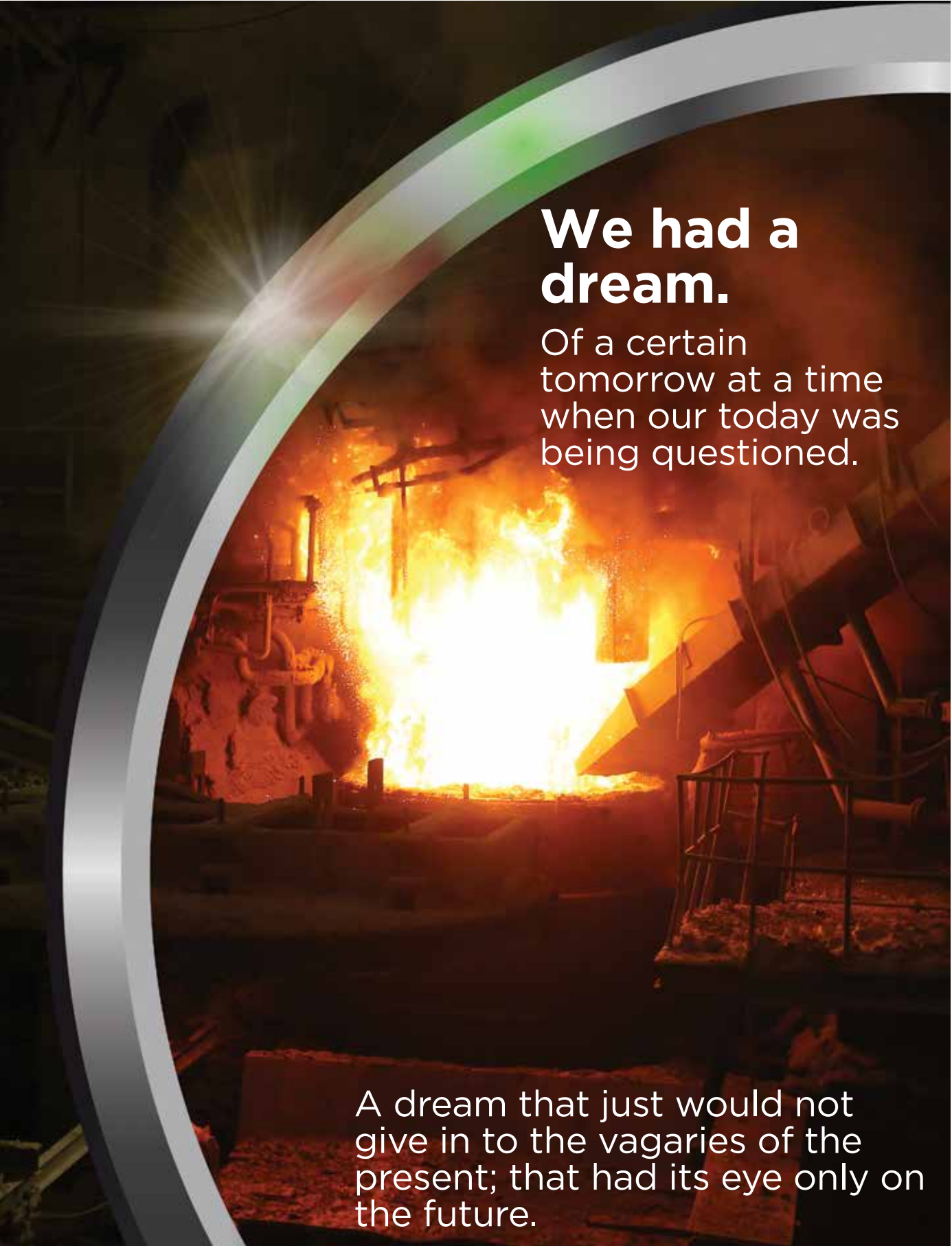
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Notice

Forward-looking statement

This document contains statements about expected future events and financial and operating results of Vardhman Special Steels Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the Management Discussion and Analysis of the Annual Report.



We had a dream.

Of a certain tomorrow at a time when our today was being questioned.

A dream that just would not give in to the vagaries of the present; that had its eye only on the future.

We had a dream.

For which

...we overcame our temptation of becoming complacent with what we had and instead focused on what could be.

...we did not attach ourselves to possibilities in a way that could cause us disappointment but continued to believe in opportunities in a way that sparked our faith.



We had a dream.

And after eight years of patience, persistence and perseverance, that dream has finally seen the light of day.

The dream now promises to catapult us into a new orbit - from being just another alloy steel manufacturer to becoming one of the best in our business over the coming years.

The dream that we steeled ourselves for & refused to give up on, now holds the potential to make us a world-class special steel company.

Shaping the Dream...

We have entered into an alliance with Aichi Steel Corporation, one of the leading alloy steel manufacturers of Japan.

They will invest ₹50 crore in the Company for an 11.4% equity stake.

They will help us in improving our processes and quality and on-ground operations to make this vision see the light of day.



Aichi Steel, one of the leading alloy steel manufacturers of Japan, has developed so far by assuming the large mission of supporting Japan's automobile industry from the bottom up as a manufacturer of materials. Aichi Steel's products are offered all over the world with the best possible quality and prompt delivery.

A photograph of a large industrial facility, likely a steel mill or manufacturing plant. In the foreground, there is a large green and yellow mechanical structure, possibly a part of a magnetic flux leakage testing system. Several workers in hard hats and safety gear are visible in the background, some standing near the machinery and others further back. The ceiling is high with exposed steel beams and industrial lighting. A sign above a glass-enclosed area in the background reads "MAGNETIC FLUX LEAKAGE TEST".

This alliance will allow Vardhman to align with the '**Japanese Way**' – the 'ultimate benchmark' in manufacturing globally.

Statement from the
Vice Chairman's desk

“Over the medium term, we see a huge opportunity and we as an organisation are focussed on capitalising on the same. Our foundation is strong and we will work hard to build a world class special steel company.”

Dear Shareholders,

Once again, I am here to communicate with you after what can, at best be called an unprecedented year. What a roller coaster ride the past year has been. We started the year in a tough situation margin wise but a booming market. The demand from the auto sector was so high that we were unable to meet the requirements of our customers and we were forced to look for alternate sources of material. However, things took a turn for the worse starting December and we ended the year well below our forecasts. Let me explain things now in greater detail.

Dramatic Fall

As referred to earlier, we were in a very optimistic situation sitting in October. Demand for material was very high and there was bullishness everywhere in the auto sector. We had begun the negotiations for the 2nd half price increase and we were looking at a record performance from sales and profit point of view. And then IL&FS happened. Suddenly, the NBFC sector lost financing capability and liquidity got hit which along with some other factors like hiking insurance costs led to sales getting severely affected. Suddenly, we were looking at a crash scenario which also meant that the auto companies were looking at large drops in profits and so could not give us the price increase due to us. Till February, we were still hoping for a reasonable year but the final price settlement that we were forced to accept led to a performance much below our expectations. I have seen good years and I have seen bad years in my experience of 30 years of working, but I have never seen such a dramatic downturn and caught by so huge a surprise.

Plant Shutdown

The Plant shutdown that was to happen during March - April 2019 got postponed to end June to end August. It is progressing well at the time of this writing. With this replacement of the shell of the furnace and other advanced equipment added, we will have the capability to increase our production, improve our yield, reduce power consumption and reduce the consumption of consumables. However, as you may be aware that Ministry of Environment has put a ban on further environment clearances in Ludhiana under NGT directions and hence we withdrew our application for enhancement of capacity. Since then, we have reworked our plans and we will not be adding to the pollution load despite expansion and are resubmitting the application. We are hopeful that since we will be within the approved environmental norms, there is a reasonable chance that we may get approval for expansion in the coming months. I have been personally meeting top officials of Punjab Government, Punjab Pollution Control Board and Ministry of Environment, Government of India. They have all assured me of full support in case we are not adding to the Pollution load. Fingers crossed!

Dream Come True

I have been sharing over the last few years of my dream of forging an alliance with a global steel major. This along with the plant upgradation was the last of the unfinished agenda on my table to officially complete Phase 1 of our plan for VSSL. I am delighted to share with you all that finally we have succeeded in getting an agreement to have a Joint Venture and Technical Assistance from Aichi Steel Corporation of Japan, one of the leading

alloy steel manufacturers of the world, subject to your approval, of course. This has been a long journey of 8 years when we first broached the topic of an alliance with them in July 2011. It has been a journey of earning respect and trust and building a friendship beyond business. The idea is to start their engagement in India with us in a small way, and if all goes well, to grow this company in size and capability to a leader in the space of special alloy steels for the automotive sector. The advantage we will get is to not only get the technical knowhow and special products that Aichi has but also get the manufacturing knowhow which is an inherent part of most Japanese companies. Over time, we will also build up a non-automotive business but that is not the focus for the immediate present. Also over the next couple of years as we find more opportunities to grow and invest, there remains a possibility of them increasing their stake from the current level of around 11.5%.

Real Work

Getting Aichi to come to invest in VSSL was our objective since the last 8 years but now that they have decided to invest, this becomes the foundation and we have to look ahead. The objective will now change to how to make this investment and the relationship with Aichi a success. The purpose will be to learn from them the Japanese techniques of producing high quality steel at a competitive cost. For this, we will have to be willing to change our methods of working. This will mean a huge cultural change as we are going to have a few Japanese managers working in VSSL full time for a few years. We have already started the process of communicating the need for this change to all our people. I have myself communicated this

We have done a lot of work over the years on involving and improving communication with the employees down the line.

This resulted in an improvement in Employee engagement scores which improved to 83.3% from 76% in the year 2015.



need down to the level of our workers. The good part I find is that there is high level of excitement throughout the organisation and a high level of anticipation. The people are desirous of learning newer methods and have committed to making the desired change. However, we realise that accepting the need to change and making the change happen are two different things and it will be difficult. I am committing to putting my best in this area.

Employee Engagement

We have done a lot of work over the years on involving and improving communication with the employees down the line. This has led to having a stable work force with low attrition. Further, this resulted in an improvement in Employee engagement scores which improved to 83.3% from 76% in the year 2015. A highly engaged workforce adds a lot to the working environment in creating a positive work culture and we are lucky that we have been able to do that. In addition to sending teams for white water rafting, this year some of our team members went for trekking too. I personally went to the Sandakphu trek in West Bengal where we could get a fabulous view of the Sleeping Buddha. A trek always leaves me breathless with nature's beauty on display and inspires me to reach newer heights like the tall mountains we get to see.

Outlook

In the immediate future, the outlook is quite uncertain, however, I am looking at

business in a very optimistic and positive way. We are continuing to increase our focus on the car segment which is more demanding and requires better quality steel. On our own too, we were able to do that and now with the Technical assistance from Aichi, we expect this process will pick up speed. Currently auto markets are in a state of turmoil but things should settle down in a few months and when they do, we will be prepared to take advantage of the opportunities. Meanwhile, we also see the effect of the slowdown in terms of reduction of raw material prices and electrode prices too. These should give benefit in the coming months. Over the medium term of course, I see a huge opportunity and we as an organisation will be focussed on capitalising on the same. The dream that we had, has got realised and now onwards we have to work hard to derive benefits for VSSL and its shareholders. We officially will be ending Phase 1 of our plans on 30th September, 2019 and Phase 2 begins on the 1st October, 2019. I am satisfied with our overall progress. The foundation is strong and we can build a world class special steel company on this.

With warm regards

Sachit Jain

A fellow shareholder