

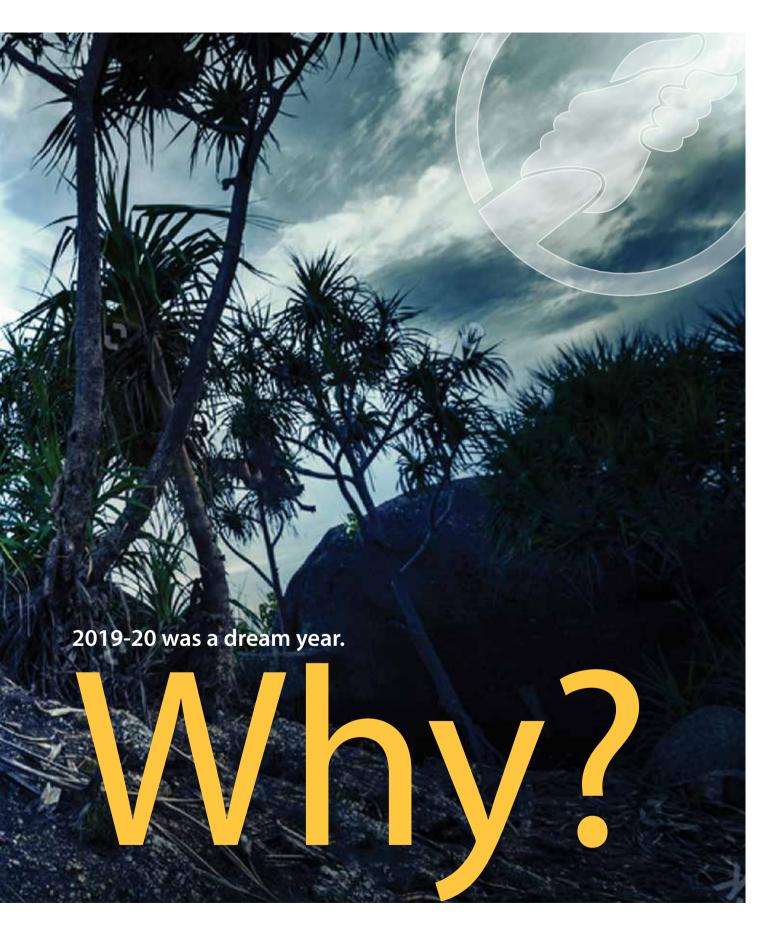
A DREAM YEAR

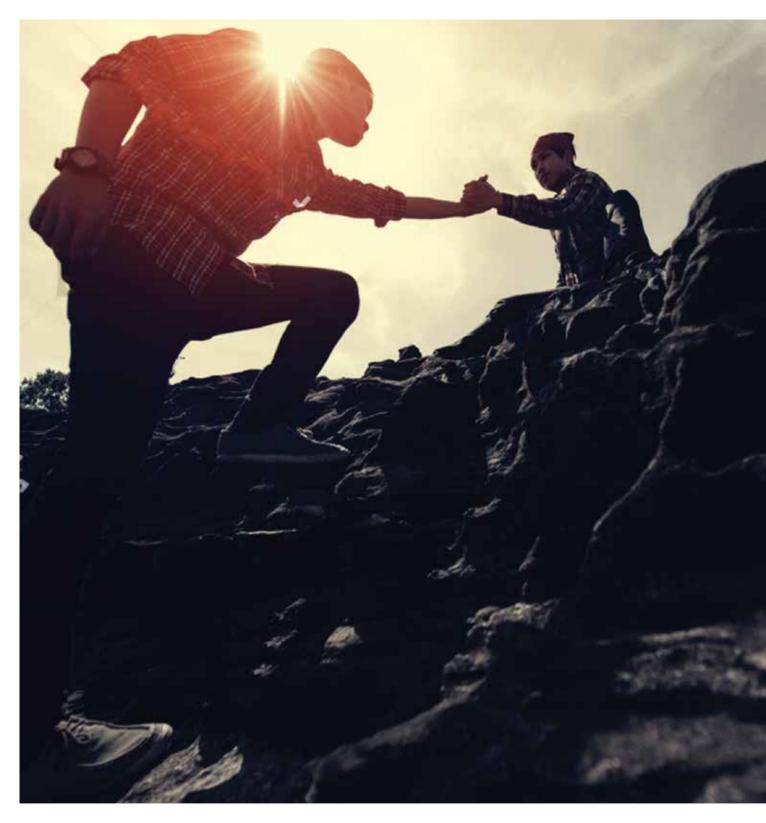
Vardhman Special Steels Limited Annual Report 2019-20



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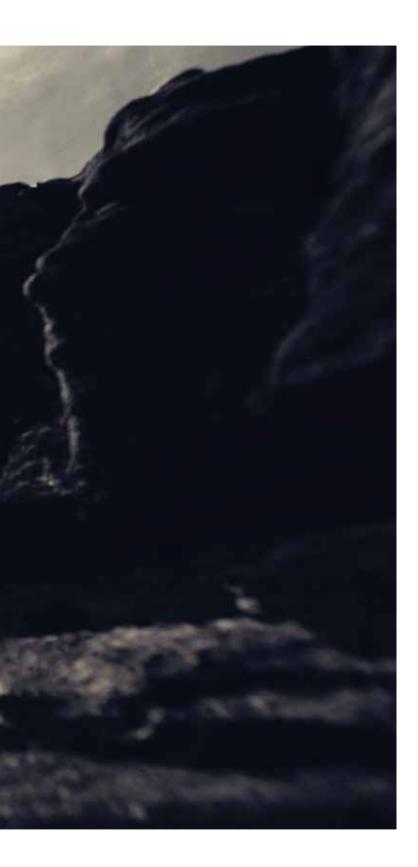






We were recognised by none other than the undisputed global leader in special steels, Aichi Steel Corporation, the main material maker for the Toyota Group, that also supports the Japanese automobile industry with its high-quality, contemporary and relevant products.





With Aichi's commitment, we have started our journey towards becoming a global steel player.

A host of measures from the Japanese major makes us feel special in steels.

1) INVESTING TO REBUILD OUR CONFIDENCE

Aichi Steel has taken an 11.46% stake in Vardhman Special Steels Limited at an investment of ₹50 crore. It will be utilised for capital investment when required.

2) REALIGNING THE WAY TO HELP US **IMPROVE**

Aichi Steel is working to align and uplift our systems and processes to the 'Japanese Way' of working. Recognised as a global benchmark, this meticulous and disciplined way of working will have a considerable impact on the Company's product quality, operational safety and cost structure. A team of experts from Aichi Steel hand-held the Vardhman team as it took its initial steps in this exciting journey.

3) CHARTING THE BLUEPRINT FOR GROWTH

We have a steel melting capacity of 2 lakh tonnes per annum at Ludhiana. Once it works at 100% capacity and our processes and quality meet global standards, we would work towards expanding the capacity to 3 lakh tonnes, subject to securing environment and other clearances. A new plant is on the drawing board for the next phase.



... AND BEYOND

Aichi will open vistas beyond the Indian frontiers. Vardhman nurtures the ambition to export special grade steel to South East Asia.





Dear Valued Shareholders.

Here I am again sharing my thoughts with you as I look back on the previous year and look ahead at the current year. The past year has been one of the most significant years in the history of our Company. For starters we completed the upgradation of our furnace, which will eventually enable us to increase our melting capacity, but more importantly we could finally execute the investment in VSSL by Aichi Steel Corporation and start the process of working together from October of the last year. Overall, the demand was low last year and it was an extremely difficult year for the auto industry with an approximately 14.5% drop in demand and subsequent drop in sales for us. And lastly, the fourth quarter of the previous year brought in the COVID-19 pandemic which is in full flow and we are grappling with all its after-effects.

My first decade in Steel

January 2020 marked the completion of my 10 years in VSSL and as I said in my last year's letter to you, we now close phase one of the journey of VSSL. In this phase, though we have covered a lot of ground, there is still a lot left to achieve so I will call it the 'Preparation of the Foundation' phase. In this phase we invested in the rolling mill, put up a Non-destructive testing line, invested in R&D equipment, modernised electrical systems, invested in environment protection equipment, upgraded the furnace, began exports, increased the marketing thrust and simultaneously began a major cultural change in our Company. A very important part of this phase was to complete the strategic alliance with Aichi Steel Corporation wherein they became

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a shareholder of our Company, were given a Board seat and started a technical alliance with us. As I have been writing in my previous letters, I had been on this job since July 2011 and so its culmination is a very big task accomplished.

Converting the dream to reality

I have shared earlier that the finalisation of this strategic alliance was a dream come true. However, we all know that the finalisation of an agreement to work together is only the beginning. The real work happens in making this alliance work. To make any alliance work, the fundamental factors are trust and long term aligned objectives. Since it took me eight years of talking to them before we finalised the agreement, it has given us enough time to understand each other and build trust at the Top Management level. However, this is necessary but not sufficient. The key is when the operating people start building trust in each other. This process also takes time, but is well under way. Over the years of our relationship building and strengthening, their teams had visited us several times and seen the improvements we had made over time. Also, now we have



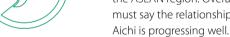


communicating with their counterpart section heads and department heads. The combined Aichi and VSSL team is working together to make special steels equivalent to Japanese quality but at competitive prices. This means that the teams are working on quality improvement, consistency of quality and reduction of cost to help serve both the Indian as well as the ASEAN markets. The Aichi team has already started marketing our steel to the Japanese OEMs with manufacturing plants in the ASEAN region. Overall, I must say the relationship with

three members from Aichi

who have been posted at

VSSL and they are directly



WE ARE LEARNING
THE APPROACH TO
MAKE VSSL SAFE IN
THE WAY OF TOYOTA
GROUP COMPANIES
AND ARE LIKELY TO
GET SOME VOLUMES
FROM ASEAN PLANTS
OF TOYOTA AND
OTHER JAPANESE
AUTO MAKERS IN THE
COMING YEARS

Change in Culture

As all of us are aware that whenever there is a new relationship of any kind between two people, there is a lot of change and adjustment in behaviour which is required to make it work. This same phenomenon gets multiplied several times when the relationship is between organisations, as it now requires a change of culture and it becomes still more complex

when the organisations are from different countries. Our people have started adopting the methods of Aichi and seeing the advantages of that. The main difference is in mindset and approach. The Aichi team is not only far more focussed on safety but they are also more systematic and data analysis oriented than our people. They have an ability to dive deep into our data and come out with insights that had eluded us. In problem solving also, they have a far greater ability to go to the root causes and then make changes. Their approach is to make one change at a time, establish results, make any modification and then implement whereas our approach is generally to implement several suggestions at a time as we are normally firefighting. This means that initially their approach seems to be slower but it produces better and more sustainable results. Overall, I also find their planning and detail orientation much better than ours. We also discovered in this journey that our younger people are very excited and are able to adopt these changes much faster, whereas the senior people are finding it tougher to adapt, but

they are getting there as well. We are definitely developing a much stronger culture than before. However, it is a long haul to convert the entire organisation and this process will take time. At present what I can say is that we have begun well.

Making use of a Crisis

The whole world has been facing an unprecedented crisis in the wake of the Covid-19 Pandemic. The Hon'ble Prime Minister of India declared a lockdown from the 25th of March which was extended to the 2nd of May and we had to immediately shut the plant. As a result, sales and production dropped to zero and all of us were contained in our homes. This period was one of extreme uncertainty, fear and even panic. There was extreme anxiety in everyone's mind as there were negative news everywhere in the newspapers, television and social media. Companies were taking the decision whether to pay full salaries or not and people were being asked to go. In this situation we took a decision that we will neither have any layoffs nor any salary cuts and gave every employee