



COMMITMENT



INTEGRITY



ASSURANCE

BUILDING TRUST



SINCERITY



PASSION



COMPETENCE



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FY21
Was a
disastrous
start.
But had a
Strong
finish.

Our start-to-finish journey



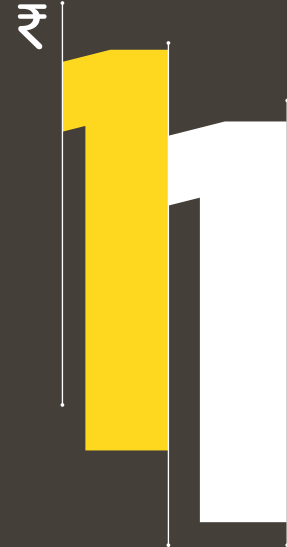
Loss before tax - our estimate as we stepped into FY21

Uncertainty of the pandemic spread and the initially announced lockdown duration led us to adopt maximum conservatism.



Loss before tax – at our Board meeting in June, 2020

We saw demand trickle in... we estimated that losses could be contained.



Profit before tax – in July 2020

The guidance to our shopfloor team.. because we decided to talk only about profits... it lifted our mind...out of negativity to strive towards positivity.



Profit before tax – in July 2020

We gave our marketing guys a slightly taller task...it was difficult ... but not impossible...we sought to challenge ourselves... if we reached this, we had a surprise waiting.



Profit before tax – by September 2020

Demand remained robust...our team's passion surged...we set a higher goal.



Profit before tax – by October 2020

As headwinds transformed into tailwinds... our spirit soared ... we aimed for the sky.



Profit before tax – March 31, 2021

Our hard work paid off... **We were thrilled.**

This transpired because, all along the way, we continued to

build trust!



PERSEVERANCE



PASSION



PERFORMANCE

Building trust in the workplace has always been at the core of any successful enterprise.

Because trustworthiness is absolutely necessary to establish a strong team which really makes an organisation stand out of the clutter.

It goes without saying: No one person is responsible for the success of a company; it's always a team effort. In order to achieve results in any organization, there is an interlocking chain of events that needs to happen. People rely on each other in the workplace.

But that reliance can't exist without trust.

More than just a buzzword to throw around, trust is a reflection of the organisation's character, and we believe that co-workers will work harder for people they trust.

That, in turn, helps produce much better results than anyone's wildest expectations.

Vardhman built trust.



ASSURANCE



ENGAGEMENT

Vardhman built trust.

As the pandemic spread and the lockdown was announced, every individual was worried. Needless to say it was a first for everyone.

Fear of life forced everyone to withdraw into the confines of their homes. Being shut in, raised the uncertainty of livelihood.

The mind was drawn into an abyss of negativity.

Sensing their trauma, we decided to draw our people out.

We connected with them.

The Vice- Chairman spoke with everyone, executives and workers alike. The communication was simple...it was a manageable problem; you needed to stay safe and adhere to precautions and not to panic. He gave them the confidence that the organisation was with them in this crisis. It worked wonders for the morale.

We reassured them.

The Company reassured them. Their jobs were safe. Their salaries would not be cut. Their time of disbursement would not change. We made sure that contract workers were also paid their entire dues. It worked miracles.

We engaged them.

The entire team was taught the Aichi Methodology of doing things. Subsequently, cross-functional teams (CFTs) were created to identify areas of improvement and ideate solutions leveraging the Aichi Methodology. We trained the team on the 3R concept (Reduce, Reuse, Recycle).

We started work.

With the unlocking in May, 2020, a small part of the workers were asked to join. The Company created dormitories for them, provided food. And made them feel safe.

We got them working.

When demand was abysmally low, we captured every opportunity, even the unprofitable ones – only to keep the plant running; it boosted employee morale.



The team
worked
their heart
out!

The team worked their heart out!

At Vardhman, our team did not say 'Thank You'.

Because they felt, it was too trivial.

They had other plans.

They entered the plant with a disciplined determination to make a difference.

The team worked with their heart.

Team that entered the plant for maintenance and to re-ignite the facility, worked for 12-16 hours every day; they declined the overtime offered.

They pruned the expense statement.

Suggestions put forth by the CFTs and individual improvement ideas pruned the Company's expenses.

They raised the efficiency bar.

Plant availability improved. Man-machine productivity scaled. Production climbed every month July 2020 onwards. Despatches per month touched a higher benchmark. People absenteeism was at a record low.

They stood together.

In August there was a massive liquid metal spill on the shopfloor. The ladle furnace and trolley were jammed. For three days, the entire team worked round the clock to get operations back on track. When the Vice-Chairman met the workers after the plant restarted and asked them if they were scared of corona during that difficult time, they said 1500 Celsius degree centigrade of furnace temperature scares corona away.

Vardhman thrilled its people.

Vardhman thrilled its people.

Vardhman, respected its people's unflinching effort.

Their dogged determination had taken Vardhman a few notches higher.

Vardhman also did not just say 'Thank you'

They thrilled their team.

VSSL gave increments.

In a year when a number of enterprises cut salaries, Vardhman announced increments for the entire team.

VSSL announced and paid a special incentive.

In a year when many entrepreneurs, froze increments, Vardhman gave a special incentive across the organisation, even to its contract workers.

VSSL widened the ambit of its ESOP scheme.

Vardhman went a step higher, its ESOP-II was offered to its senior and middle management team.

About
**Vardhman
Special Steels
Limited**

A leading manufacturer of special steels

Total Sales (₹ crore)

937.08

Sales by user segment

97%

Auto sector

3%

Non-Auto sector

Employees

978

41%

White-collar

59%

Blue-collar

Part of the US\$1.20 billion Vardhman Group, Vardhman Special Steels features among the leading producers of special and alloy steels catering primarily to the domestic automotive sector.

The Company, for more than 40 years, caters to diverse requirements of hot rolled bars for Engineering, Automotive, Tractor, Bearing and Allied Industries. It has emphasis on building customer relationships with all clients and business associates has increased

its wallet share with automotive OE customers operating in India.

Committed to delivering unmatched quality, Vardhman Special Steels Limited is an ISO 14001:2015; ISO 45001:2018; ISO 9001:2015; ISO/TS 16949:2016 & ISO 17025 (2017) certified organization

Headquartered in Ludhiana, India, the Company equity is listed on The BSE Limited and The National Stock Exchange of India Limited.

Strategic goal

- Become the best at manufacturing processes and product quality
- Manufacture high quality special steel which is currently being imported

Strategic focus

- Enhance operational efficiency and safety
- Uplift product quality to global benchmarks
- Optimise cost structure
- Enhance wallet share with Japanese OEs in India

From the Vice-Chairman's Desk



We won the trust of Aichi by demonstrating the learning ability of our people. We won the trust of society by delivering oxygen cylinders, our customers by running the supply chain efficiently and our shareholders by delivering the best ever financial results and by recommending a maiden dividend.



Dear fellow shareholders,

It is that time of the year again. I am here to share my thoughts with you as I look back on the previous year and try to give you a perspective on the current year and the journey ahead.

To start with, I completed ten years as MD of the Company on the 15th of March 2021. To say that the previous year which was the 10th year of my running VSSL has been unprecedented would be a gigantic understatement. This was the year of the pandemic. This year was such a roller coaster ride that it began with an initial estimate of an annual loss of ₹ 90 crores (PBT) and ended with a profit of ₹ 66 crores (PBT). This was a year where the first quarter was a total washout and the fourth quarter was the highest ever performance by far. On one hand this was a year of fear, anxiety and uncertainty and on the other hand this was a year of hope, resilience, flexibility and renewal. This was a year of strengthening trust amongst all our stakeholders and I am certain your Company emerged much stronger from this crucible of experiences. I must acknowledge, at the outset

the strong support we got from our Board and our partners Aichi, gave us the strength to face these times.

Winning Trust

This is the theme of this year's annual report and this is an area where we made substantial progress. We won the trust of our employees by looking after them well in these trying times.

We won the trust of Aichi by demonstrating the learning ability of our people. We won the trust of society by delivering oxygen cylinders, our customers by running the supply chain efficiently and our shareholders by delivering the best ever financial results and by recommending a maiden dividend. As a result what was looking like a disastrous year turned out to be a phenomenal year.

What led to the improved margins?

There were several factors that contributed to the superior margins. To start with there were some sustainable factors. We had been working very hard on several cost saving projects and we found that a few major ones fructified. The biggest area

was in raw material where we shifted our scrap from imported shredded scrap towards more of local engineering scrap. There were several other areas like yield improvement by increasing the percentage of sequence heats and in addition taking longer sequences in the casting leading to reduction in end cuts. We increased the size of our heats which too added to improving our yield as well as reduce the cost of several consumables. We improved our power factor for electricity which reduced the cost per unit of power. In addition, there were hundreds of ideas of cost savings under the 3R scheme and cumulatively they have all added to the bottom line. Further to these costs, with increased volume, fixed costs like manpower & administration cost do not increase in proportion. So, overall cost per ton came down as we ran at full capacity in the 2nd half of last year. On the basis of all of these factors we got emboldened to revise our normal EBITDA/ton range from ₹ 4500-6000 to now ₹ 7000-9000. There was one more factor in addition to these sustainable factors, a favourable steel cycle. As you are aware that the steel sector is on

an upsurge which leads to higher scrap and other raw material prices but it also led to reasonable price increases from our OEMs. This has further added to our profitability for the previous year beyond this range and is likely to contribute to a good first half of 2021-22 also. To support my faith in our Company in these times, I have personally hiked my stake in the Company by continuously buying small quantities of shares regularly.

Environment Approval

The environment clearance finally came through for increasing our capacity. This is a big breakthrough as we are approaching full capacity utilization and we expect business from Aichi to start coming through in the coming years. There was a big concern on the capacity as this would have become a major bottleneck, hence the expansion was imperative. The biggest stumbling block was the creation of Green areas within the plant which was a problem because of the relatively small overall plant area. I am happy to share that during various brainstorming sessions, our team came up with the idea of creating green spaces by making our



storage spaces more efficient and demolishing some buildings. In addition we are planning to create a forest green cover in some idle land of Vardhman Group near the factory.

Expansion Plans

After getting the environment approval we have also kick started the expansion plan to increase the capacity of the plant. The investment will take place over phases. We have a shutdown coming in November when most of the work to increase the capacity of the furnace will be done. As regards the rolling mill, the expansion work will be mostly done in November next year when we have a scheduled shutdown. The third major category of investments will be the ones for meeting the environment norms which will be happening on a continuous basis. The fourth category is R&D equipment which also will be happening on a

continuous basis as they don't require a shutdown. The fifth category is normal and replacement capital expenditure which too would be happening on a continuous basis. The last category will be the 2nd NDT line which will be a big-ticket expenditure and it is under planning and discussion at this stage. There is also a plan to consider shifting the bright bar plant to another location to create space and to streamline material flow. The total expenditure involved is estimated to be about ₹ 250 crores and is expected to take place over the next 3-5 years with majority of the investment being completed in the next 3 years. The envisaged expansion plan will take our capacity to 280,000 tons of billets and about 250,000 of saleable material. We should be able to finance this investment from our internal accruals, the cash infused by Aichi of ₹ 50 crores and small amounts of incremental

debt and in all probability we will not need to raise any capital by equity dilution, unless some newer plans come up or Aichi decides to increase its stake in the Company.

Trust and Motivation

As I shared with you that we had covered a lot of ground with our employees in building trust with them last year by assuring them by words and actions that we were with them through the worst times we had seen in our lifetimes. We were lucky as an organization that we did not lose a single member to Covid. Some of our team members, however, did lose close relatives. In return, I must say that the courage our employees showed in restarting the plant and in facing a major liquid metal spill that shut our plant for 3 days was exemplary. I saw with my own eyes how they threw aside any fear from Covid and plunged into restart

the plant. Their motto was the organization has our back and they in turn felt they had to contribute to the Company. As explained earlier, by 2nd quarter things were looking good and we were rocking by the 3rd quarter. We responded by going a step further and declared a special one-time incentive to all the employees including the contractor workers to show our appreciation for what they had contributed to the organization. To top it all, we sent several employees on treks last year on company time at company expense which greatly enhanced teamwork. I can see overall that the morale and motivation has gone up substantially.

The Future outlook

Since Aichi became our partner, lot of developments are coming to us from Japanese OEMs. We have already started making steels for Electric Vehicles and will be developing steels for

Hybrid cars in the near future. We believe that Hybrid cars have strong future in India and we will have an advantage to develop steels for Hybrid cars, thanks to our partner - Aichi. Last year was the year of learning to work with them and improving safety and quality. FY'22 is the year of preparing samples and sending to Aichi companies and other customers for approval. FY'23 is the year when trial orders will come in and FY'24 is the year when actual orders will come. Finally, FY'25 is the year when the full potential of the current plans is likely to be realised with full utilisation of the expanded capacity of 250,000 tons and at an enhanced profitability of around ₹ 10,000/ton EBITDA. We will also be continuing our work on capital efficiency and will be targeting an EBITDA/capital employed of 25%. These are tough targets and I assure you our team is putting in its best to achieve these.



The environment clearance finally came through for increasing our capacity. This is a big breakthrough as we are approaching full capacity utilization and we expect business from Aichi to start coming through in the coming years

The time has also come when we will start brainstorming with Aichi about ideas on what next after the implementation of this expansion. Do we need to further expand the steel capacity which would mean a green field plant or an acquisition or should we think of going in for some product diversification to some other specialised steels or should we take a look at forward integrating into forgings. All these ideas will be thrashed out in the next couple of years.

Personal Front

Fortunately, our family escaped lightly and were safe during these Covid times. My elder daughter Soumya has settled down in Hyderabad and completed her first year of marriage. I am trying to get her involved in our Company. My younger daughter Sagrika has finished her 1st year of MBA at London Business School. My wife Suchita is busy helping her dad

run the Group Flagship, Vardhman Textiles Limited. And as regards me, I am living life to the fullest and have developed two new hobbies, cycling and yoga and I completed my 1st 100 km ride in May, 2021. I was also able to go for a trek in November last year which was as usual a phenomenal experience. All in all life continues to be exciting and adventurous. Tough times have opened the doors to newer opportunities for us and we at Vardhman Special Steels intend to grab these and make the most of it to propel us towards our objective of becoming a world class company.

Thank you for being a part of my adventure.

Cheers

Sachit Jain

Vice-Chairman & fellow shareholder