



Vardhman

Vardhmān

Delivering Excellence. Since 1965

WE HAVE JUST STARTED

**Vardhman
Special Steels
Limited**

ANNUAL REPORT
2022-23

**WE'VE BEEN IN THE
STEEL BUSINESS FOR
50 YEARS
AND YET, WE'VE ONLY
JUST STARTED.**

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Fifty years is a big milestone for us.

Especially in the dynamic industrial landscape, where only the fittest survive.

Hence, we are pleased at crossing this landmark.

As we celebrate our history and success, we are excited to have started a more exhilarating journey.

A journey that will turn us into a global special steel company from a domestic alloy steel company.

A journey that will transform us to one of the best in the business.

Persevering for three years, we were granted approval for

FEW GRADES

of special steel which will be used to forge components for global automotive applications.

For the first time since our partnership in 2019, we started

MASS PRODUCTION

For our Japanese partners, shipping about 1,000 tonnes of special steel to Aichi Forge facility in Thailand.

**THIS IS A MILESTONE FOR US.
 WE HAVE LABOURED FOR THIS
 BREAKTHROUGH.
 FIRST, TO GAIN THEIR TRUST. THEN
 TO LIVE UP TO THEIR FAITH. WE HAVE
 LABOURED.
 FOR 12 LONG YEARS.**

2011

It started in this year. Aichi Steel executives came to India and met with Sachit Jain. Later that year, Sachit Jain traveled to Japan to meet with Aichi Steel executives for a second time.

2012

The Aichi Steel team of experts visited the Vardhman Special Steel facility to audit the infrastructure, processes, and systems. Later that year, Sachit Jain met with a senior executive of Aichi Steel at a conference.

2013

An initial discussion for a partnership between Aichi Steel and Vardhman Special Steel was held, which gained momentum in due time.

2014

The agreement terms were finalized. The deal was nearly done. But the documents remained unsigned. Vardhman was a relatively small company then. That became the stumbling block. It was heart breaking.

2015-2017

The Company's leadership was resolute in its ambition to be the best in the business. For that, this partnership was crucial. Mindful of the reality, Sachit Jain continued to stay in touch with Aichi Steel executives for the next two years with enduring determination.

2018

A high-level Indian delegation led by the Hon'ble Prime Minister, including select industrialists, visited Japan. Sachit Jain was a member of this delegation. Aichi Steel needed to know that Vardhman was a trusted partner. Aichi Steel realized that Vardhman's potential and the Management's commitment had lived up to its earlier promises. And the Company was committed to becoming better.

2019

In January of this year, negotiations with Aichi Steel started with renewed vigor. This time it was an all-in effort by both corporates. It was the coming together of like-minded leaders. Talks were pivoted on synergising competencies. In eight months, the partnership was endorsed by both parties.

2020-2022

Aichi Steel seniors visited the Vardhman Special Steel facility. They upgraded every aspect of business interestingly. They started with safety. They moved across divisions. They trained across hierarchies. Our teams unlearned legacy practices and relearned new processes with speed. We worked hand-in-hand.

2023

In February, we shipped our first container loads of Aichi-grade special steel to Aichi Steel Works in South-East Asia.

WHAT'S NEXT?

We have multiple product grades with our JV partners, which are undergoing evaluation for some of the most stringent tolerances. We expect to receive approvals on some grades in the next 12-18 months. This would increase our despatches to their South-East Asian facilities.

We are working with other Japanese behemoths. We have developed samples for some steel grades specific to their applications which are awaiting analysis and approval. We hope to secure their approval on some other steel grades to shore up our export volumes.

When these aspirations become reality, we will augment our capacities and capabilities to deliver the growing volumes.

Words that succinctly
sum up our future

POSITIVITY & GROWTH

PASSION PATIENCE PERFORMANCE

These have driven a lesser-known special steel company into global prominence.

In 2019, the Company entered into a strategic alliance with the Japanese steel major Aichi Steel Corporation

Incorporated in 2010, Vardhman Special Steels Limited is part of the Vardhman group. It has its operating unit in Ludhiana, Punjab, which manufactures hot rolled bars and caters to the diverse requirements of various end-user segments such as engineering, automotive, tractor, bearing and allied industries.

In 2019, the Company entered into a strategic alliance with the Japanese steel major Aichi Steel Corporation, a Toyota Group Company. Aichi Steel provides technical assistance to establish a world-class, socially and environmentally responsible special steel manufacturing company in India. This has been a defining moment in the Company's journey.

Under the capable leadership of Mr. Sachit Jain, Vice Chairman, the Company's day-to-day operations are managed by a team of energetic and experienced individuals who excel in their areas of operations.

The Company's equity is listed on the BSE Limited and the National Stock Exchange of India.

QUALITY CERTIFICATIONS

ISO 14001:2015;
ISO 45001:2018;
ISO 9001:2015;
IATF 16949:2016 &
ISO 17025:2017

240,000 TPA
Steel-making capacity

₹1,613.72 crore
Market capitalization

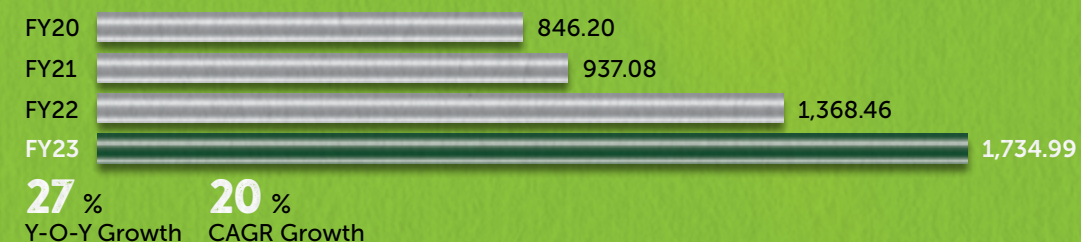
1,125
Team

200+
Active customers

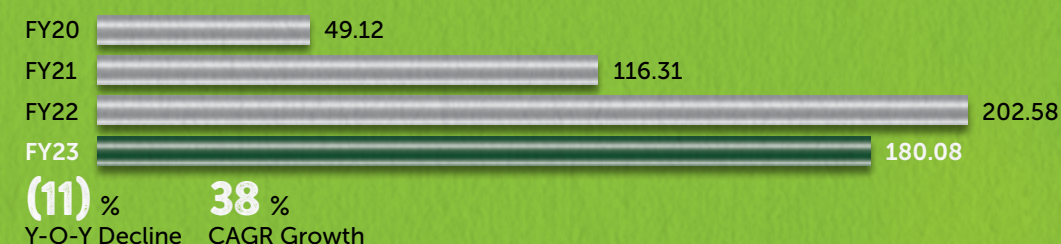
₹765.13 crore
Capital Employed

KEY PERFORMANCE INDICATORS

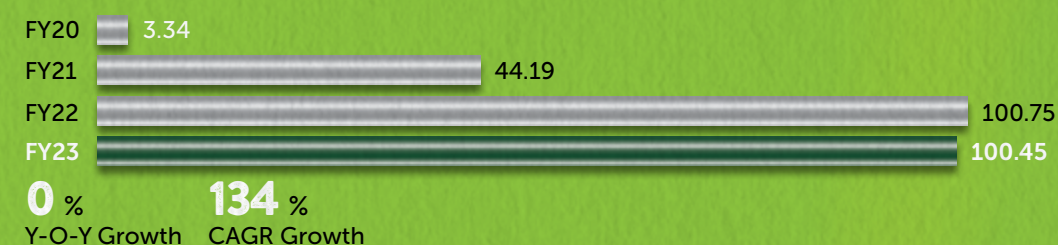
Revenue from Operations (₹ crore)



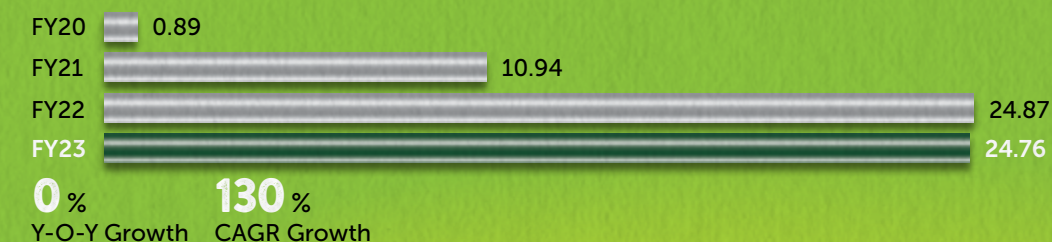
EBITDA (₹ crore)



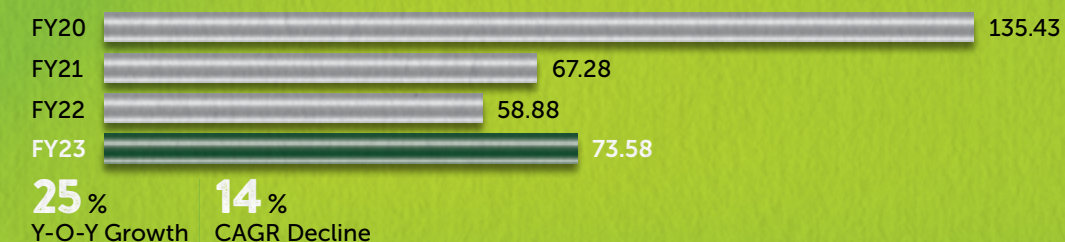
Net Profit (₹ crore)



Earnings per share (₹)



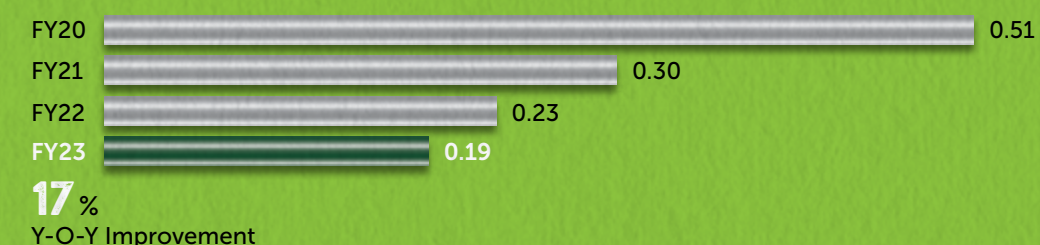
Net Cash flow from operations (₹ crore)



Net Worth as on 31st March (₹ crore)



Net Debt-Equity as on 31st March (X)



FROM VICE CHAIRMAN'S DESK 2023

in Steel Business



Dear Fellow Shareholders.

I am here again on my laptop drafting out my annual letter to you. This has been a tumultuous year. We began this year where we were scaling new heights on scrap prices almost every second day on the back of the Ukraine war and then at a point the prices started retreating sharply. As a result the auto companies too were in a fix to give the required price increase given the volatility.

We had said that this year there would be no forecasts. I am happy to report that despite the extreme volatility, we were able to have record sales and we again did a century and a double century. We declared a net profit of ₹100 crore and sales crossed 200 thousand tons for the 1st time. Let me recap for you some of the major highlights of last year.

Golden Jubilee

This was the most significant event of last year. The steel business of Vardhman Group had started in March 1973 with a mini steel plant in Faridabad and over five decades, we now have the current plant in Ludhiana and a robust business model. In these 50 years, several times there have been many ups and downs before we have reached where we are. 50 years is a long time in the life of a business and specially so for a business that was for the larger part of this time frame, a secondary business, the prime business of the Group being Textiles. There have been times when an attempt was made to even sell this business, thankfully unsuccessfully and the journey of the past 12 years you all are aware of through my annual letters. The time has come now to look at the next 50 years.

The Celebration

We had a two-function celebration of the Golden Jubilee. One function was held in Ludhiana for our employees, local Punjab customers and for Ludhiana Industry and the other function was in Delhi, meant for all our Customers (including some from overseas), Government officials and was also attended by our Board. Aichi President Fujioka San and incoming President Goto San attended both the functions and participated with full energy and enthusiasm. In the Delhi function, all the customers got a ringside view of the closeness of the relations between the top Management of Aichi and of VSSL. One significant feature of the Ludhiana function was the Daruma Doll Ceremony, where I made a wish and declared that publicly. This wish is ideally a target for the next 2-3 years and I announced my wish to have a second plant.

Toyota Mass Manufacturing Begins

Another key achievement of last year has been the starting of the mass manufacturing of steel for Toyota. Thanks to the all out support from Aichi, we finally got the approval from Toyota and mass manufacturing has begun. This is indeed a huge step, though it is just a beginning. It comes with a great responsibility for meeting and sustaining the legendary quality norms of Toyota. In addition, adherence to strict delivery deadlines while meeting all safety norms on the shop floor. The next upside, of course, is that if we are able to satisfy Toyota, it will mean a far easier acceptance in other customers.

The Year of Records

This year has been the year of a lot of new records being set. We had the highest turnover figure, crossing ₹1,700 crore, the highest sales volumes, crossing 200,000 tons, the highest production volumes in each of the department and of course you the shareholders have rewarded us with the highest market capitalization, crossing ₹1,700 crore and to seal the record year and mark the Golden Jubilee, the company declared a 1:1 bonus issue of shares which has been well appreciated by you, our shareholders.

The VUCA year

The past year has truly epitomized the term VUCA standing for volatility, uncertainty, complexity and ambiguity. With the war which was expected to get over within 3 weeks, is still continuing, supply chain shortages in raw materials were expected and all our raw materials and global energy prices rapidly reached levels unseen in recent times and then with the resultant slow down the commodity prices took a massive hit downwards. There was constant uncertainty too and with talks of China Taiwan tensions added to the complexity of the environment. Further hovering on our heads is the story of EVs. The result of all this was that setting prices for our products became a very difficult task. As a result the automobile OEs gave us lower price increases than were due to the industry, one major OE (thankfully not one of our customer) even reneged on the agreed upon increase and reduced the quantum of increase. To top this when the price reductions were due, we ended up as an industry giving higher reductions than were warranted. Some of that uncertainty is continuing this year but now we are seeing a possible stabilization of prices in the next few months.

Sustainability

Our shareholders are aware of the dangers of global warming and climate change and we have seen the current devastation and havoc brought about by the monsoon rains within early July. As a result of the rising awareness on this topic, carbon footprint capturing and then reduction has become of critical importance. Our Honourable PM Shri Narendra Modi has committed that India will be net Zero in Carbon by 2070 and all industries have to do their bit to reach this goal. Steel industry being one of the highly polluting industry is one of the first to be in focus for carbon footprint reduction. As you are aware we make steel from the Electric Arc Furnace route where our carbon footprint is 0.8 tons of Carbon per ton of steel. Most of our competitors, on the other hand, make steel from the mini blast furnace route where their footprint is likely to be at the upper end of the 2.5-3.0 ton range, so close to 3.5 times of our carbon footprint. Further, we are planning to put up a solar power plant under the Group captive policy which should further reduce our footprint to 0.5-0.6 level, in addition to saving power costs. Some Auto OEs have started asking about this and I believe our strategy of being a scrap based player will pay us off handsomely in the years to come.

In the area of Environment and sustainability, I am happy to report that our Miyawaki Forest that we developed last year under one of our CSR projects has come up very well and I also received a personal letter from the Honourable PM for our forest. We hope to plant many more such forests in the years to come.

Capital Investment

To upgrade the capacity of our plant we have an ambitious expansion plan of around ₹300 Crore and in addition we also intend to buy some land in the neighbourhood. Under the above plan, I am happy to share that we have finalised some large ticket items like additional stands for the rolling mill, Kocks sizing block and new reheating furnace. Several other items are in various stages of the procurement process. All this is expected to be over in the next 3 years. Our shareholders are also aware that we have an upcoming capacity shortfall in 2026 and I want to assure the shareholders that we are working on multiple possibilities to handle the situation.

Management Changes

I want to share some important management changes that have happened. Firstly, Fujioka San the President of Aichi has retired and been appointed Chairman of Aichi Steel Corporation and his successor is Goto san. I have already met Goto san and he seems to be a very fine leader and I will spend more time with him in the subsequent years and build a similar relationship as I had with Fujioka san. In your company, the Board has appointed my daughter Soumya to the Board as an Executive Director, of course, subject to your final approval. This step will ensure continuity and stability in the company from the family side.

Personal front

On the personal front as usual life is going on fine. I have continued working on my fitness through last year doing strength training, yoga and cycling as well as table tennis. I went on a wonderful trek last year to Kashmir, the Basmal lake trek. I visited Kashmir after 37 years and absolutely loved it. Again in August 2023, I have completed another trek in Kashmir, the Warwan Trek, which is classified a difficult trek. With Soumya and Mr. Rewari taking on the lion's share of management I am getting lot more time to think of strategic issues and the future.

I honestly believe that we have just started. Come join me in the exciting journey ahead as we work together with Aichi Steel in this VUCA environment to take advantage of the Toyota approval and the other approvals which should be landing at our doorsteps soon.

Cheers

Sachit Jain

Vice Chairman and a fellow shareholder

