

## Mixed bag performance...

**About the stock:** Vardhman Special Steel (VSSL) is among India's leading steel bar producers for automotive applications. It has specialised product offerings, which include steel bars, rods & bright bars of various categories of special & alloy steel.

- VSSL, incorporated in May 2010, is headquartered in Ludhiana, Punjab
- In August 2019, VSSL entered into a strategic alliance with Aichi Steel Corporation (ASC) Japan, the main material producer for Toyota Group wherein ASC had participated in equity and had entered into a Technical Assistance Agreement

**Q3FY23 Results:** VSSL reported a mixed bag performance for Q3FY23 wherein while VSSL's EBITDA/tonne increased QoQ, sales volume declined on a QoQ basis.

- For Q3FY23, VSSL reported sales volume of 46358 tonnes, up 4% YoY but down 9% QoQ. EBITDA/tonne for the quarter was at ₹ 7831/tonne compared to ₹ 6839/tonne in Q2FY23 and ₹ 8668/tonne in Q3FY22
- For Q3FY23, Vardhman Special Steel (VSSL) reported topline of ₹ 401 crore, up 11% YoY but down 10% QoQ. EBITDA for the quarter was at ₹ 36 crore, up 4% QoQ but down 6% YoY. EBITDA margin for the quarter was at 9.1%, up 120 bps QoQ but down 173 bps YoY
- Other income for the quarter was at ₹ 13 crore, up 573% YoY but down 5% QoQ. Ensuing PAT for the quarter was at ₹ 28 crore, up 46% YoY, 2% QoQ

**What should investors do?** VSSL's share price has given a return of ~21% over the last one year (from ~₹ 261 in February 2022 to ~₹ 316 levels in February 2023).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value VSSL at ₹ 325 i.e. 7x FY24E EV/EBITDA.

### Key triggers for future performance:

- Over FY22-24E, we expect the topline to grow at a CAGR of 17.9% while EBITDA, PAT are expected to register CAGR of 9.7%, 18.2%, respectively
- Going forward, we assume EBITDA/tonne of ₹ 8000/tonne for FY23E (marginally downward revised from ₹ 8250/tonne earlier) and ₹ 10000/tonne for FY24E (upward revised from ₹ 9000/tonne earlier)

**Alternate Stock Idea:** In our metals and mining sector coverage, we like JSL.

- Jindal Stainless (JSL) operates an integrated stainless steel plant at Jajpur, Odisha
- BUY rating with a target price of ₹ 300



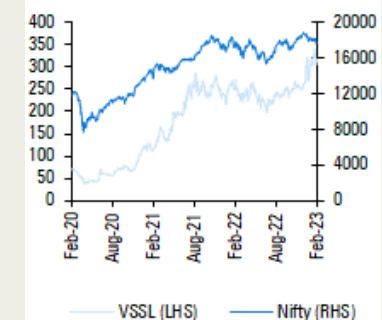
### Particulars

Particulars	Amount
Market Capitalisation	₹ 1282 crore
Debt (FY22)	₹ 162 crore
Cash & Cash Eq. (FY22)	₹ 31 crore
EV (in ₹ crore)	₹ 1413 crore
52 Week H / L (₹)	354 / 201
Equity Capital (₹)	₹40.6 crore
Face Value	₹ 10

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	60.8	60.8	60.8	60.8
FIs	0.4	0.3	0.3	0.5
DIs	1.3	1.3	1.2	0.8
Public	37.6	37.6	37.6	37.9
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Price Chart



### Key Risks

- Higher-than-expected increase in realisation
- Higher-than-expected increase in operating costs

### Research Analyst

Dewang Sanghavi  
dewang.sanghavi@icicisecurities.com

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR (FY17-FY22 in %)	FY23E	FY24E	CAGR (FY22-FY24E in %)
Total Revenue	1121	846	937	1368	15%	1742	1901	18%
EBITDA	68	40	103	174	24%	158	209	10%
Net Profit	22	3	44	101	39%	110	141	18%
EPS (₹)	6.2	0.8	10.9	24.8		27.0	34.7	
P/E (x)	50.9	382.2	29.0	12.7		11.7	9.1	
EV/EBITDA (x)	21.4	37.2	13.7	8.2		9.4	6.9	
ROE (%)	6.1	0.8	9.6	18.2		16.8	18.1	
ROCE (%)	6.7	3.5	13.2	24.5		18.8	21.2	

Source: Company, ICICI Direct Research

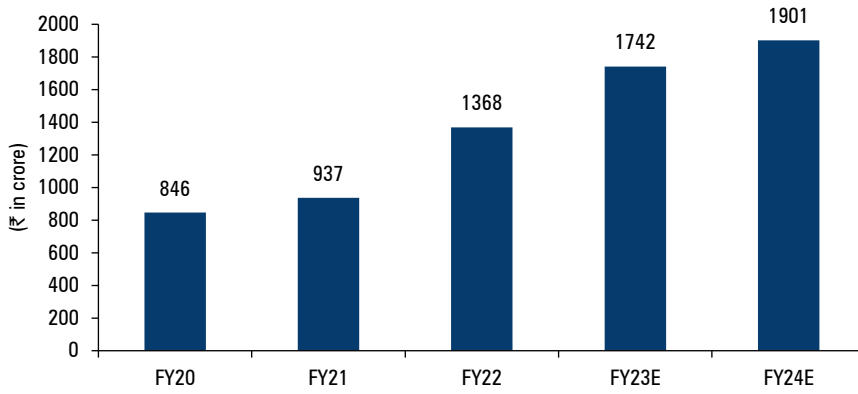
**Exhibit 1: Variance Analysis**

	Q3FY23	Q3FY22	YoY	Q2FY23	QoQ	Comments
Total Operating Income	401	359	11%	443	-10%	Topline increased 11% YoY but was down 10% QoQ
Other Income	13	2	573%	14	-5%	Other income increased 573% YoY but was down 5% QoQ. Other income for the quarter includes exemption from electricity duty, infrastructure development cess, property tax and GST refund total amounting to ₹ 10.47 crore
Employee Expense	23	20	15%	22	4%	
Raw Material Expense	241	224	7%	284	-15%	
Other Operating Exp.(inc. Power)	100	76	32%	102	-2%	
<b>EBITDA</b>	36	39	-6%	35	4%	EBITDA increased 4% QoQ but was down 6% YoY
EBITDA Margin (%)	9.1	10.8	-173 bps	7.9	120 bps	
Depreciation	7	7	4%	7	1%	
Interest	5	5	1%	4	3%	
Exceptional Item and share of assc	0	0	0%	0	0%	
<b>PBT</b>	38	29	29%	38	1%	
Tax Outgo	10	10	-4%	10	1%	
<b>PAT</b>	28	19	46%	28	2%	PAT increased 46% YoY, 2% QoQ
<b>Key Metrics</b>						
Sales Volume (tonnes)	46358	44723	4%	50961	-9%	Sales volume increased 4% YoY but was down 9% QoQ
EBITDA/tonne (in ₹)	7831	8668	-10%	6839	15%	EBITDA/tonne increased 15% QoQ but was down 10% YoY

Source: Company, ICICI Direct Research

## Financial story in charts

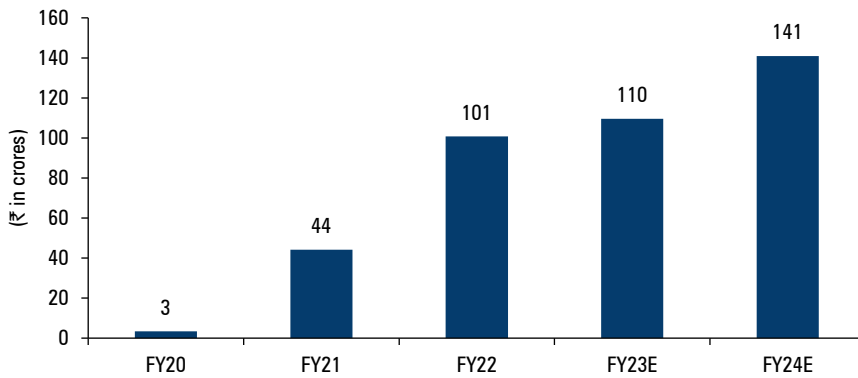
Exhibit 2: Trend in topline, going forward (in ₹ crore)



We expect topline to come in of ₹ 1742 crore for FY23E and ₹ 1901 crore for FY24E

Source: Company, ICICI Direct Research

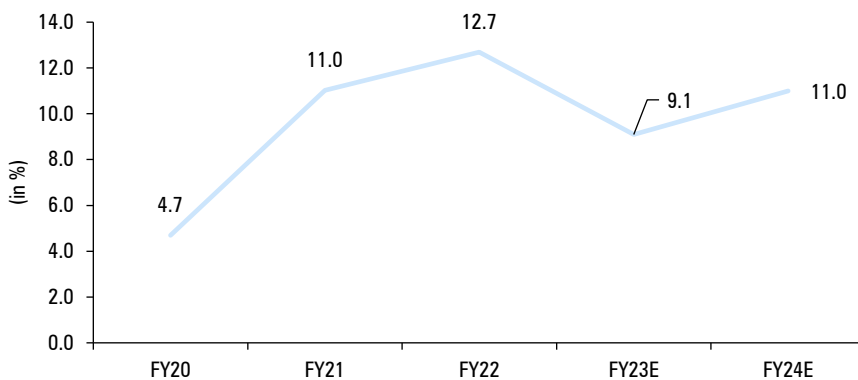
Exhibit 3: Trend in PAT, going forward (in ₹ crore)



We expect PAT to come in of ₹ 110 crore for FY23E and ₹ 141 crore for FY24E

Source: Company, ICICI Direct Research

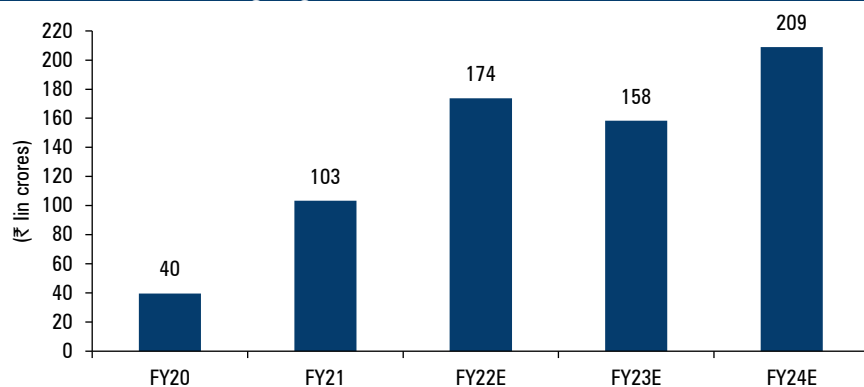
Exhibit 4: EBITDA margins trend.... (in %)



We expect EBITDA margin to come in at 9.1% for FY23E and 11.0% for FY24E

Source: Company, ICICI Direct Research

Exhibit 5: EBITDA trend, going forward.... (in ₹ crore)



We expect EBITDA to come in of ₹158 crore for FY23E and ₹209 crore for FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation

	Total Operating Income (₹Cr)	Growth (%)	EPS(₹)	Growth (%)	PE(x)	EV/EBIDTA (x)	P/BV(x)	RoE(%)	RoCE(%)
FY18	859	27.5	7.0	-32.0	45.1	22.0	3.3	7.4	8.3
FY19	1121	30.5	6.2	-11.4	50.9	21.4	3.1	6.1	6.7
FY20	846	-24.5	0.8	-86.7	382.2	37.2	3.1	0.8	3.5
FY21	937	10.7	10.9	NA	29.0	13.7	2.8	9.6	13.2
FY22	1368	46.0	24.8	127.7	12.7	8.2	2.3	18.2	24.5
FY23E	1742	27.3	27.0	8.7	11.7	9.4	2.0	16.8	18.8
FY24E	1901	9.2	34.7	28.6	9.1	6.9	1.6	18.1	21.2

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	937	1,368	1,742	1,901
Growth (%)	11	46	27	9
Total Operating Expenses	834	1,195	1,583	1,692
<b>EBITDA</b>	<b>103</b>	<b>174</b>	<b>158</b>	<b>209</b>
Growth (%)	160	68	(9)	32
Depreciation	30	27	32	35
Interest & Finance Cost	20	17	20	16
Other Income	13	29	40	30
Exceptional Items	-	-	-	-
<b>PBT</b>	<b>66</b>	<b>158</b>	<b>146</b>	<b>188</b>
Total Tax	22	58	37	47
<b>PAT</b>	<b>44</b>	<b>101</b>	<b>110</b>	<b>141</b>
Growth (%)	1,223	128	9	29
<b>EPS</b>	<b>10.9</b>	<b>24.8</b>	<b>27.0</b>	<b>34.7</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) After Taxation	44	101	110	141
Add: Depreciation & Amortisation	30	27	32	35
Net Increase in Current Assets	(76)	(135)	(132)	(47)
Net Increase in Current Liabilities	54	51	29	25
<b>Cashflow from Operating Activities</b>	<b>52</b>	<b>43</b>	<b>38</b>	<b>154</b>
Increase/(Decrease) in Investments	55	(15)	-	-
Increase/(Decrease) in Fixed Assets	(3)	(34)	(100)	(90)
Others	12	3	7	4
<b>Cashflow from Investment Activities</b>	<b>64</b>	<b>(46)</b>	<b>(93)</b>	<b>(86)</b>
Inc/(Dec) in Equity Capital	0	0	-	-
Inc/(Dec) in Loan	(68)	(29)	75	(50)
Dividend & Div Dist Tax	(6)	(14)	(14)	(14)
Others	8	9	0	(0)
<b>Cashflow from Financing Activities</b>	<b>(65)</b>	<b>(34)</b>	<b>61</b>	<b>(64)</b>
Net Cashflow	50	(36)	7	5
Opening Cash	2	52	16	23
<b>Closing Cash</b>	<b>52</b>	<b>16</b>	<b>23</b>	<b>27</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Share Capital	41	41	41	41
Reserves & Surplus	419	514	610	736
Total Shareholders Fund	459	555	650	777
Total Debt	191	162	237	187
Others	2	23	2	2
<b>Total Liabilities</b>	<b>652</b>	<b>740</b>	<b>890</b>	<b>966</b>
<b>Assets</b>				
Net Block	283	289	307	322
CWIP	13	13	63	103
Net Fixed Assets	295	302	370	425
Investments & Other bank ba	-	15	15	15
Inventory	192	304	382	417
Debtors	224	222	286	313
Other Current Assets	13	39	30	16
Cash & Bank Balance	52	16	23	27
Total Current Assets	482	581	721	772
Trade Payables	130	147	191	208
Other Current Liabilities & Pr	20	33	40	48
Total Current Liabilities	151	181	231	256
Total Net Current Assets	332	401	490	516
Other Non Current Assets	25	22	15	10
<b>Total Assets</b>	<b>652</b>	<b>740</b>	<b>890</b>	<b>966</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	10.9	24.8	27.0	34.7
Cash EPS	18	31	35	43
BV	113	137	160	192
DPS	1.5	3.5	3.5	3.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.0	12.7	9.1	11.0
PBT / Total Operating income	7.1	11.6	8.4	9.9
PAT Margin	4.7	7.4	6.3	7.4
Inventory days	75	81	80	80
Debtor days	87	59	60	60
Creditor days	51	39	40	40
<b>Return Ratios (%)</b>				
RoE	9.6	18.2	16.8	18.1
RoCE	13.2	24.5	18.8	21.2
RoIC	14.4	25.6	19.6	22.2
<b>Valuation Ratios (x)</b>				
P/E	29.0	12.7	11.7	9.1
EV / EBITDA	13.7	8.2	9.4	6.9
EV / Net Sales	1.6	1.1	0.9	0.8
Market Cap / Sales	1.4	0.9	0.7	0.7
Price to Book Value	2.8	2.3	2.0	1.6
<b>Solvency Ratios</b>				
Debt / Equity	0.4	0.3	0.4	0.2
Debt / EBITDA	1.8	0.9	1.5	0.9
Current Ratio	3.2	3.2	3.1	3.0
Quick Ratio	1.9	1.5	1.5	1.4

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

## ANALYST CERTIFICATION

I/We, Dewang Sanghavi MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.