

July 27, 2022

EBITDA/tonne declined both QoQ , YoY ...

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

Q1FY23 Results: For Q1FY23, Vardhman Special Steel's EBITDA/tonne declined both QoQ as well as YoY.

- For Q1FY23, Vardhman Special Steel reported topline of ₹ 469 crore, up 42% and 37% QoQ. During the quarter, VSSL reported sales volume of 52265 tonnes, up 20% YoY and 26% QoQ.
- During the quarter, Vardhman Special Steel reported EBITDA/tonne of ₹8744/tonne as compared to ₹ 9148/tonne in Q4FY22 and ₹ 11684/tonne in Q1FY22. EBITDA for the quarter was at ₹46 crore, up 20% QoQ however down 11% YoY. EBITDA margin for the quarter stood at 9.7% in Q1FY23 as compared to 15.5% in Q1FY22 and 11.1% in Q4FY22.
- The ensuing PAT of Vardhman Special Steel for Q1FY23 stood at ₹ 30 crore, up 9% YoY and 4% QoQ.

What should investors do? VSSL's share price has given a return of ~321% over the last 2 years (from ~₹ 57 in July 2020 to ~₹ 240 levels in July 2022).

- We downgrade the stock from BUY to **HOLD**. VSSL's EBITDA/tonne is likely to witness a softening trend going forward.

Target Price and Valuation: We value VSSL at ₹ 250 i.e. 6.5x FY24E EV/EBITDA

Key triggers for future performance:

- Over FY22-24E, we expect the topline to grow at a CAGR of 14% while EBITDA, PAT are expected to register CAGR of 2%, 6% respectively.
- Going forward, we have assumed EBITDA/tonne of ₹ 8250/tonne for FY23E (downward revised from ₹ 9500/tonne earlier) and ₹ 9000/tonne for FY24E (downward revised from ₹ 10000/tonne earlier)

Alternate Stock Idea: In our sector coverage, we like Ratnamani Metals and Tubes.

- Ratnamani Metal and Tubes (RMTL) is a niche player with superior capabilities in the Industrial pipes and tubes segment.
- BUY rating with a target price of ₹ 1967



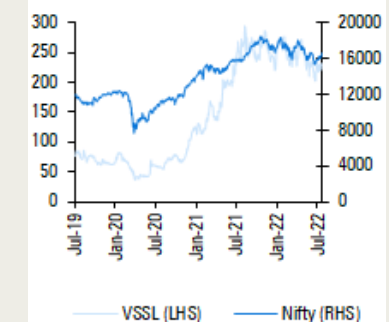
Particulars

Particulars	Amount
Market Capitalisation	₹ 961 crore
Debt (FY22)	₹ 162 crore
Cash & Cash Eq. (FY22)	₹ 31 crore
EV (in ₹ crore)	₹ 1092 crore
52 Week H / L (₹)	309 / 201
Equity Capital (₹)	₹40.6 crore
Face Value	₹ 10

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	60.9	60.9	60.8	60.8
FIs	0.4	0.4	0.4	0.3
DIs	0.8	1.1	1.3	1.3
Public	37.9	37.7	37.6	37.6
Total	100.0	100.0	100.0	100.0

Price Chart



Key Risks

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

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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%	1607	1781	14%
EBITDA	68	40	103	174	24%	152	180	2%
Net Profit	22	3	44	101	39%	92	113	6%
EPS (₹)	6.2	0.8	10.9	24.8		22.6	27.8	
P/E (x)	38.2	286.6	21.7	9.5		10.5	8.5	
EV/EBITDA (x)	17.2	29.2	10.6	6.4		7.6	6.3	
ROE (%)	6.1	0.8	9.6	18.2		14.5	15.4	
ROCE (%)	6.7	3.5	13.2	24.5		16.6	18.1	

Source: Company, ICICI Direct Research

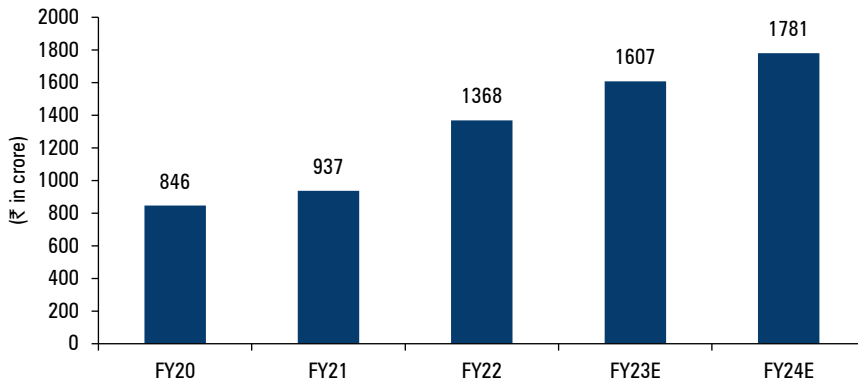
Exhibit 1: Variance Analysis

	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ	Comments
Total Operating Income	469	330	42%	343	37%	For the quarter topline stood at ₹ 469 crore, up 42% YoY and 37% QoQ
Other Income	6	3	124%	22	-73%	
Employee Expense	22	19	17%	21	2%	
Raw Material Expense	310	182	71%	204	52%	
Other Operating Exp.(inc. Power)	91	79	16%	80	14%	
EBITDA	46	51	-11%	38	20%	For Q1FY23, EBITDA stood at ₹ 46 crore, down 11% YoY however up 20% QoQ
EBITDA Margin (%)	9.7	15.5	-573 bps	11.1	-134 bps	EBITDA margin for the quarter stood at 9.7% , down 573 bps YoY and 134 bps QoQ
Depreciation	7	7	5%	7	1%	
Interest	4	4	-8%	4	7%	
Exceptional Item and share of assc	0	0	0%	0	0%	
PBT	41	43	-5%	49	-17%	
Tax Outgo	10	15	-31%	20	-48%	
PAT	30	28	9%	29	4%	PAT for the quarter stood at ₹ 30 crore, up 9% YoY and 4% QoQ
Key Metrics						
Sales Volume (tonnes)	52265	43705	20%	41596	26%	Sales volume for Q1FY23 stood at 52265 tonnes, up 20% YoY and 26% QoQ
EBITDA/tonne (in ₹)	8744	11684	-25%	9148	-4%	EBITDA/tonne for the quarter stood at ₹ 8744/tonne , down 25% YoY and 4% QoQ.

Source: Company, ICICI Direct Research

Financial story in charts

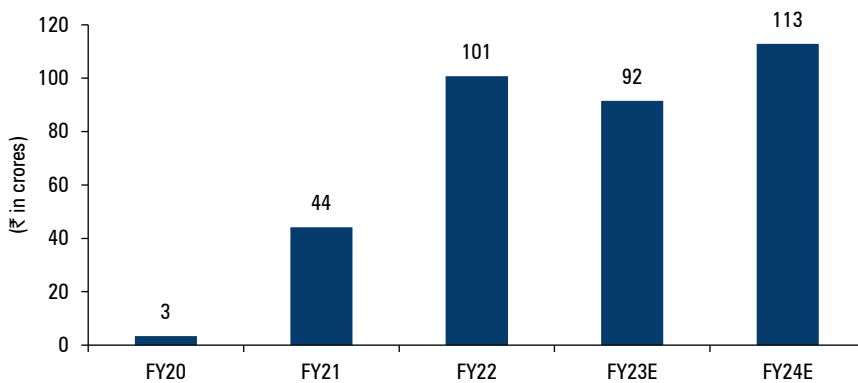
Exhibit 2: Trend in topline, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect topline to come in of ₹ 1607 crore for FY23E and ₹ 1781 crore for FY24E

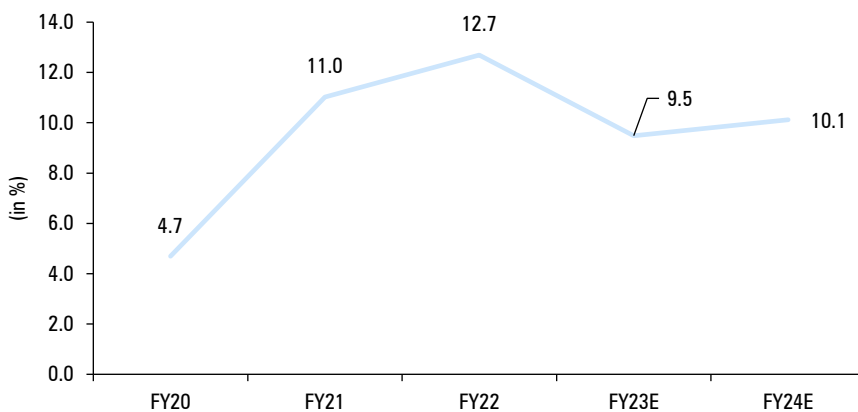
Exhibit 3: Trend in PAT, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect PAT to come in of ₹ 92 crore for FY23E and ₹ 113 crore for FY24E

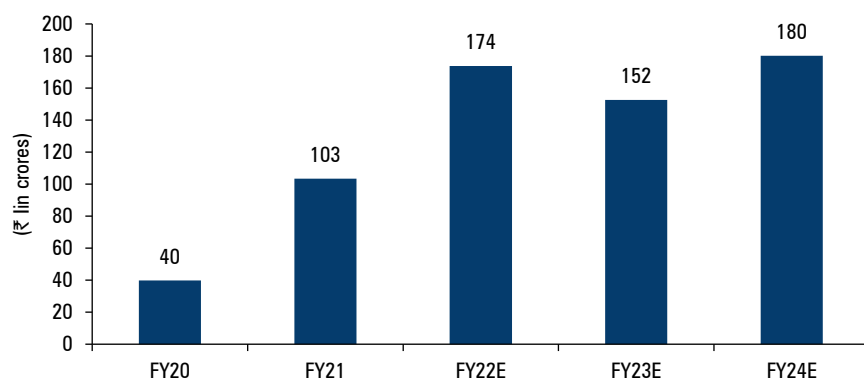
Exhibit 4: EBITDA margins trend.... (in %)



Source: Company, ICICI Direct Research

We expect EBITDA margin to come in at 9.5% for FY23E and 10.1% for FY24E

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



We expect EBITDA to come in of ₹152 crore for FY23E and ₹180 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	33.8	17.5	2.5	7.4	8.3
FY19	1121	30.5	6.2	-11.4	38.2	17.2	2.3	6.1	6.7
FY20	846	-24.5	0.8	-86.7	286.6	29.2	2.3	0.8	3.5
FY21	937	10.7	10.9	NA	21.7	10.6	2.1	9.6	13.2
FY22	1368	46.0	24.8	127.7	9.5	6.4	1.7	18.2	24.5
FY23E	1607	17.4	22.6	-9.1	10.5	7.6	1.5	14.5	16.6
FY24E	1781	10.8	27.8	23.3	8.5	6.3	1.3	15.4	18.1

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	1,607	1,781
Growth (%)	11	46	17	11
Total Operating Expenses	834	1,195	1,455	1,601
EBITDA	103	174	152	180
Growth (%)	160	68	(12)	18
Depreciation	30	27	32	35
Interest & Finance Cost	20	17	18	17
Other Income	13	29	20	23
Exceptional Items	-	-	-	-
PBT	66	158	122	151
Total Tax	22	58	31	38
PAT	44	101	92	113
Growth (%)	1,223	128	(9)	23
EPS	10.9	24.8	22.6	27.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Share Capital	41	41	41	41
Reserves & Surplus	419	514	592	690
Total Shareholders Fund	459	555	632	731
Total Debt	191	162	212	197
Others	2	23	2	2
Total Liabilities	652	740	847	930
Assets				
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	352	390
Debtors	224	222	264	293
Other Current Assets	13	39	30	16
Cash & Bank Balance	52	16	17	24
Total Current Assets	482	581	663	723
Trade Payables	130	147	176	195
Other Current Liabilities & Pr	20	33	40	48
Total Current Liabilities	151	181	216	243
Total Net Current Assets	332	401	447	480
Other Non Current Assets	25	22	15	10
Total Assets	652	740	847	930

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) After Taxation	44	101	92	113
Add: Depreciation & Amortisation	30	27	32	35
Net Increase in Current Assets	(76)	(135)	(81)	(53)
Net Increase in Current Liabilities	54	51	14	27
Cashflow from Operating Activities	52	43	57	122
Increase/(Decrease) in Investments	55	(15)	-	-
Increase/(Decrease) in Fixed Assets	(3)	(34)	(100)	(90)
Others	12	3	7	4
Cashflow from Investment Activities	64	(46)	(93)	(86)
Inc/(Dec) in Equity Capital	0	0	-	-
Inc/(Dec) in Loan	(68)	(29)	50	(15)
Dividend & Div Dist Tax	(6)	(14)	(14)	(14)
Others	8	9	0	(0)
Cashflow from Financing Activities	(65)	(34)	36	(29)
Net Cashflow	50	(36)	1	8
Opening Cash	2	52	16	17
Closing Cash	52	16	17	24

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	10.9	24.8	22.6	27.8
Cash EPS	18.4	31.5	30.5	36.5
BV	113.4	136.8	155.9	180.2
DPS	1.5	3.5	3.5	3.5
Operating Ratios (%)				
EBITDA Margin	11.0	12.7	9.5	10.1
PBT / Total Operating income	7.1	11.6	7.6	8.5
PAT Margin	4.7	7.4	5.7	6.3
Inventory days	75	81	80	80
Debtor days	87	59	60	60
Creditor days	51	39	40	40
Return Ratios (%)				
RoE	9.6	18.2	14.5	15.4
RoCE	13.2	24.5	16.6	18.1
RoIC	14.4	25.6	17.3	18.9
Valuation Ratios (x)				
P/E	21.7	9.5	10.5	8.5
EV / EBITDA	10.6	6.4	7.6	6.3
EV / Net Sales	1.3	0.8	0.7	0.7
Market Cap / Sales	1.0	0.7	0.6	0.5
Price to Book Value	2.1	1.7	1.5	1.3
Solvency Ratios				
Debt / Equity	0.4	0.3	0.3	0.3
Debt / EBITDA	1.8	0.9	1.4	1.1
Current Ratio	3.2	3.2	3.1	3.0
Quick Ratio	1.9	1.5	1.4	1.4

Source: Company, ICICI Direct Research

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Sell: < -15%



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