

CMP: ₹ 249

Target: ₹ 300 (20%)

Target Period: 12 months

BUY

May 3, 2022

## Performs well...

**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

**Q4FY22 Results:** VSSL reported a steady performance in Q4FY22.

- For Q4FY22, VSSL reported topline of ₹ 343 crore, up 3% YoY but down 4% QoQ. During the quarter, VSSL reported sales volume of 41596 tonnes, down 13% YoY and 7% QoQ
- During Q4FY22, on sequential basis VSSL reported increase in its EBITDA/tonne. During the quarter, VSSL reported EBITDA/tonne of ₹ 9148/tonne as compared to ₹ 8668/tonne in Q3FY22. EBITDA for the quarter was at ₹38 crore, down 2% QoQ and 27% YoY. VSSL also had inventory gain in Q4FY22 which aided the operational performance.
- PAT for Q4FY22 was at ₹ 29 crore, up 11% YoY & 50% QoQ. The growth in PAT was supported by sharp increase in other income. Other income for the quarter was at ₹ 22 crore compared to ₹ 2 crore each in Q4FY21 as well as Q3FY22. Other income included one-time gain on account of electricity duty exemption granted to company for September 2019 to March 2022

**What should investors do?** VSSL's share price has given a return of ~23% over the past 12 month (from ~₹ 202 in May 2021 to ~₹ 249 levels in May 2022).

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

**Target Price and Valuation:** We value VSSL at ₹ 300 i.e. 6.5x FY24E EV/EBITDA

**Key triggers for future performance:**

- VSSL plans to increase share of exports to ~20-25% in FY25 from 1% in FY21
- Going forward, we model EBITDA/tonne of ₹ 9500/tonne for FY23E and ₹ 10000/tonne for FY24E

**Alternate Stock Idea:** Apart from VSSL, we also like Jindal Stainless (JSL).

- JSL has a 1.1 million tonnes per annum (MTPA) integrated facility with backward integration (ferro chrome and captive power plant).
- BUY with a target price of ₹ 250



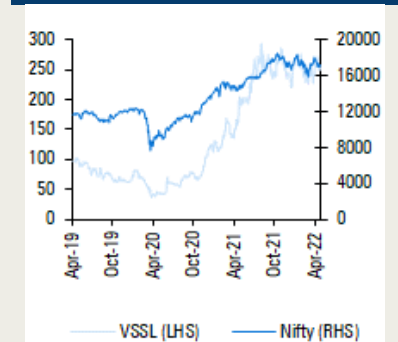
### Particulars

Particulars	Amount
Market Capitalisation	₹ 1011 crore
Debt (FY22)	₹ 162 crore
Cash & Cash Eq. (FY21)	₹ 31 crore
EV (in ₹ crore)	₹ 1142 crore
52 Week H / L (₹)	309 / 186
Equity Capital (₹)	₹40.6 crore
Face Value	₹ 10

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	60.9	60.9	60.9	60.8
FII	0.7	0.4	0.4	0.4
DII	0.7	0.8	1.1	1.3
Public	37.7	37.9	37.7	37.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Price Chart



### Key Risks

- Stagnancy or de-growth in auto sector demand
- Higher-than-expected increase in operating costs

### Research Analyst

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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%	1644	1821	15%
EBITDA	68	40	103	174	24%	176	200	7%
Net Profit	22	3	44	101	39%	112	132	15%
EPS (₹)	6.2	0.8	10.9	24.8		27.6	32.6	
P/E (x)	40.1	301.2	22.8	10.0		9.0	7.6	
EV/EBITDA (x)	17.9	30.4	11.1	6.7		6.6	5.5	
ROE (%)	6.1	0.8	9.6	18.2		17.2	17.2	
ROCE (%)	6.7	3.5	13.2	24.5		20.1	20.9	

Source: Company, ICICI Direct Research

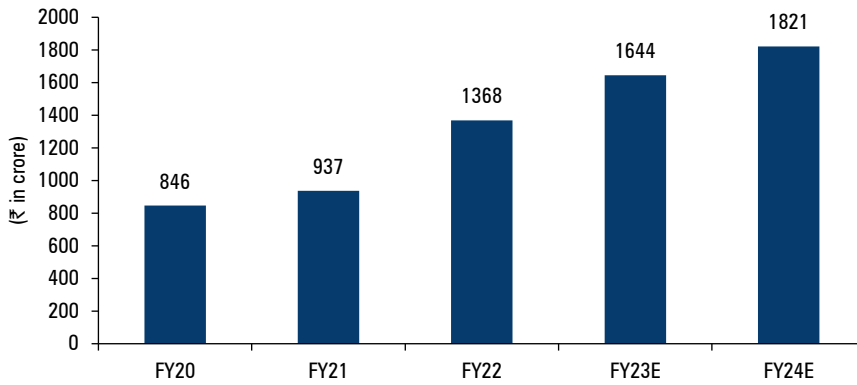
**Exhibit 1: Variance Analysis**

	Q4FY22	Q4FY21	YoY	Q3FY22	QoQ	Comments
Total Operating Income	343	334	3%	359	-4%	Topline stood at ₹ 343 crore, up 3% YoY, however down 4% QoQ
Other Income	22	2	791%	2	977%	Other income for the quarter stood at ₹22 crore as compared to ₹2 crore each in Q4FY21 as well as Q3FY22. Other income included one-time gain due to past government incentives.
Employee Expense	21	18	16%	20	6%	
Raw Material Expense	204	181	13%	224	-9%	
Other Operating Exp.(inc. Power)	80	83	-3%	76	5%	
<b>EBITDA</b>	38	52	-27%	39	-2%	EBITDA came in at ₹ 38 crore, down 27% YoY and 2% QoQ
EBITDA Margin (%)	11.1	15.6	-454 bps	10.8	29 bps	EBITDA margin increased sequentially by 29 bps to 11.1%
Depreciation	7	10	-32%	7	1%	
Interest	4	5	-21%	5	-16%	
Exceptional Item and share of assc	0	0	0%	0	0%	
<b>PBT</b>	49	40	23%	29	66%	
Tax Outgo	20	14	46%	10	98%	
<b>PAT</b>	29	26	11%	19	50%	PAT for Q4FY22 was at ₹ 29 crore, up 11% YoY and 50% QoQ
<b>Key Metrics</b>						
Sales Volume (tonnes)	41596	47828	-13%	44723	-7%	Sales volume for the quarter was at 41596 tonnes, down 13% YoY & 7% QoQ
EBITDA/tonne (in ₹)	9148	10928	-16%	8668	6%	EBITDA/tonne for the quarter was at ₹9148/tonne, up 6% QoQ, however down 16% QoQ

Source: Company, ICICI Direct Research

## Financial story in charts

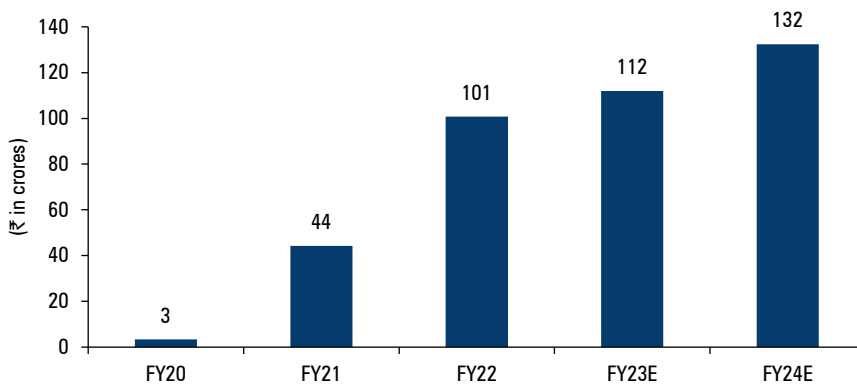
Exhibit 2: Trend in topline, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect topline to come in of ₹ 1644 crore for FY23E and ₹ 1821 crore for FY24E

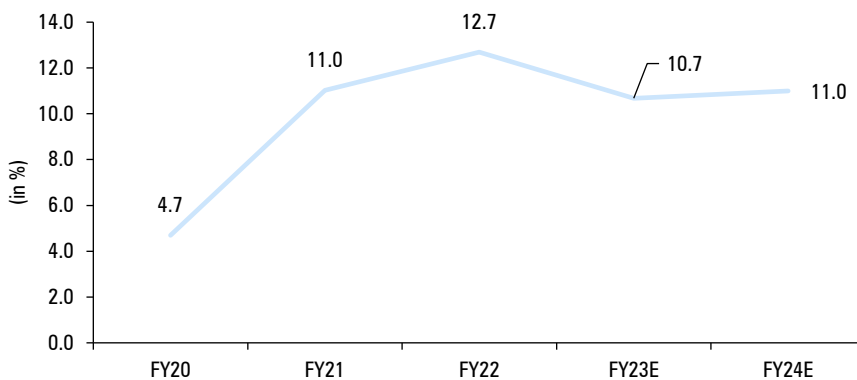
Exhibit 3: Trend in PAT, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect PAT to come in of ₹ 112 crore for FY23E and ₹ 132 crore for FY24E

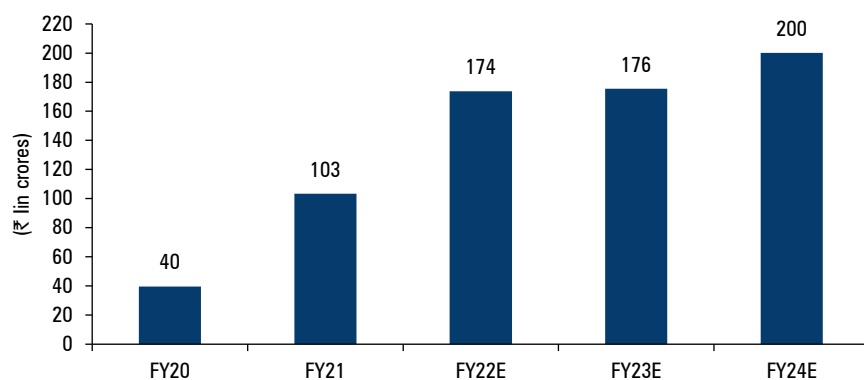
Exhibit 4: EBITDA margins trend.... (in %)



Source: Company, ICICI Direct Research

We expect EBITDA margin to come in at 10.7% for FY23E and 11.0% for FY24E

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



We expect EBITDA to come in of ₹176 crore for FY23E and ₹200 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	35.5	18.2	2.6	7.4	8.3
FY19	1121	30.5	6.2	-11.4	40.1	17.9	2.5	6.1	6.7
FY20	846	-24.5	0.8	-86.7	301.2	30.4	2.4	0.8	3.5
FY21	937	10.7	10.9	NA	22.8	11.1	2.2	9.6	13.2
FY22	1368	46.0	24.8	127.7	10.0	6.7	1.8	18.2	24.5
FY23E	1644	20.1	27.6	11.2	9.0	6.6	1.5	17.2	20.1
FY24E	1821	10.8	32.6	18.2	7.6	5.5	1.3	17.2	20.9

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	1,644	1,821
Growth (%)	11	46	20	11
Total Operating Expenses	834	1,195	1,468	1,621
<b>EBITDA</b>	<b>103</b>	<b>174</b>	<b>176</b>	<b>200</b>
Growth (%)	160	68	1	14
Depreciation	30	27	32	35
Interest & Finance Cost	20	17	14	11
Other Income	13	29	20	23
Exceptional Items	-	-	-	-
<b>PBT</b>	<b>66</b>	<b>158</b>	<b>150</b>	<b>177</b>
Total Tax	22	58	38	45
<b>PAT</b>	<b>44</b>	<b>101</b>	<b>112</b>	<b>132</b>
Growth (%)	1,223	128	11	18
<b>EPS</b>	<b>10.9</b>	<b>24.8</b>	<b>27.6</b>	<b>32.6</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	612	730
Total Shareholders Fund	459	555	653	771
Total Debt	191	162	162	127
Others	2	23	2	2
<b>Total Liabilities</b>	<b>652</b>	<b>740</b>	<b>817</b>	<b>900</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	315	349
Debtors	224	222	270	299
Other Current Assets	13	39	30	23
Cash & Bank Balance	52	16	22	26
Total Current Assets	482	581	637	697
Trade Payables	130	147	180	200
Other Current Liabilities & Pr	20	33	40	48
Total Current Liabilities	151	181	220	247
Total Net Current Assets	332	401	417	450
Other Non Current Assets	25	22	15	10
<b>Total Assets</b>	<b>652</b>	<b>740</b>	<b>817</b>	<b>900</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	112	132
Add: Depreciation & Amortisation	30	27	32	35
Net Increase in Current Assets	(76)	(135)	(50)	(56)
Net Increase in Current Liabilities	54	51	18	27
<b>Cashflow from Operating Activities</b>	<b>52</b>	<b>43</b>	<b>113</b>	<b>139</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)	-	(35)
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>(14)</b>	<b>(49)</b>
Net Cashflow	50	(36)	6	4
Opening Cash	2	52	16	22
<b>Closing Cash</b>	<b>52</b>	<b>16</b>	<b>22</b>	<b>26</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	27.6	32.6
Cash EPS	18.4	31.5	35.6	41.3
BV	113.4	136.8	160.9	190.1
DPS	1.5	3.5	3.5	3.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.0	12.7	10.7	11.0
PBT / Total Operating income	7.1	11.6	9.1	9.7
PAT Margin	4.7	7.4	6.8	7.3
Inventory days	75	81	70	70
Debtor days	87	59	60	60
Creditor days	51	39	40	40
<b>Return Ratios (%)</b>				
RoE	9.6	18.2	17.2	17.2
RoCE	13.2	24.5	20.1	20.9
RoIC	14.4	25.6	21.0	21.9
<b>Valuation Ratios (x)</b>				
P/E	22.8	10.0	9.0	7.6
EV / EBITDA	11.1	6.7	6.6	5.5
EV / Net Sales	1.3	0.9	0.7	0.6
Market Cap / Sales	1.1	0.7	0.6	0.6
Price to Book Value	2.2	1.8	1.5	1.3
<b>Solvency Ratios</b>				
Debt / Equity	0.4	0.3	0.2	0.2
Debt / EBITDA	1.8	0.9	0.9	0.6
Current Ratio	3.2	3.2	2.9	2.8
Quick Ratio	1.9	1.5	1.5	1.4

Source: Company, ICICI Direct Research

**Exhibit 11: ICICI Direct coverage universe (Metals and Mining)**

	CMP		TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)				FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Coal India	188	195	Buy	115705	20.6	25.7	28.0	9.0	7.2	6.6	5.4	4.4	4.1	42.3	46.5	44.3	34.8	37.3	35.5	
Hindalco	485	725	Buy	108909	25.5	62.8	73.7	21.2	8.6	7.4	9.6	5.3	4.5	8.8	17.3	17.5	8.5	18.7	18.3	
NMDC	160	190	Buy	46948	21.3	34.2	20.9	8.0	5.0	8.1	5.2	3.5	5.5	27.0	34.6	19.0	21.0	28.3	15.9	
JSW Steel	732	775	Buy	176916	32.9	98.1	76.8	22.9	7.7	9.8	11.6	6.0	6.5	13.8	22.1	15.6	17.0	33.8	21.0	
Ratnamani	2378	2254	Hold	11112	59.0	69.3	90.2	41.3	35.2	27.0	27.3	21.3	16.9	15.7	18.4	19.8	13.9	14.5	16.3	
Graphite Ind.	509	650	Buy	9939	-1.6	29.7	62.4	NA	18.9	9.0	NA	14.5	5.2	-5.4	10.0	22.6	-0.7	11.7	20.7	
Tata Steel	1295	1600	Buy	158279	77.1	329.7	205.7	17.1	4.0	6.4	7.9	3.5	4.6	13.1	30.0	18.4	12.4	35.1	17.7	
Sail	97	120	Buy	40000	9.2	29.1	16.0	11.8	3.7	6.8	6.2	3.0	4.6	10.9	22.2	11.5	8.9	22.5	11.5	
Jindal Stainless Jindal	180	250	Buy	9064	8.6	31.9	23.5	23.6	6.4	8.6	9.1	5.3	6.9	16.0	25.4	16.5	13.0	33.3	19.7	
Stainless Hisar	343	488	Buy	8083	29.5	70.8	58.9	13.4	5.6	6.7	9.6	5.3	5.4	18.6	28.5	19.8	23.2	34.7	21.9	
Vardhman Special Steel	249	300	Buy	1011	10.9	24.8	27.6	22.8	10.0	9.0	11.1	6.7	6.6	13.2	24.5	20.1	9.6	18.2	17.2	
Tata Metaliks	779	900	Hold	2459	69.9	75.4	76.5	11.4	10.6	10.5	6.0	6.0	5.9	24.6	20.7	18.2	17.0	15.6	13.9	

Source: Company, ICICI Direct Research

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Buy: > 15%

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Sell: < -15%



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