

CMP: ₹ 367

Target: ₹ 425 (16%)

Target Period: 12 months

BUY

March 17, 2023

On track to achieve export share target by FY25...

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 entered into a Technical Assistance Agreement

VSSL ties up with Toyota global supply chain to start mass production of steel

- VSSL has started mass production of steel for forging companies of Aichi Steel Corporation (ASC) based in South East Asia for some grades for which VSSL has received the approvals. Sales of these products for FY24 will be ~10000 tonnes
- The volume is expected to further increase with more approvals being received in the next two to three years. This development has established VSSL as a supplier of high quality automotive steel. In general, going forward, VSSL has a target to increase the share of export volumes from currently ~5% in FY22 to ~20-25% by FY25

What should investors do? VSSL's share price has given a return of ~56% over the last one year (from ~₹ 236 in March 2022 to ~₹ 367 levels in March 2023).

- We introduce FY25 numbers and now value VSSL on an FY25 basis. We upgrade the stock from HOLD to **BUY**

Target Price and Valuation: We value VSSL at ₹ 425 i.e. 7x FY25E EV/EBITDA.

Key triggers for future performance:

- Over FY22-25E, we expect the topline to grow at 15% CAGR while EBITDA, PAT are expected to register CAGR of 14%, 22%, respectively
- Going forward, we assume EBITDA/tonne of ₹ 8000/tonne for FY23E, ₹ 10000/tonne for FY24E and ₹ 11500/tonne for FY25E

Alternate Stock Idea: In our metal sector coverage, we also like Midhani.

- Mishra Dhatu Nigam (Midhani) is a leading manufacturer of special steel, super alloys and titanium alloys catering to niche end-user segments like space, defence, etc
- We have a BUY rating with a target price of ₹ 285



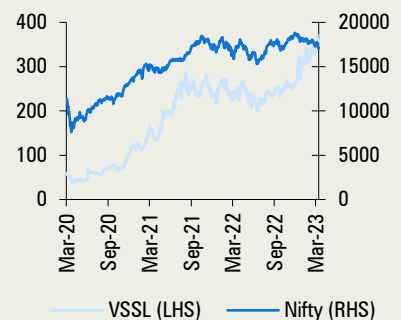
Particulars

Particulars	Amount
Market Capitalisation	₹ 1460 crore
Debt (FY22)	₹ 162 crore
Cash & Cash Eq. (FY22)	₹ 31 crore
EV (in ₹ crore)	₹ 1591 crore
52 Week H / L (₹)	379 / 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
Total	100	100	100	100

Price Chart



Key Risks

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

Research Analyst

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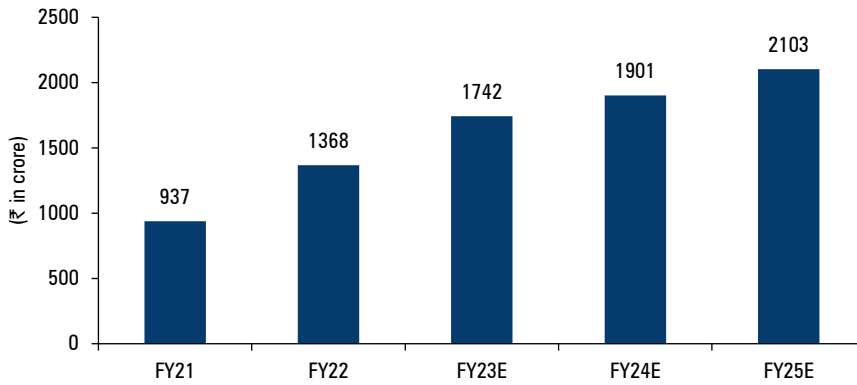
Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	CAGR (FY17-FY22 in %)	FY23E	FY24E	FY25E	CAGR (FY22-FY25E in %)
Total Revenue	846	937	1368	15%	1742	1901	2103	15%
EBITDA	40	103	174	24%	158	209	259	14%
Net Profit	3	44	101	39%	113	142	181	22%
EPS (₹)	0.8	10.9	24.8		27.8	35.0	44.6	
P/E (x)	435.4	33.0	14.5		13.0	10.3	8.1	
EV/EBITDA (x)	41.7	15.4	9.2		10.2	7.7	6.0	
ROE (%)	0.8	9.6	18.2		17.2	18.0	18.9	
ROCE (%)	3.5	13.2	24.5		19.8	21.1	23.0	

Source: Company, ICICI Direct Research

Financial story in charts

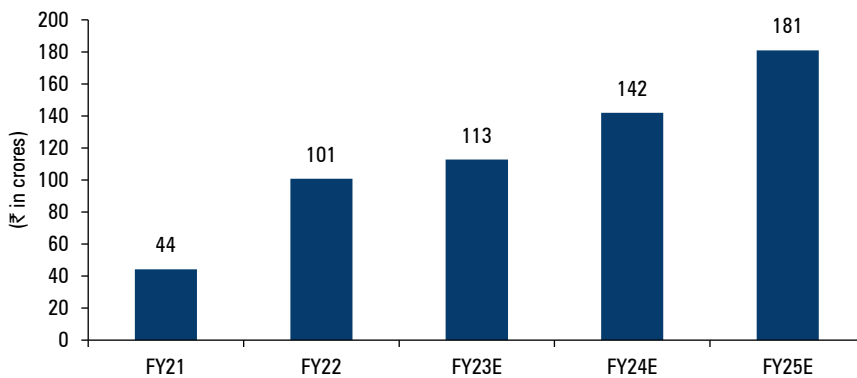
Exhibit 1: Trend in topline, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect topline to come in of ₹ 1742 crore for FY23E, ₹ 1901 crore for FY24E and ₹ 2103 crore for FY25E

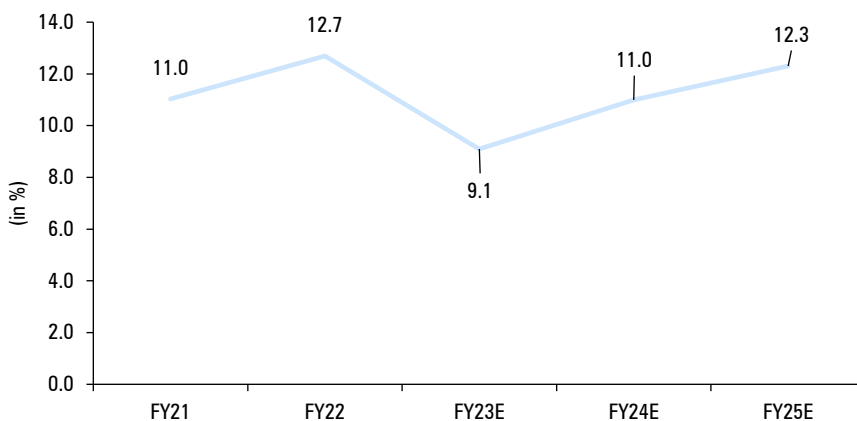
Exhibit 2: Trend in PAT, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect PAT to come in at ₹ 113 crore for FY23E, ₹ 142 crore for FY24E and ₹ 181 crore for FY25E

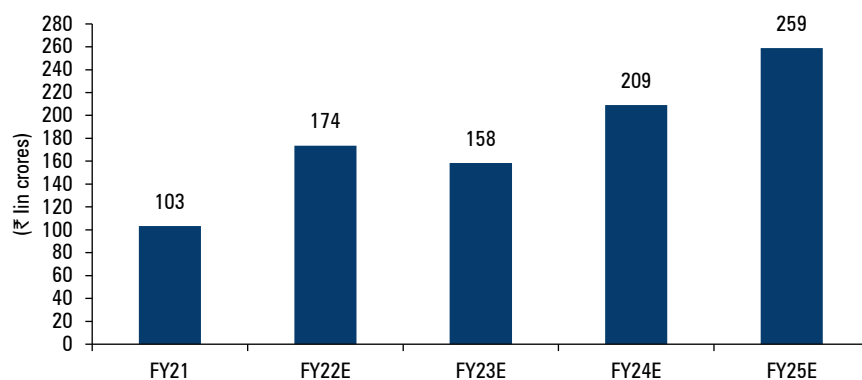
Exhibit 3: EBITDA margins trend (in %)



Source: Company, ICICI Direct Research

We expect EBITDA margin to come in at 9.1% for FY23E, 11.0% for FY24E and 12.3% for FY25E

Exhibit 4: EBITDA trend, going forward (in ₹ crore)



We expect EBITDA to come in at ₹158 crore for FY23E, ₹209 crore for FY24E and ₹259 crore for FY25E

Source: Company, ICICI Direct Research

Exhibit 5: Valuation

	Total Operating Income (₹Cr)	Growth (%)	EPS(₹)	Growth (%)	PE(x)	EV/EBIDTA (x)	P/BV(x)	RoE(%)	RoCE(%)
FY21	937	10.7	10.9	NA	33.0	15.4	3.2	9.6	13.2
FY22	1368	46.0	24.8	127.7	14.5	9.2	2.6	18.2	24.5
FY23E	1742	27.3	27.8	11.9	13.0	10.2	2.2	17.2	19.8
FY24E	1901	9.2	35.0	25.9	10.3	7.7	1.9	18.0	21.1
FY25E	2103	10.6	44.6	27.5	8.1	6.0	1.5	18.9	23.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total Operating Income	1,368	1,742	1,901	2,103
Growth (%)	46	27	9	11
Raw Material Expenses	797	1,139	1,207	1,319
Power & Fuel	142	170	186	205
Employee Expenses	81	91	100	105
Other Expenses	175	183	200	215
Total Operating Expenses	1,195	1,583	1,692	1,844
EBITDA	174	158	209	259
Growth (%)	68	(9)	32	24
Depreciation	27	32	34	43
Interest & Finance Cost	17	16	16	12
Other Income	29	40	30	38
Exceptional Items	-	-	-	-
PBT	158	151	190	242
Total Tax	58	38	48	61
PAT	101	113	142	181
Growth (%)	128	12	26	28
EPS	24.8	27.8	35.0	44.6

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Share Capital	41	41	41	41
Reserves & Surplus	514	613	747	920
Total Shareholders Fund	555	653	787	960
Total Debt	162	187	187	142
Others	23	2	2	2
Total Liabilities	740	843	977	1,105
Assets				
Net Block	289	307	298	410
CWIP	13	13	78	13
Net Fixed Assets	302	320	376	423
Investments & Other bank ba	15	15	15	15
Inventory	304	372	443	490
Debtors	222	286	339	403
Other Current Assets	39	30	16	16
Cash & Bank Balance	16	35	34	37
Total Current Assets	581	724	831	946
Trade Payables	147	191	208	230
Other Current Liabilities & Pr	33	40	48	57
Total Current Liabilities	181	231	256	288
Total Net Current Assets	401	493	575	658
Other Non Current Assets	22	15	10	7
Total Assets	740	843	977	1,105

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit/(Loss) After Taxation	101	113	142	181
Add: Depreciation & Amortisation	27	32	34	43
Net Increase in Current Assets	(135)	(123)	(109)	(112)
Net Increase in Current Liabilities	51	29	25	32
Cashflow from Operating Activities	43	51	92	143
(Increase)/Decrease in Investments	(15)	-	-	-
(Increase)/Decrease in Fixed Assets	(34)	(50)	(90)	(90)
Others	3	7	4	3
Cashflow from Investment Activities	(46)	(43)	(86)	(87)
Inc/(Dec) in Equity Capital	0	-	-	-
Inc/(Dec) in Loan	(29)	25	-	(45)
Dividend & Div Dist Tax	(14)	(14)	(8)	(8)
Others	9	0	(0)	(0)
Cashflow from Financing Activities	(34)	11	(8)	(53)
Net Cashflow	(36)	19	(1)	3
Opening Cash	52	16	35	34
Closing Cash	16	35	34	37

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	24.8	27.8	35.0	44.6
Cash EPS	31	36	43	55
BV	137	161	194	237
DPS	3.5	3.5	2.0	2.0
Operating Ratios (%)				
EBITDA Margin	12.7	9.1	11.0	12.3
PBT / Total Operating income	11.6	8.6	10.0	11.5
PAT Margin	7.4	6.5	7.5	8.6
Inventory days	81	78	85	85
Debtor days	59	60	65	70
Creditor days	39	40	40	40
Return Ratios (%)				
RoE	18.2	17.2	18.0	18.9
RoCE	24.5	19.8	21.1	23.0
RoIC	25.6	21.1	22.2	24.2
Valuation Ratios (x)				
P/E	14.5	13.0	10.3	8.1
EV / EBITDA	9.2	10.2	7.7	6.0
EV / Net Sales	1.2	1.0	0.9	0.8
Market Cap / Sales	1.1	0.8	0.8	0.7
Price to Book Value	2.6	2.2	1.9	1.5
Solvency Ratios				
Debt / Equity	0.3	0.3	0.2	0.1
Debt / EBITDA	0.9	1.2	0.9	0.5
Current Ratio	3.2	3.1	3.2	3.3
Quick Ratio	1.5	1.5	1.5	1.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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