

EC approval received; clears path for expansion plan...

Vardhman Special Steel (VSSL) has recently been granted the environmental clearance (EC) for expansion of capacity at its existing plant in Ludhiana, to up to 280000 tonnes per annum of rolled production. The company applied for the said approval in CY19. With this approval, the path for enhancement of capacity has been cleared. To begin with, the current rolling capacity of 200000 tonnes per annum would be increased to 250000 tonnes per annum. Total capex for the plan is expected to be ~₹ 250 crore.

Price hikes augur well....

Recently, VSSL has also completed price negotiation with OEMs for Q1FY22. The price increase received by the company for Q1FY22 is in the range of ~₹ 5000-6000/tonne. On the back of price increase coupled with good demand from user industry we upward revise our EBITDA/tonne estimate for both FY22E and FY23E. We now model an EBITDA/tonne of ₹ 8500/tonne for FY22E (upward revised from ₹ 7000/tonne earlier) and ₹ 9000/tonne for FY23E (upward revise from ₹ 8000/tonne earlier). Going forward, over the medium to long term horizon, export proportion in overall volume-mix is likely to increase notably. In FY20, exports contributed ~3% of total volume. Going forward, by FY25E export contribution is likely to increase to ~20-25% of total volume.

Upward revise estimates....

On the back of the recent price hike received by the company from OEMs, we upward revise our estimates both for FY22E and FY23E. We upward revise our EBITDA estimate by 21% for FY22E and by 9% for FY23E. We now model EBITDA margin of 11.0% for FY22E (upward revise from 9.4% earlier) and EBITDA margin of 11.3% for FY23E (upward revise from 10.5% earlier). We also upward revise our PAT estimate by 27% for FY22E and by 17% for FY23E.

Valuation & Outlook

VSSL is currently in a sweet spot on the back of a) recent price hike received from OEMs, b) receipt of the long-awaited environmental clearance (EC), which has cleared the pathway for expansion plans, c) good demand from the user industry segment. On the back of healthy operating environment, we remain positive on the stock. On the back of recent price hike received by the company from OEMs, we upward revise our estimates both for FY22E and FY23E. We value the stock at 7.5x FY23E EV/EBITDA and arrive at a target price of ₹ 300 (earlier ₹ 240). We maintaining **BUY** recommendation on the stock.

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	859	1,121	846	937	1,319	1,493
EBITDA	62	68	40	103	145	168
EBITDA Margin (%)	7.2	6.1	4.7	11.0	11.0	11.3
Adj PAT	25	22	3	44	82	105
EPS (₹)	7.0	6.2	0.8	10.9	20.2	26.0
EV/EBITDA (x)	18.1	17.8	30.3	10.9	7.5	6.3
RoCE (%)	8.3	6.7	3.5	13.7	18.0	19.2
RoE (%)	7.4	6.1	0.8	9.6	15.3	16.6

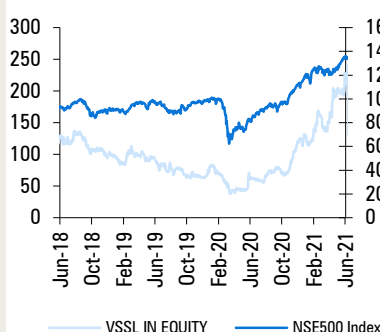
Source: Company, ICICI Direct Research



Particulars

Particulars	Amount
Market Capitalisation	₹ 1012 crore
Debt (FY21)	₹ 171 crore
Cash & Cash Eq. (FY21)	₹ 52 crore
EV (in ₹ crore)	₹ 1131 crore
52 Week H / L (₹)	252 / 54
Equity Capital (₹)	₹40.5 crore
Face Value	₹ 10

Price performance



Key risks to our call

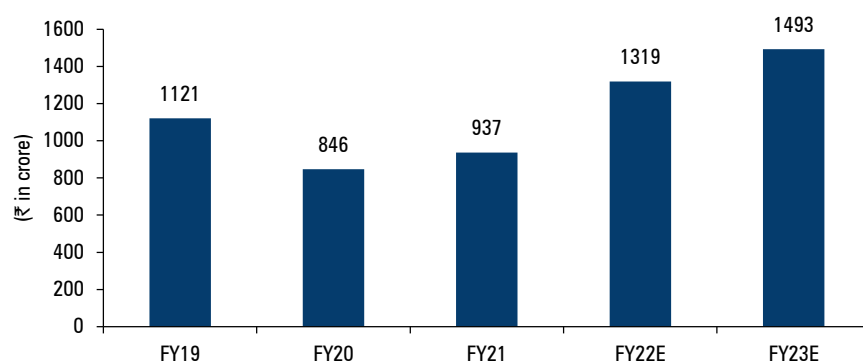
- Stagnancy or de-growth in auto sector demand
- Higher than expected increase in operating costs

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Financial story in charts

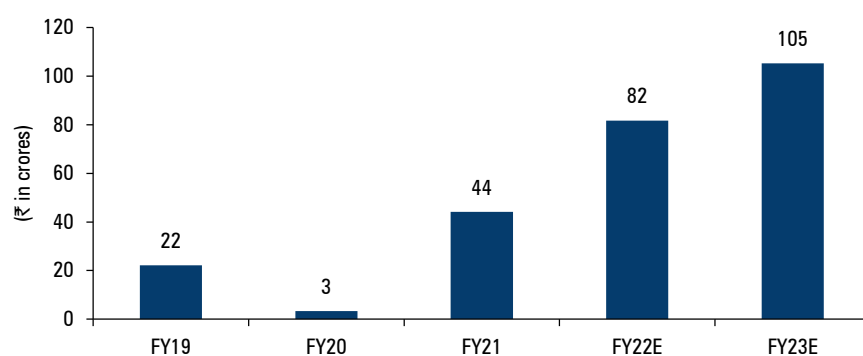
Exhibit 1: Trend in topline, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect topline to come in at ₹ 1319 crore for FY22E and ₹ 1493 crore for FY23E

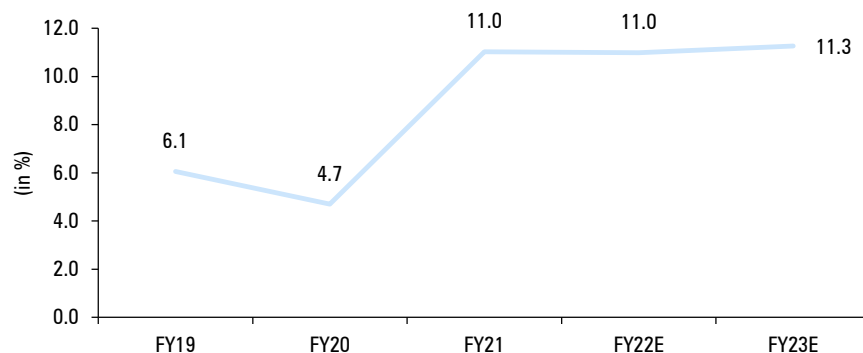
Exhibit 2: Trend in PAT, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect PAT to come in at ₹ 82 crore for FY22E and ₹ 105 crore for FY23E

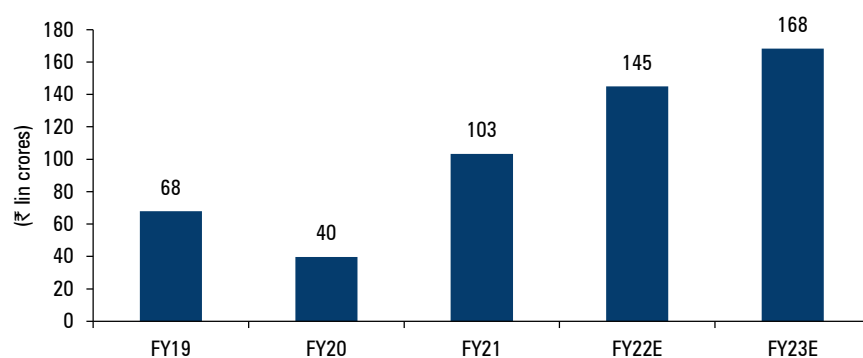
Exhibit 3: EBITDA margins trend.... (in %)



Source: Company, ICICI Direct Research

We expect EBITDA margin to come in at 11.0% for FY22E and 11.3% for FY23E

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



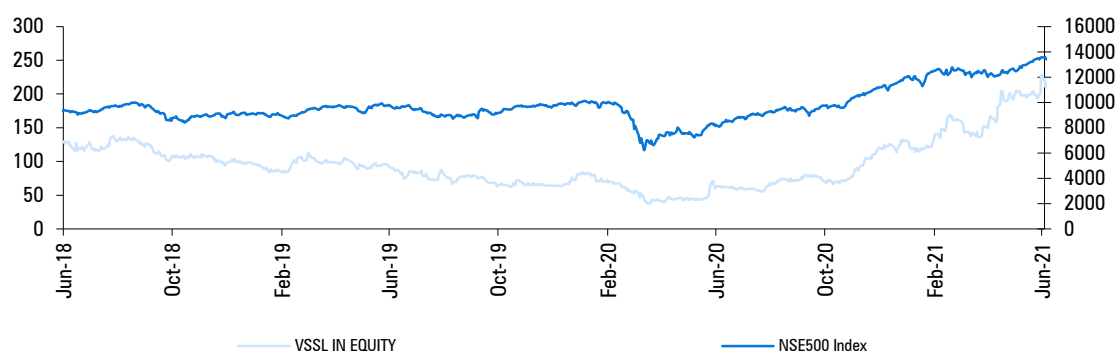
Source: Company, ICICI Direct Research

We expect EBITDA to come in of ₹ 145 crore for FY22E and ₹ 168 crore for FY23E

Exhibit 5: Valuation

	Total Operating Income (₹Cr)	Growth (%)	EPS(₹)	Growth (%)	PE(x)	EV/EBIDTA (x)	P/ BV(x)	RoE(%)	RoCE(%)
FY18	859.0	27.5	7.0	-32.0	35.4	18.1	2.6	7.4	8.3
FY19	1120.8	30.5	6.2	-11.4	39.9	17.8	2.4	6.1	6.7
FY20	846.2	-24.5	0.8	-86.7	299.9	30.3	2.4	0.8	3.5
FY21	937.1	10.7	10.9	NA	22.7	10.9	2.2	9.6	13.7
FY22E	1319.0	40.8	20.2	85.0	12.3	7.5	1.9	15.3	18.0
FY23E	1493.2	13.2	26.0	28.8	9.5	6.3	1.6	16.6	19.2

Source: Company, ICICI Direct Research

Exhibit 6: Price Performance


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 7: Shareholding Pattern

(in %)	Sep-20	Dec-20	Mar-21
Promoter	59.34	59.78	60.73
Others	40.66	40.22	39.27
Total	100	100	100

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Operating Income	846.2	937.1	1,319.0	1,493.2
Growth (%)	-24	11	41	13
Total Operating Expenses	806.5	833.7	1,174.1	1,324.9
EBITDA	39.7	103.4	144.9	168.3
Growth (%)	(41)	160	40	16
Depreciation	25.7	30.2	31.3	31.6
Interest & Finance Cost	25.7	19.7	18.4	14.9
Other Income	9.4	13.0	14.0	18.9
Exceptional Items	-	-	-	-
PBT	(2.3)	66.4	109.3	140.7
Total Tax	(5.7)	22.2	27.5	35.4
PAT	3.3	44.2	81.8	105.3
Growth (%)	(85)	1,223	85	29
EPS	0.8	10.9	20.2	26.0

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) After Taxation	3.3	44.2	81.8	105.3
Add: Depreciation & Amortisation	25.7	30.2	31.3	31.6
Net Increase in Current Assets	192.0	(76.4)	(108.8)	(53.5)
Net Increase in Current Liabilities	(107.1)	73.6	88.6	37.1
Cashflow from Operating Activities	113.9	71.7	92.9	120.4
Increase/(Decrease) in Investments	(55.0)	55.0	-	-
Increase/(Decrease) in Fixed Assets	(35.8)	(3.1)	(50.0)	(90.0)
Others	(5.8)	11.7	5.9	3.1
Cashflow from Investment Activities	(96.6)	63.7	(44.1)	(86.9)
Inc/(Dec) in Equity Capital	4.6	0.1	-	-
Inc/(Dec) in Loan	(63.8)	(87.5)	4.5	-
Dividend & Div Dist Tax	-	(6.1)	(6.1)	(6.1)
Others	43.9	8.2	(0.3)	0.0
Cashflow from Financing Activities	(15.3)	(85.3)	(1.9)	(6.1)
Net Cashflow	2.0	50.0	47.0	27.4
Opening Cash	0.3	2.3	52.3	99.4
Closing Cash	2.3	52.3	99.4	126.8

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Share Capital	40.4	40.5	40.5	40.5
Reserves & Surplus	373.2	418.9	494.6	593.8
Total Shareholders Fund	413.6	459.4	535.1	634.3
Total Debt	258.1	170.6	175.1	175.1
Others	1.6	2.3	2.0	2.0
Total Liabilities	673.3	632.2	712.1	811.3
Assets				
Net Block	310.1	282.5	256.3	229.7
CWIP	12.3	12.7	57.7	142.7
Net Fixed Assets	322.4	295.3	314.0	372.4
Investments & Other bank bal	55.0	-	-	-
Inventory	151.8	192.3	253.0	286.4
Debtors	179.9	218.4	271.0	294.5
Other Current Assets	21.9	19.3	14.7	11.3
Cash & Bank Balance	2.3	52.3	99.4	126.8
Total Current Assets	355.9	482.3	638.1	719.0
Trade Payables	61.7	130.2	216.8	245.5
Other Current Liabilities & Prov	35.2	40.4	42.4	50.8
Total Current Liabilities	96.9	170.5	259.2	296.3
Total Net Current Assets	259.0	311.8	378.9	422.8
Other Non Current Assets	36.9	25.2	19.2	16.2
Total Assets	673.3	632.2	712.1	811.3

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	0.8	10.9	20.2	26.0
Cash EPS	7.2	18.4	27.9	33.8
BV	102.4	113.4	132.1	156.6
DPS	-	1.5	1.5	1.5
Operating Ratios (%)				
EBITDA Margin	4.7	11.0	11.0	11.3
PBT / Total Operating income	-0.3	7.1	8.3	9.4
PAT Margin	0.4	4.7	6.2	7.1
Inventory days	65	75	70	70
Debtor days	78	85	75	72
Creditor days	27	51	60	60
Return Ratios (%)				
RoE	0.8	9.6	15.3	16.6
RoCE	3.5	13.7	18.0	19.2
RoIC	3.8	14.9	20.9	22.8
Valuation Ratios (x)				
P/E	299.9	22.7	12.3	9.5
EV / EBITDA	30.3	10.9	7.5	6.3
EV / Net Sales	1.6	1.3	1.0	0.9
Market Cap / Sales	1.2	1.1	0.8	0.7
Price to Book Value	2.4	2.2	1.9	1.6
Solvency Ratios				
Debt / Equity	0.6	0.4	0.3	0.3
Debt / EBITDA	6.5	1.7	1.2	1.0
Current Ratio	3.7	2.8	2.5	2.4
Quick Ratio	2.1	1.7	1.5	1.5

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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