

CMP: ₹ 258

Target: ₹ 300 (16%)

Target Period: 12 months

BUY

January 31, 2022

## 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 had 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

**Q3FY22 Results:** VSSL reported a mixed bag performance in Q3FY22.

- For Q3FY22, VSSL reported topline of ₹ 359 crore, up 25% YoY and 7% QoQ. The rise in revenue was primarily on account of price increases
- On the back of elevated operating costs, EBITDA margins declined both QoQ as well as YoY. During the quarter, EBITDA margin was at 10.8% compared to 13.7% in Q3FY21 and 13.6% in Q2FY22. The subsequent EBITDA for Q3FY22 was at ₹ 39 crore, down 2% YoY & 15% QoQ. During Q3FY22, EBITDA/tonne was at ₹ 8668/tonne compared to ₹ 8583/tonne in Q3FY21 and ₹ 10583/tonne in Q2FY22
- Ensuing PAT for Q3FY22 was at ₹ 19 crore, down 10% YoY & 20% QoQ.

**What should investors do?** VSSL's share price has given a return of ~112% over the past 12 month (from ~₹ 122 in January 2021 to ~₹ 258 levels in January 2022).

- We maintain our BUY rating on the stock

**Target Price and Valuation:** We value VSSL at ₹ 300 i.e. 7x FY23E 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 ₹ 10000/tonne each for both years FY22E and FY23E
- Over FY21-23E, we expect topline to grow at 24% CAGR while EBITDA and PAT are expected to register a CAGR of 35% and 53%, respectively

**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



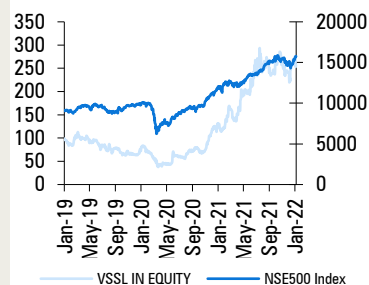
### Particulars

Particulars	Amount
Market Capitalisation	₹ 1048 crore
Debt (FY21)	₹ 171 crore
Cash & Cash Eq. (FY21)	₹ 52 crore
EV (in ₹ crore)	₹ 1167 crore
52 Week H / L (₹)	309 / 115
Equity Capital (₹)	₹40.5 crore
Face Value	₹ 10

### Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	60.7	60.9	60.9	60.9
FIs	0.0	0.7	0.4	0.4
DIs	6.9	0.7	0.8	1.1
Public	32.4	37.7	37.9	37.7
<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	CAGR (FY16-FY21 in %)	FY22E	FY23E	CAGR (FY21-FY23E in %)
Total Revenue	1,120.8	846.2	937.1	7%	1,379.1	1,446.6	24%
EBITDA	67.8	39.7	103.4	20%	176.0	187.0	35%
Net Profit	22.2	3.3	44.2	60%	93.2	103.8	53%
EPS (₹)	6.2	0.8	10.9		23.0	25.6	
P/E (x)	41.5	312.0	23.6		11.2	10.1	
EV/EBITDA (x)	18.3	31.3	11.3		6.4	6.1	
ROE (%)	6.1	0.8	9.6		17.2	16.3	
ROCE (%)	6.7	3.5	13.7		22.0	20.9	

Source: Company, ICICI Direct Research

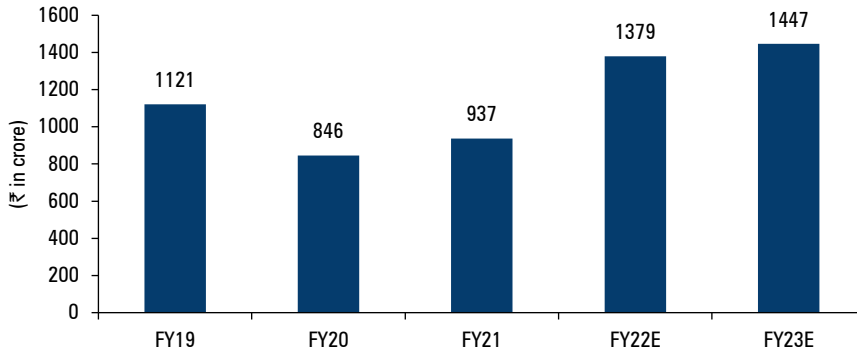
**Exhibit 1: Variance Analysis**

	Q3FY22	Q3FY21	YoY	Q2FY22	QoQ	Comments
Total Operating Income	359	288	25%	336	7%	Topline was at ₹ 359 crore, up 25% YoY and 7% QoQ
Other Income	2	3	-37%	3	-27%	
Employee Expense	20	18	13%	21	-2%	
Raw Material Expense	224	152	48%	187	20%	
Other Operating Exp.(inc. Power)	76	79	-3%	82	-7%	
<b>EBITDA</b>	<b>39</b>	<b>39</b>	<b>-2%</b>	<b>46</b>	<b>-15%</b>	EBITDA came in at ₹ 39 crore, down 2% YoY & 15% QoQ
EBITDA Margin (%)	10.8	13.7	-293 bps	13.6	-286 bps	
Depreciation	7	7	1%	7	1%	
Interest	5	5	-9%	5	-1%	
Exceptional Item and share of asso	0	0		0		
<b>PBT</b>	<b>29</b>	<b>31</b>	<b>-5%</b>	<b>37</b>	<b>-21%</b>	
Tax Outgo	10	9	7%	13	-23%	
<b>PAT</b>	<b>19</b>	<b>22</b>	<b>-10%</b>	<b>24</b>	<b>-20%</b>	PAT for Q3FY22 was at ₹ 19 crore, down 10% YoY & 20% QoQ
<b>Key Metrics</b>						
Sales Volume (tonnes)	44723	45964	-3%	43283	3%	Sales volume for the quarter was at 44723 tonnes, down 3% YoY & up 3% QoQ
EBITDA/tonne (in ₹)	8668	8583	1%	10583	-18%	EBITDA/tonne for the quarter was at ₹ 8668/tonne, up 1% YoY & down 18% QoQ

Source: Company, ICICI Direct Research

## Financial story in charts

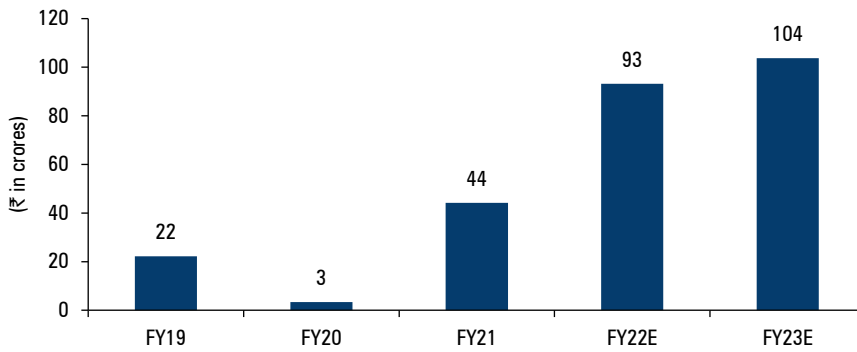
Exhibit 2: Trend in topline, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect topline to come in of ₹ 1379 crore for FY22E and ₹ 1447 crore for FY23E

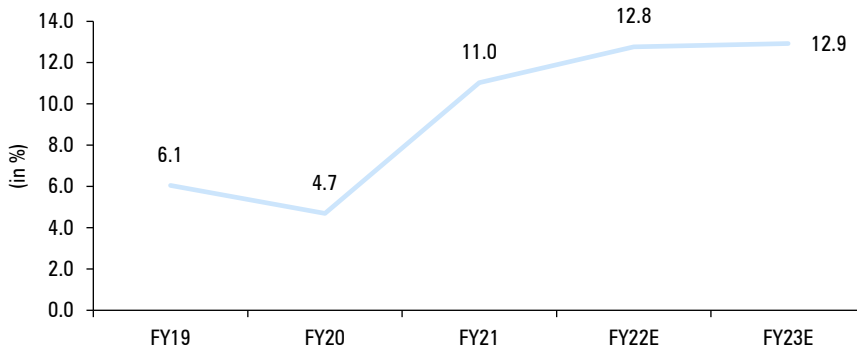
Exhibit 3: Trend in PAT, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect PAT to come in of ₹ 93 crore for FY22E and ₹ 104 crore for FY23E

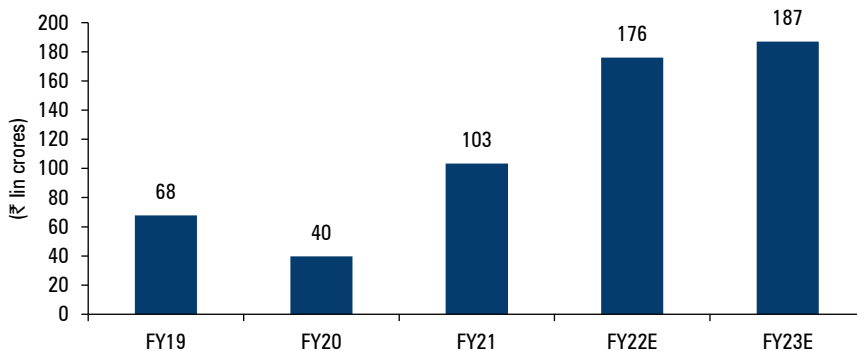
Exhibit 4: EBITDA margins trend.... (in %)



Source: Company, ICICI Direct Research

We expect EBITDA Margin to come in at 12.8% for FY22E and 12.9% for FY23E

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



Source: Company, ICICI Direct Research

We expect EBITDA to come in of ₹ 176 crore for FY22E and ₹ 187 crore for FY23E

**Exhibit 6: 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	36.8	18.7	2.7	7.4	8.3
FY19	1120.8	30.5	6.2	-11.4	41.5	18.3	2.5	6.1	6.7
FY20	846.2	-24.5	0.8	-86.7	312.0	31.3	2.5	0.8	3.5
FY21	937.1	10.7	10.9	NA	23.6	11.3	2.3	9.6	13.7
FY22E	1379.1	47.2	23.0	110.9	11.2	6.4	1.9	17.2	22.0
FY23E	1446.6	4.9	25.6	11.3	10.1	6.1	1.6	16.3	20.9

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Operating Income	846.2	937.1	1,379.1	1,446.6
Growth (%)	-24	11	47	5
Total Operating Expenses	806.5	833.7	1,203.1	1,259.6
<b>EBITDA</b>	<b>39.7</b>	<b>103.4</b>	<b>176.0</b>	<b>187.0</b>
Growth (%)	(41)	160	70	6
Depreciation	25.7	30.2	28.9	29.2
Interest & Finance Cost	25.7	19.7	18.4	14.9
Other Income	9.4	13.0	10.4	11.9
Exceptional Items	-	-	-	-
<b>PBT</b>	<b>(2.3)</b>	<b>66.4</b>	<b>139.1</b>	<b>154.9</b>
Total Tax	(5.7)	22.2	45.9	51.1
<b>PAT</b>	<b>3.3</b>	<b>44.2</b>	<b>93.2</b>	<b>103.8</b>
Growth (%)	(85)	1,223	111	11
<b>EPS</b>	<b>0.8</b>	<b>10.9</b>	<b>23.0</b>	<b>25.6</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) After Taxation	3.3	44.2	93.2	103.8
Add: Depreciation & Amortisation	25.7	30.2	28.9	29.2
Net Increase in Current Assets	192.0	(76.4)	(132.7)	(63.0)
Net Increase in Current Liabilities	(107.1)	73.6	98.5	19.5
<b>Cashflow from Operating Activities</b>	<b>113.9</b>	<b>71.7</b>	<b>88.0</b>	<b>89.4</b>
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
<b>Cashflow from Investment Activities</b>	<b>(96.6)</b>	<b>63.7</b>	<b>(44.1)</b>	<b>(86.9)</b>
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)	(10.1)	(10.1)
Others	43.9	8.2	(0.3)	0.0
<b>Cashflow from Financing Activities</b>	<b>(15.3)</b>	<b>(85.3)</b>	<b>(5.9)</b>	<b>(10.1)</b>
Net Cashflow	2.0	50.0	38.0	(7.6)
Opening Cash	0.3	2.3	52.3	90.3
<b>Closing Cash</b>	<b>2.3</b>	<b>52.3</b>	<b>90.3</b>	<b>82.7</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Share Capital	40.4	40.5	40.5	40.5
Reserves & Surplus	373.2	418.9	501.9	595.6
Total Shareholders Fund	413.6	459.4	542.4	636.1
Total Debt	258.1	170.6	175.1	175.1
Others	1.6	2.3	2.0	2.0
<b>Total Liabilities</b>	<b>673.3</b>	<b>632.2</b>	<b>719.5</b>	<b>813.1</b>
<b>Assets</b>				
Net Block	310.1	282.5	258.7	234.5
CWIP	12.3	12.7	57.7	142.7
Net Fixed Assets	322.4	295.3	316.4	377.2
Investments & Other bank bal	55.0	-	-	-
Inventory	151.8	192.3	264.5	297.3
Debtors	179.9	218.4	283.4	317.1
Other Current Assets	21.9	19.3	14.7	11.3
Cash & Bank Balance	2.3	52.3	90.3	82.7
Total Current Assets	355.9	482.3	652.9	708.3
Trade Payables	61.7	130.2	226.7	237.8
Other Current Liabilities & Prov	35.2	40.4	42.4	50.8
Total Current Liabilities	96.9	170.5	269.1	288.6
Total Net Current Assets	259.0	311.8	383.8	419.7
Other Non Current Assets	36.9	25.2	19.2	16.2
<b>Total Assets</b>	<b>673.3</b>	<b>632.2</b>	<b>719.5</b>	<b>813.1</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	0.8	10.9	23.0	25.6
Cash EPS	7.2	18.4	30.1	32.8
BV	102.4	113.4	133.9	157.0
DPS	-	1.5	2.5	2.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	4.7	11.0	12.8	12.9
PBT / Total Operating income	-0.3	7.1	10.1	10.7
PAT Margin	0.4	4.7	6.8	7.2
Inventory days	65	75	70	75
Debtor days	78	85	75	80
Creditor days	27	51	60	60
<b>Return Ratios (%)</b>				
RoE	0.8	9.6	17.2	16.3
RoCE	3.5	13.7	22.0	20.9
RoIC	3.8	14.9	25.1	23.3
<b>Valuation Ratios (x)</b>				
P/E	312.0	23.6	11.2	10.1
EV / EBITDA	31.3	11.3	6.4	6.1
EV / Net Sales	1.6	1.4	1.0	0.9
Market Cap / Sales	1.2	1.1	0.8	0.7
Price to Book Value	2.5	2.3	1.9	1.6
<b>Solvency Ratios</b>				
Debt / Equity	0.6	0.4	0.3	0.3
Debt / EBITDA	6.5	1.7	1.0	0.9
Current Ratio	3.7	2.8	2.4	2.5
Quick Ratio	2.1	1.7	1.4	1.4

Source: Company, ICICI Direct Research

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

	CMP		TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)			Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21
Coal India	161	160	Hold	100311	20.6	25.1	27.7	7.3	6.0	5.5	4.2	4.1	4.1	42.3	41.7	39.8	34.8	36.7	35.5
Hindalco	495	600	Buy	111291	25.5	58.3	59.8	17.3	7.6	7.4	8.3	5.3	4.8	8.8	14.8	14.5	8.5	17.6	15.5
NMDC	140	175	Buy	40995	21.3	34.7	20.6	6.3	3.9	6.5	4.1	2.6	4.1	27.0	35.1	18.7	21.0	28.6	15.4
JSW Steel	632	725	Hold	152840	32.9	93.6	70.9	20.3	7.1	9.4	10.6	5.7	6.3	13.8	21.2	14.6	17.0	32.7	19.9
Ratnamani	1912	2450	Buy	8934	59.0	76.2	98.0	35.9	27.8	21.6	23.5	17.1	13.8	15.7	19.3	20.1	13.9	15.7	17.2
Graphite Ind.	490	650	Buy	9565	-1.6	31.3	62.7	NA	14.7	7.3	NA	9.2	3.8	-5.4	12.1	23.1	-0.7	12.4	21.2
Tata Steel	1093	1400	Buy	133536	77.1	293.3	181.7	15.2	4.0	6.4	7.3	3.4	4.5	13.1	30.1	18.8	12.4	32.7	16.7
Jindal Stainless	206	250	Buy	10411	8.6	26.2	22.7	19.3	6.3	7.3	7.8	4.9	5.7	16.0	25.2	18.1	13.0	29.1	20.1
Jindal Stainless Hisar	401	488	Buy	9469	29.5	63.9	58.9	10.4	4.8	5.2	7.7	4.2	4.0	18.6	26.7	20.9	23.2	32.4	22.5
Vardhman Special Steel	258	300	Buy	1048	10.9	23.0	25.6	23.6	11.2	10.1	11.3	6.4	6.1	13.7	22.0	20.9	9.6	17.2	16.3
Tata Metaliks	819	975	Hold	2583	69.9	74.3	80.1	12.4	11.7	10.8	6.6	6.5	5.7	24.6	21.6	19.5	17.0	15.6	14.4

Source: Company, ICICI Direct Research

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