

## Performs well...

Vardhman Special Steel (VSSL) reported a healthy set of Q4FY21 numbers on the back of strong demand from the automobile sector. Sales volume for the quarter was at 47828 tonnes, up 34% YoY, 4% QoQ. Topline came in at ₹ 334.5 crore, up 63% YoY, 16% QoQ. Topline growth was on the back of higher sales volume and price increase, which came into effect from January 2021. Ensuing EBITDA came in at ₹ 52.3 crore, up 231% YoY, 32% QoQ. EBITDA margin for the quarter was healthy at 15.6% (13.7% in Q3FY21, 7.7% in Q4FY20). The robust EBITDA performance was primarily on the back of increase in sales volumes, price increase, better realisations and higher operational efficiencies. Subsequent PAT for the quarter was at ₹ 26.4 crore (₹ 21.7 crore in Q3FY21 and ₹ 3.6 crore in Q4FY20).

## Upward revise EBITDA/tonne guidance range to ₹ 6000-8000/t

Healthy demand from the automobile sector and from OEMs/component manufacturers aided VSSL to report a strong operational performance in Q4FY21. On the back of good demand from user industry, for Q4FY21, VSSL reported a robust EBITDA/tonne of ₹ 10928/tonne (₹ 8583/tonne in Q3FY21, ₹ 4427/tonne in Q4FY20). For FY21, EBITDA/tonne was at ₹ 6878/tonne (₹ 2895/tonne in FY20). VSSL has upward revised its EBITDA/tonne guidance range to ₹ 6000-8000/tonne (from ₹ 5000-7000/tonne range earlier). We model EBITDA/tonne of ₹ 7000/tonne for FY22E and ₹ 8000/tonne for FY23E.

## Reports healthy FY21 performance...

VSSL reported a healthy performance in FY21. For FY21, the company reported sales volume of 150265 tonnes (up 9.5% YoY). Despite a muted Q1FY21 performance, impacted by Covid-19 related lockdown, VSSL was able to register higher sales volumes YoY due to increased demand from OEMs/component manufacturers in the remaining quarters of FY21. For FY21, topline came in at ₹ 937 crore (up 11% YoY). Topline growth was mainly on account of a combination of higher sales volumes and price increase received twice effective from October 2020 and January 2021. EBITDA for FY21 was at ₹ 103 crore (up 160% YoY). EBITDA margin for FY21 was at 11.0% compared to 4.7% in FY20. Ensuing PAT for FY21 was at ₹ 44 crore (compared to PAT of ₹ 3 crore in FY20).

## Valuation & Outlook

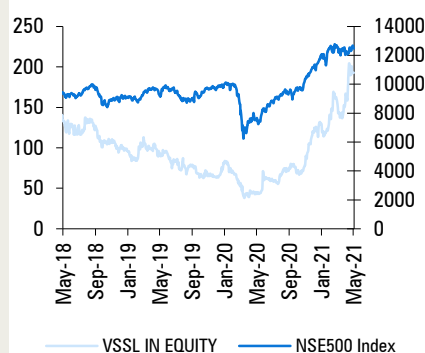
VSSL reported a healthy performance in Q4FY21 on the back of strong demand from the automobile sector. Going forward, over the medium to longer term horizon, the company plans to focus on improving its RoCE. VSSL plans to achieve an RoCE of 25% by 2025. We value the stock at 6.5x FY23E EV/EBITDA and arrive at a target price of ₹ 240 (earlier ₹ 140). We maintain our **BUY** recommendation on the stock.



### Particulars

Particulars	Amount
Market Capitalisation	₹ 781 crore
Debt (FY21)	₹ 171 crore
Cash & Cash Eq. (FY21)	₹ 52 crore
EV (in ₹ crore)	₹ 900 crore
52 Week H / L (₹)	218 / 42
Equity Capital (₹)	₹40.5 crore
Face Value	₹ 10

### Price Performance



### Key risks to our call

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

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## Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	FY21	FY22E	FY23E
Net Sales	859	1,121	846	937	1,276	1,470
EBITDA	62	68	40	103	119	154
EBITDA Margin (%)	7.2	6.1	4.7	11.0	9.4	10.5
Adj PAT	25	22	3	44	64	90
EPS (₹)	7.0	6.2	0.8	10.9	15.9	22.2
EV/EBITDA (x)	14.9	14.9	24.7	8.7	7.3	5.3
RoCE (%)	8.3	6.7	3.5	13.7	15.7	19.4
RoE (%)	7.4	6.1	0.8	9.6	12.5	14.9

Source: Company, ICICI Direct Research

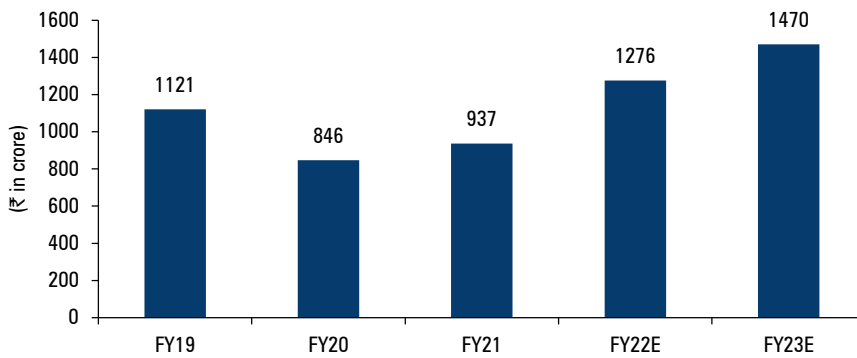
**Exhibit 1: Variance Analysis**

	<b>Q4FY21</b>	<b>Q4FY20</b>	<b>YoY</b>	<b>Q3FY21</b>	<b>QoQ</b>	<b>Comments</b>
Total Operating Income	334	206	63%	288	16%	Topline growth was on the back of higher sales volume and price increase, which came into effect from January 2021
Other Income	2	1	65%	3	-24%	
Employee Expense	181	124	46%	152	19%	
Raw Material Expense	18	12	47%	18	3%	
Other Operating Exp.(inc. Power)	83	54	55%	79	6%	
<b>EBITDA</b>	52	16	231%	39	32%	Healthy EBITDA performance during Q4FY21 was driven by increase in sales volume
EBIDTA Margin (%)	15.6%	7.7%	8 bps	13.7%	2 bps	
Depreciation	10	7	53%	7	48%	
Interest	5	5	-5%	5	-4%	
Exceptional Item and share of assc	0	0		0		
<b>PBT</b>	40	6	NA	31	29%	
Tax Outgo	14	2	NA	9	45%	
<b>PAT</b>	26	4	639%	22	22%	PAT came in significantly higher on both QoQ as well as YoY basis
<b>Key Metrics</b>						
Sales Volume (tonnes)	47828	35715	34%	45964	4%	Sales volume for the quarter at 47828 tonnes, up 34% YoY, 4% QoQ

Source: Company, ICICI Direct Research

## Financial story in charts

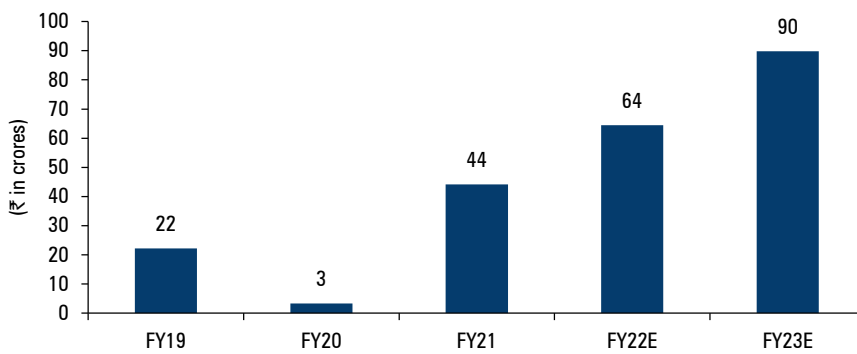
Exhibit 2: Trend in topline, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

For Vardhman Special Steel, we expect topline to come in of ₹ 1276 crore for FY22E and ₹ 1470 crore for FY23E.

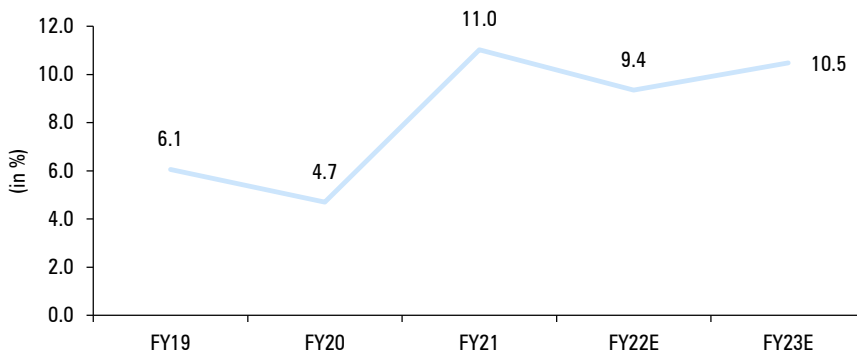
Exhibit 3: Trend in PAT, going forward (in ₹ crore)



Source: Company, ICICI Direct Research

We expect PAT to come in of ₹ 64 crore for FY22E and ₹ 90 crore for FY23E.

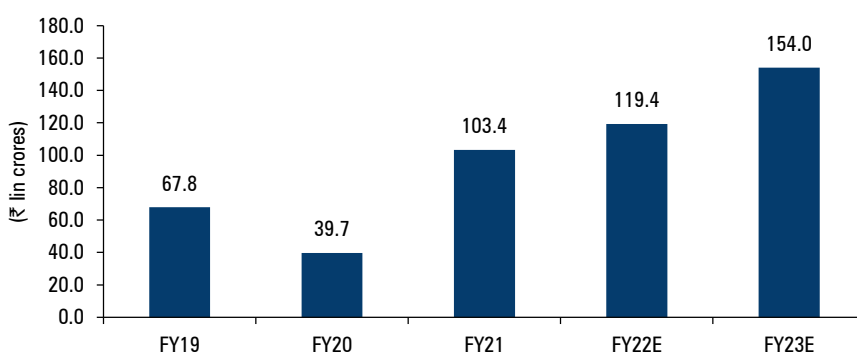
Exhibit 4: EBITDA margins trend.... (in %)



Source: Company, ICICI Direct Research

We expect EBITDA margin to come in at 9.4% for FY22E and 10.5% for FY23E.

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



Source: Company, ICICI Direct Research

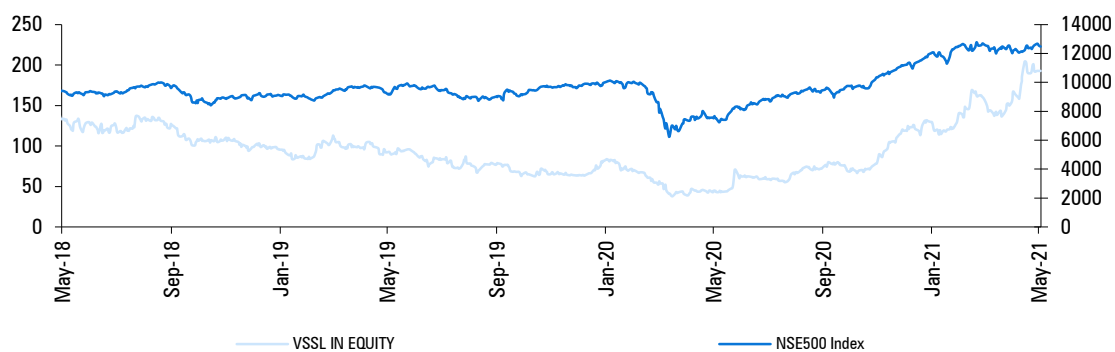
We expect EBITDA to come in at ₹ 119.4 crore for FY22E and ₹ 154 crore for FY23E.

**Exhibit 6: Valuation**

	<b>Total Operating Income (₹Cr)</b>	<b>Growth (%)</b>	<b>EPS(₹)</b>	<b>Growth (%)</b>	<b>PE(x)</b>	<b>EV/EBIDTA (x)</b>	<b>P/BV(x)</b>	<b>RoE(%)</b>	<b>RoCE(%)</b>
FY18	859.0	27.5	7.0	-32.0	27.5	14.9	2.0	7.4	8.3
FY19	1120.8	30.5	6.2	-11.4	31.1	14.9	1.9	6.1	6.7
FY20	846.2	-24.5	0.8	-86.7	233.4	24.7	1.9	0.8	3.5
FY21	937.1	10.7	10.9	NA	17.7	8.7	1.7	9.6	13.7
FY22E	1276.4	36.2	15.9	45.9	12.1	7.3	1.5	12.5	15.7
FY23E	1469.9	15.2	22.2	39.3	8.7	5.3	1.3	14.9	19.4

Source: Company, ICICI Direct Research

**Exhibit 7: Price Performance**



Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

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

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 9: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Operating Income	846.2	937.1	1,276.4	1,469.9	
Growth (%)	-24	11	36	15	
Total Operating Expenses	806.5	833.7	1,157.0	1,315.9	
<b>EBITDA</b>	<b>39.7</b>	<b>103.4</b>	<b>119.4</b>	<b>154.0</b>	
Growth (%)	(41)	160	15	29	
Depreciation	25.7	30.2	30.4	36.0	
Interest & Finance Cost	25.7	19.7	16.8	14.7	
Other Income	9.4	13.0	14.0	16.8	
Exceptional Items	-	-	-	-	
<b>PBT</b>	<b>(2.3)</b>	<b>66.4</b>	<b>86.2</b>	<b>120.1</b>	
Total Tax	(5.7)	22.2	21.7	30.2	
<b>PAT</b>	<b>3.3</b>	<b>44.2</b>	<b>64.5</b>	<b>89.8</b>	
Growth (%)	(85)	1,223	46	39	
<b>EPS</b>	<b>0.8</b>	<b>10.9</b>	<b>15.9</b>	<b>22.2</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit/(Loss) After Taxation	3.3	44.2	64.5	89.8	
Add: Depreciation & Amortisation	25.7	30.2	30.4	36.0	
Net Increase in Current Assets	192.0	(76.4)	(74.3)	(47.3)	
Net Increase in Current Liabilities	(107.1)	73.6	64.2	31.3	
<b>Cashflow from Operating Activities</b>	<b>113.9</b>	<b>71.7</b>	<b>84.7</b>	<b>109.9</b>	
Increase/(Decrease) in Investments	(55.0)	55.0	-	-	
Increase/(Decrease) in Fixed Assets	(35.8)	(3.1)	(50.0)	(50.0)	
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>(46.9)</b>	
Inc/(Dec) in Equity Capital	4.6	0.1	-	-	
Inc/(Dec) in Loan	(63.8)	(87.5)	(30.5)	(48.0)	
Dividend & Div Dist Tax	-	(6.1)	(6.1)	(6.1)	
Others	43.9	8.2	(0.3)	0.0	
<b>Cashflow from Financing Activities</b>	<b>(15.3)</b>	<b>(85.3)</b>	<b>(36.9)</b>	<b>(54.1)</b>	
Net Cashflow	2.0	50.0	3.7	8.9	
Opening Cash	0.3	2.3	52.3	56.1	
<b>Closing Cash</b>	<b>2.3</b>	<b>52.3</b>	<b>56.1</b>	<b>65.0</b>	

Source: Company, ICICI Direct Research

Exhibit 11: 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	477.3	561.0	
Total Shareholders Fund	413.6	459.4	517.8	601.5	
Total Debt	258.1	170.6	140.1	92.1	
Others	1.6	2.3	2.0	2.0	
<b>Total Liabilities</b>	<b>673.3</b>	<b>632.2</b>	<b>659.8</b>	<b>695.6</b>	
<b>Assets</b>					
Net Block	310.1	282.5	262.1	316.1	
CWIP	12.3	12.7	52.7	12.7	
Net Fixed Assets	322.4	295.3	314.9	328.9	
Investments & Other bank bal	55.0	-	-	-	
Inventory	151.8	192.3	227.3	241.6	
Debtors	179.9	218.4	262.3	302.0	
Other Current Assets	21.9	19.3	14.7	7.9	
Cash & Bank Balance	2.3	52.3	56.1	65.0	
Total Current Assets	355.9	482.3	560.4	616.5	
Trade Payables	61.7	130.2	192.3	221.5	
Other Current Liabilities & Prov	35.2	40.4	42.4	44.5	
Total Current Liabilities	96.9	170.5	234.7	266.0	
Total Net Current Assets	259.0	311.8	325.7	350.5	
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>659.8</b>	<b>695.6</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Per share data (₹)</b>					
EPS	0.8	10.9	15.9	22.2	
Cash EPS	7.2	18.4	23.4	31.1	
BV	102.4	113.4	127.8	148.5	
DPS	-	1.5	1.5	1.5	
Cash Per Share	0.6	12.9	13.8	16.0	
<b>Operating Ratios (%)</b>					
EBITDA Margin	4.7	11.0	9.4	10.5	
PBT / Total Operating income	-0.3	7.1	6.8	8.2	
PAT Margin	0.4	4.7	5.1	6.1	
Inventory days	65	75	65	60	
Debtor days	78	85	75	75	
Creditor days	27	51	55	55	
<b>Return Ratios (%)</b>					
RoE	0.8	9.6	12.5	14.9	
RoCE	3.5	13.7	15.7	19.4	
RoIC	3.8	14.9	17.1	21.4	
<b>Valuation Ratios (x)</b>					
P/E	233.4	17.7	12.1	8.7	
EV / EBITDA	24.7	8.7	7.3	5.3	
EV / Net Sales	1.3	1.1	0.8	0.6	
Market Cap / Sales	0.9	0.8	0.6	0.5	
Price to Book Value	1.9	1.7	1.5	1.3	
<b>Solvency Ratios</b>					
Debt / Equity	0.6	0.4	0.3	0.2	
Debt / EBITDA	6.5	1.7	1.2	0.6	
Current Ratio	3.7	2.8	2.4	2.3	
Quick Ratio	2.1	1.7	1.4	1.4	

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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