

CMP: ₹ 94

Target: ₹ 112 (19%)

Target Period: 12 months

November 25, 2020

**BUY**

## Healthy operational performance...

Vardhman Special Steel (VSSL) reported a healthy set of Q2FY21 numbers. Sales volume for the quarter were at 43986 tonnes, up 32% YoY, 248% QoQ. Topline was at ₹ 247.1 crore, up 17% YoY, 264% QoQ. EBITDA was at ₹ 21.1 crore vs. ₹ 2.6 crore in Q2FY20 and an EBITDA loss of ₹ 9.4 crore in Q1FY21. EBITDA margin was at 8.5% vs. 1.2% in Q2FY20 and negative EBITDA margin of 13.9%. The healthy EBITDA performance during Q2FY21 was driven by increase in sales volume and reduction in raw material cost. Ensuing PAT for Q2FY21 was at ₹ 8.9 crore compared to a net loss of ₹ 3.2 crore in Q2FY20 and net loss of ₹ 12.8 crore in Q1FY21.

## Improvement in demand from auto sector augurs well...

Earlier, during Q1FY21, VSSL reported a subdued performance. While the Q1FY21 performance was weak on the back of Covid-19 related concerns, in Q2FY21, the company witnessed a healthy turnaround in its operations on the back of a smart recovery in demand from the auto sector. On the back of strong demand from the domestic auto sector, in Q2FY21 VSSL registered its highest ever quarterly sales volume of 43986 tonnes (up 32% YoY). Going forward, for Q3FY21 also, the management expects the healthy trend in auto sector demand to continue thereby auguring well for the company.

## EBITDA/tonne guidance of ~₹ 5000-7000/tonne....

For the near to medium term horizon, VSSL expects its EBITDA/tonne to hover at ~₹ 5000-7000/tonne range (upward revised from the earlier range of ~₹ 4500-6000/tonne).

## Valuation & Outlook

VSSL reported a healthy Q2FY21 performance on the back of a smart recovery in demand from the auto sector. On the back of continued strong demand from the auto sector, we expect the healthy performance to continue. In regard to the strategic alliance with Aichi Steel Corporation (ASC), in the near to medium term horizon, the technology and technical know-how shared by ASC would aid VSSL in improving its product-mix. With the help of the JV, VSSL plans to start marketing activities in India, Thailand, Philippines and Indonesia thereby expanding its customer base. In the longer term horizon, VSSL plans to increase the share of exports to 20-25% by FY25 from 3% in FY20. We value the stock at 6.5x FY22E EV/EBITDA and arrive at a target price of ₹ 112. We upgrade the stock from HOLD to BUY.



### Particulars

Particulars	Amount
Market Capitalisation	380.7
Debt in ₹ crore (FY20)	258.1
Cash & Cash Eq. in ₹ cr. (FY20)	2.3
EV	636.5 crore
52 Week H / L (₹)	95 / 35
Equity Capital (₹)	40.4
Face Value	₹ 10

### Key Highlights

- Sales volume of 43986 tonnes in Q2FY21
- We upgrade the stock to BUY from HOLD earlier with target price of ₹ 112

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20	FY21E	FY22E
Total Revenue	673.8	859.0	1,120.8	846.2	778.7	1,101.2
EBITDA	59.8	61.9	67.8	39.7	47.3	90.0
Net Profit	19.1	25.0	22.2	3.3	12.7	46.6
EPS (₹)	10.3	7.0	6.2	0.8	3.1	11.5
P/E (x)	9.1	13.4	15.1	113.7	29.9	8.1
EV/EBITDA (x)	7.3	9.2	9.7	14.6	11.9	5.7
ROE (%)	9.7	7.4	6.1	0.8	3.0	9.9
ROCE (%)	10.5	8.3	6.7	3.5	5.3	11.6

Source: Company, ICICI Direct Research



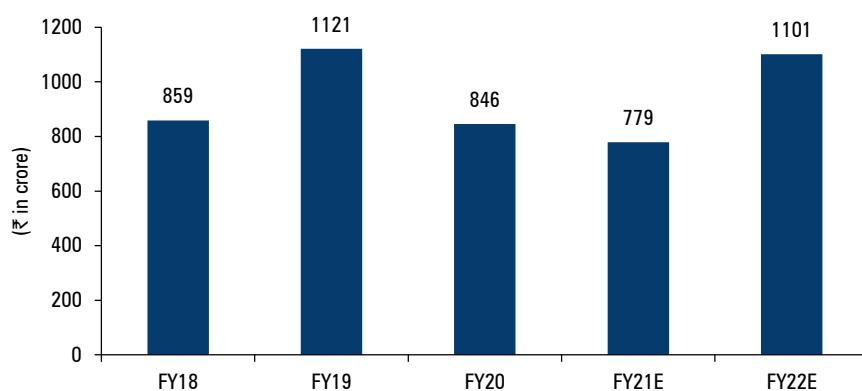
## Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ	Comments
Total Operating Income	247.1	211.8	17%	67.9	264%	
Other Income	5.6	5.4	4%	1.8	216%	
Employee Expense	12.6	11.1	14%	10.7	18%	
Raw Material Expense	149.1	156.7	-5%	43.6	242%	
Other Operating Expense	64.3	41.5	55%	23.0	179%	
<b>EBITDA</b>	21.1	2.6	709%	-9.4	-323%	Healthy EBITDA performance during Q2FY21 driven by increase in sales volume and reduction in raw material cost
EBITDA Margin (%)	8.5	1.2	730 bps	-13.9	2240 bps	
Depreciation	6.8	6.3	7%	6.7	2%	
Interest	4.8	6.5	-26%	5.1	-6%	
<b>PBT</b>	15.1	-4.9	-408%	-19.5	-177%	
Tax Outgo	6.1	-1.7	PL	-6.7	PL	
<b>PAT</b>	8.9	-3.2	LP	-12.8	LP	Ensuing PAT for Q2FY21 at ₹ 8.9 crore compared to net loss of ₹ 3.2 crore in Q2FY20
<b>Key Metrics</b>						
Sales Volume (tonnes)	43986.0	33203.0	32%	12487.0	252%	Sales volume for the quarter at 43986 tonnes, up 32% YoY, 248% QoQ

Source: Company, ICICI Direct Research

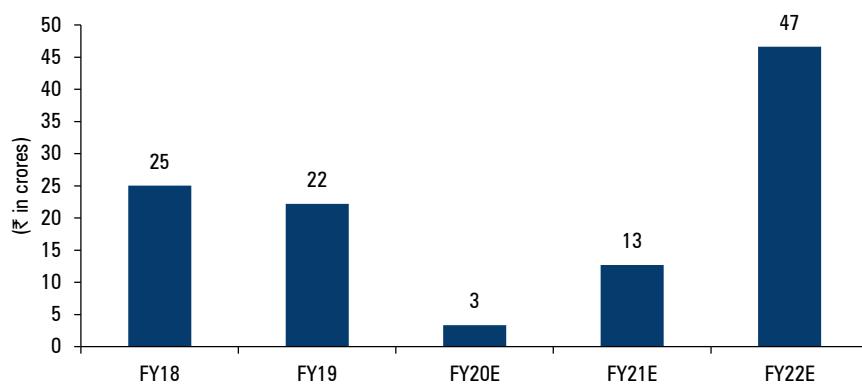
## Financial story in charts

### Exhibit 2: Topline trend, going forward (in ₹ crore)



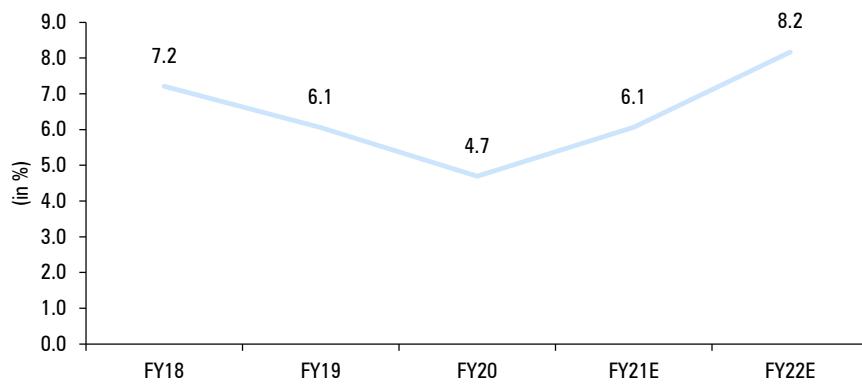
Source: Company, ICICI Direct Research

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



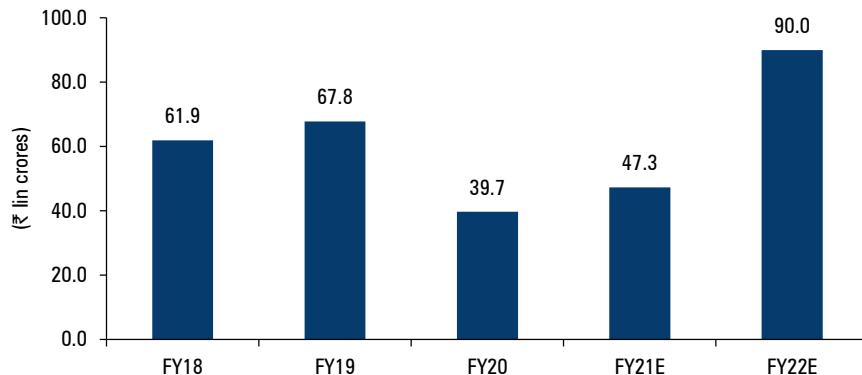
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

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



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	859.0	27.5	7.0	-32.0	13.4	9.2	1.0	7.4	8.3
FY19	1120.8	30.5	6.2	-11.4	15.1	9.7	0.9	6.1	6.7
FY20	846.2	-24.5	0.8	-86.7	113.7	14.6	0.9	0.8	3.5
FY21E	778.7	-8.0	3.1	NA	29.9	11.9	0.9	3.0	5.3
FY22E	1101.2	41.4	11.5	NA	8.1	3.6	0.8	9.9	11.6

Source: Company, ICICI Direct Research

## Exhibit 7: Recommendation History vs. Consensus



## Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing	% O/S	Position (m)	Change (m)
1	VARDHMAN TEXTILES LT	30-06-2020	24.0	9.7	0.0
2	VARDHMAN HOLDINGS LT	20-11-2020	12.7	5.1	0.0
3	Jain Sachit	20-11-2020	12.5	5.1	0.0
4	TOYOTA GROUP	30-06-2020	11.5	4.6	0.0
5	DEVAKAR INVEST & TRA	30-06-2020	5.5	2.2	0.0
6	DIMENSIONAL FUND ADV	30-09-2020	4.7	1.9	-1.0
7	DSP BLACKROCK INVEST	31-10-2020	4.4	1.8	0.0
8	SUNDARAM ASSET MANAG	30-06-2020	3.5	1.4	1.0
9	GOEL ANIL KUMAR	30-06-2020	3.3	1.3	0.0
10	NANDAN COR LLP	10-08-2017	2.5	1.0	0.0

Source: Reuters, ICICI Direct Research

## Exhibit 9: Shareholding Pattern

(in %)	Sep-20	Jun-20	Mar-20
Promoter	59.3	59.2	59.2
Public	40.7	40.8	40.8
<b>Total</b>	100.0	100.0	100.0

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E
Operating Income	1,120.8	846.2	778.7	1,101.2
Growth (%)	30	-24	-8	41
Total Operating Expenses	1,052.9	806.5	731.4	1,011.2
<b>EBITDA</b>	<b>67.8</b>	<b>39.7</b>	<b>47.3</b>	<b>90.0</b>
Growth (%)	10	(41)	19	90
Depreciation	23.9	25.7	27.0	29.1
Interest & Finance Cost	23.7	25.7	18.3	14.8
Other Income	1.9	9.4	15.0	16.2
Exceptional Items	-	-	-	-
PBT	22.1	(2.3)	17.0	62.3
Total Tax	(0.1)	(5.7)	4.3	15.7
<b>PAT</b>	<b>22.2</b>	<b>3.3</b>	<b>12.7</b>	<b>46.6</b>
Growth (%)	(11)	(85)	280	267
<b>EPS</b>	<b>6.2</b>	<b>0.8</b>	<b>3.1</b>	<b>11.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) After Taxation	22.2	3.3	12.7	46.6
Add: Depreciation & Amortisation	23.9	25.7	27.0	29.1
Net Increase in Current Assets	(163.4)	192.0	(4.4)	(40.9)
Net Increase in Current Liabilities	87.5	(107.1)	(6.7)	23.9
<b>Cashflow from Operating Act</b>	<b>(29.7)</b>	<b>113.9</b>	<b>28.6</b>	<b>58.7</b>
Increase/(Decrease) in Investments	8.2	(55.0)	5.0	-
Increase/(Decrease) in Fixed Asset	(79.8)	(35.8)	(15.0)	(15.0)
Others	(8.8)	(5.8)	6.9	3.7
<b>Cashflow from Investment A</b>	<b>(80.5)</b>	<b>(96.6)</b>	<b>(3.1)</b>	<b>(11.3)</b>
Inc/(Dec) in Equity Capital	0.1	4.6	-	-
Inc/(Dec) in Loan	102.0	(63.8)	(22.0)	(45.0)
Dividend & Div Dist Tax	-	-	-	-
Others	0.9	43.9	(0.2)	0.0
<b>Cashflow from Financing Act</b>	<b>103.0</b>	<b>(15.3)</b>	<b>(22.2)</b>	<b>(45.0)</b>
Net Cashflow	(7.2)	2.0	3.3	2.4
Opening Cash	7.5	0.3	2.3	5.6
<b>Closing Cash</b>	<b>0.3</b>	<b>2.3</b>	<b>5.6</b>	<b>8.1</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Share Capital	35.8	40.4	40.4	40.4
Reserves & Surplus	326.2	373.2	385.9	432.6
Total Shareholders Fund	362.0	413.6	426.3	473.0
Total Debt	322.0	258.1	236.1	191.1
Others	1.4	1.6	1.5	1.5
<b>Total Liabilities</b>	<b>685.3</b>	<b>673.3</b>	<b>663.9</b>	<b>665.6</b>
<b>Assets</b>				
Net Block	279.8	310.1	298.1	284.0
CWIP	32.6	12.3	12.3	12.3
Net Fixed Assets	312.4	322.4	310.4	296.3
Investments & Other bank ba	0.0	55.0	50.0	50.0
Inventory	313.2	151.8	160.0	175.0
Debtors	187.3	179.9	181.3	211.2
Other Current Assets	45.0	21.9	16.7	12.7
Cash & Bank Balance	0.3	2.3	5.6	8.1
Total Current Assets	545.8	355.9	363.6	407.0
Trade Payables	163.5	61.7	53.3	75.4
Other Current Liabilities & Pr	40.5	35.2	36.9	38.7
Total Current Liabilities	204.0	96.9	90.2	114.1
Total Net Current Assets	341.8	259.0	273.4	292.9
Other Non Current Assets	31.1	36.9	30.0	26.4
<b>Total Assets</b>	<b>685.3</b>	<b>673.3</b>	<b>663.9</b>	<b>665.6</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	6.2	0.8	3.1	11.5
Cash EPS	12.9	7.2	9.8	18.8
BV	101.2	102.4	105.5	117.1
DPS	-	-	-	-
Cash Per Share	0.1	0.6	1.4	2.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	6.1	4.7	6.1	8.2
PBT / Total Operating income	2.0	-0.3	2.2	5.7
PAT Margin	2.0	0.4	1.6	4.2
Inventory days	102	65	75	58
Debtor days	61	78	85	70
Creditor days	53	27	25	25
<b>Return Ratios (%)</b>				
RoE	6.1	0.8	3.0	9.9
RoCE	6.7	3.5	5.3	11.6
RoIC	6.4	2.3	3.3	10.1
<b>Valuation Ratios (x)</b>				
P/E	15.1	113.7	29.9	8.1
EV / EBITDA	9.7	14.6	11.9	5.7
EV / Net Sales	0.6	0.8	0.9	0.6
Market Cap / Sales	0.3	0.4	0.5	0.3
Price to Book Value	0.9	0.9	0.9	0.8
<b>Solvency Ratios</b>				
Debt / Equity	0.9	0.6	0.6	0.4
Debt / EBITDA	4.7	6.5	5.0	2.1
Current Ratio	2.7	3.7	4.0	3.6
Quick Ratio	1.1	2.1	2.3	2.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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