

Manan Goyal
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Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	1,710
Fresh Issue (No. of Shares in Lakhs)	1,710
Offer for Sale (No. of Shares in Lakhs)	Nil
Bid/Issue opens on	26-Jun-24
Bid/Issue closes on	28-Jun-24
Face Value	₹ 10
Price Band	195-207
Minimum Lot	72

Objects of the Issue

➤ **Fresh Issue: 1,710 million.**

- Funding for Capital Expenditure towards the "Expansion Project" at Bilaspur Plant
- Repayment or prepayment of borrowings for the capital expenditure towards the "Expansion Project" at Bilaspur Plant.
- General Corporate Purpose

Book Running Lead Managers	
Aryaman Financial Services Limited	
Registrar to the Offer	
Bigshare Services Private Limited	

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	400.00
Subscribed paid up capital (Pre-Offer)	247.22
Paid up capital (Post - Offer)	329.83

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	100.0	74.9
Public	0.0	25.1
Total	100	100

Financials

Particulars (₹ In million)	9M FY24	FY23	FY22	FY21
Revenue from operations	3,013	5,157	4,140	2,907
Operating expenses	2,428	4,390	3,661	2,633
EBITDA	586	767	480	274
Other Income	35	18	3	2
Depreciation	44	64	72	73
EBIT	577	720	411	204
Interest	19	30	39	60
Share of profits from associates	31	29	13	14
PBT	588	719	385	159
Tax	142	179	98	49
Consolidated PAT	446	540	287	110
EPS	13.52	16.37	8.70	3.33
Ratios	9M FY24	FY23	FY22	FY21
EBITDAM	19.43%	14.87%	11.59%	9.44%
PATM	14.79%	10.47%	6.93%	3.78%
Sales growth	-	24.55%	42.43%	-

Sector- Iron and Steel Products

Company Description

Vraj Iron and Steel is engaged in the manufacturing of Sponge Iron, M.S. Billets, and TMT bars under the brand Vraj. They currently operate through two manufacturing plants located at Raipur and Bilaspur in Chhattisgarh, spread across 52.93 acres. As of December 31, 2023, the aggregate installed capacity of their manufacturing plants was 2,31,600 tons per annum ("TPA") (comprising intermediate and final products). Their manufacturing plant at Raipur also includes a captive power plant with an aggregate installed capacity of 5 MW, as of December 31, 2023. They are in the process of increasing the capacities of their existing manufacturing plants and captive power plant, which is expected to increase their aggregate installed capacity (comprising intermediate and final products) from 2,31,600 TPA to 5,00,100 TPA and the captive power plant's aggregate installed capacity from 5 MW to 20 MW. The proposed expansion of Sponge Iron and Captive Power Plant is expected to become operational in Q4 of FY 2024-25, whereas the MS Billets expansion is expected to become operational in Q1 of FY 2025-26.

Their product offerings such as Sponge Iron, TMT Bar, MS Billets, and by-products Dolochar, Pellet, and Pig Iron cater to a mix of customers that consist of industrial customers and end-users. They sell their products directly as well as through brokers/dealers. As part of their initiatives towards continual improvement, they have obtained the Environment Management System Certification under the new standard of ISO 14001:2015 for the Raipur Plant. As of December 31, 2023, they had a workforce of 531 employees and workers, comprising 296 permanent employees including 3 Directors, 9 employees at the Registered Office, 193 employees at the Raipur Plant, 91 employees at the Bilaspur Plant, and 235 contract workers. Their sales and marketing team focuses on developing customer relationships, acquiring new orders, identifying new customers and generating business opportunities.

Company focusses on strategically aligning themselves with customers to create long-term relationships for continuous orders and smooth flow of business. They sell Sponge Iron and MS Billets through agents on a commission basis and TMT Bars directly to traders. Their business is B2B Model which enables them to have quicker encashment of debtors. They set the prices for their products based on market demand, their production capacity, transportation costs, inventory levels, competitors' prices and credit terms. Prices for different regions are also affected by local regulations and tax policies. A minimum price level is set for each type of products. Their sales department evaluates the factors affecting their selling price on a regular basis and adjusts their minimum prices when appropriate and determines the various schemes, offers and discounts applicable on their products.

Valuation

Vraj Iron and Steel Ltd. is an integrated and well-established manufacturing setup with diversified product mix with strong focus on value added products and manufacturing plants are strategically located, supported by robust architecture, leading to cost efficiencies and a stable supply chain along with Experienced Promoters, Board and management team.

At the upper price band company is valuing at P/E of 12.65x, EV/EBITDA 9.09x with a market cap of ₹ 6,827 million post issue of equity shares and return on net worth of 38.82%.

We believe that the IPO is fairly priced and recommend a "Subscribe- Long Term" rating to the IPO.

Products

S.no	Name of the Product	Description	End use
1	Sponge Iron 	A critical raw material for the steel industry. Sponge iron is the key raw material required to manufacture good quality steel. Sponge iron is a spongy mass of iron which is a metallic product produced through direct reduction of iron ore/iron pellet in the solid state. It is quite versatile and can be used in both induction as well as electric arc furnaces. It is used as raw material for Billets manufacturing. Company has an installed capacity of producing over 1,20,000 TPA of Sponge iron annually.	Industrial Downstream Steel manufacturing
2	MS Billets 	MS Billets are semi-finished casting products produced in a steel mill that needs to be further processed to transform them into a finished good. It is around or square cross-sectioned metal length which is created directly by the process of continuous casting or by indirectly hot rolling an ingot. It is used as raw material for TMT Bars manufacturing.	Industrial Downstream Steel manufacturing
3	TMT Bars 	TMT steel bars of exceptional quality are manufactured through a hot rolling process in which heated iron billets are continuously passed through rollers of decreasing diameters. This TMT Saria is passed through a water-cooling system for thermos mechanical treatment after which they exit the last rolling mill.	Industrial

Details for the installed capacities & proposed expansion are as below:

Particulars	Unit of Measurement	Existing Installed Capacity			Proposed Expansion in Bilaspur	Description		
		Raipur	Bilaspur	Total		Raipur	Bilaspur	Total
Sponge Iron	TPA	60,000	60,000	1,20,000	1,15,500	60,000	1,75,500	2,35,500
MS Billets	TPA	57,600	-	57,600	1,53,000	57,600	1,53,000	2,10,600
TMT Bars	TPA	54,000	-	54,000	-	54,000	-	54,000
Total Products	TPA	1,71,600	60,000	2,31,600	2,68,500	1,71,600	3,28,500	5,00,100
Captive Power Plant	MW	5	-	5	15	5	15	20

Capacity and Capacity Utilization

Installed & Capacity utilization details of their production facilities for the last three financial years and the nine months period ended December 31, 2023, are entailed below:

S.no	Particulars	Unit of Measurement	Installed Capacity as of December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021	Utilised Capacity			
				December 31, 2023	Fiscal 2023	Fiscal 2022	Fiscal 2021
1	Sponge Iron	TPA	1,20,000	70.57%	95.29%	88.26%	83.42%
2	MS Billets	TPA	57,600	55.22%	79.41%	58.90%	66.14%
3	TMT Bar	TPA	54,000	36.13%	62.71%	39.93%	20.77%
4	Captive Power Plant	MW	5	36.88%	57.27%	48.93%	47.48%

Manufacturing Plants

Raipur Plant - Siltara Industrial Area, Siltara, Raipur, Chhattisgarh - 493111



Bilaspur Plant - Village: Dighora, Tehsil, Takhatpur, District- Bilaspur, Chhattisgarh -495002

**Strengths:**

➤ **Integrated and well-established manufacturing setup**

Company currently operates 2 (two) integrated steel manufacturing plants, in Bilaspur and Raipur, Chhattisgarh. The integrated nature of their manufacturing plants has resulted in the control over all aspects of their operations (except for sourcing of primary raw materials) as well as operating margins, thereby enabling them to focus more on quality and create multiple points of sale across the steel value chain. They primarily focus on manufacturing three main products: sponge iron, MS Billets, and TMT Bars. They have a total capacity of 1,20,000 TPA to produce Sponge Iron, where their backward integration begins. The Company uses induction furnaces to produce steel. Induction furnaces convert steel scrap and sponge iron into liquid steel by induction heating. This further gets processed into billets, blooms, ingots, etc. Currently, they have a production capacity of 57,600 TPA of MS Billets, which can be used by their rolling mills to manufacture TMT Bars, having a production capacity of 54,000 TPA.

While they increased their total income, which has grown at a CAGR of 33.4% between Fiscal 2021 and Fiscal 2023, they have been successful at capturing market share and increasing their presence in their established markets. They have been able to grow the quantity sold, between Fiscal 2021 and Fiscal 2023, of TMT Bars at a CAGR of 78% and Sponge Iron at a CAGR of 8%. Furthermore, they believe that such integration practices in their production process have allowed them to be flexible with their production and be able to alter their products as per the customer's specific requirements as well as change their product mix to cater to the continuously evolving market conditions while insulating them from price fluctuations of raw materials which has resulted in optimization of their operating margins. They can convert the sponge iron they manufacture into billets or sell the sponge iron or billets independently in the market. Billets can further be used to manufacture TMT Bars or structural products or can be sold independently in the market.

➤ **Manufacturing plants are strategically located, supported by robust architecture, leading to cost efficiencies and a stable supply chain**

Their two manufacturing plants are strategically located at Bilaspur and Raipur within the mineral-rich State of Chhattisgarh and near the mineral belt in eastern India. Their presence in these locations allows them to have easy access to raw materials and end users, which helps them overcome significant entry barriers in comparison with their competitors. They believe this lowers their transportation costs and provides them with logistics management and cost benefits, thereby improving their operating margins. Moreover, Chhattisgarh accounted for the 2nd highest share (18.1%) in the domestic iron ore production in FY21 and the highest share (22.1%) in domestic coal production in FY21. Furthermore, Odisha accounted for the highest share (51.2%) in the domestic iron ore production in FY21, the second highest share (21.5%) in domestic coal production in FY21, and the third highest share (18.0%) in domestic manganese ore production in FY21.

Such access and nearby availability of raw materials reduce their freight and fuel costs. Their plants are tactically located near different mediums of transport that are constantly used by their business for inward and outward freight, further reducing their costs and improving their margins.

➤ **Diversified product mix with strong focus on value added products**

Their products primarily comprise Sponge Iron, TMT Bar, and MS Billets, which amounted to 96.88%, 97.01%, 95.31%, and 96.40% of total revenue from operations for the period ended December 31, 2023, Fiscals 2023, 2022, and 2021 respectively, as per their Restated Consolidated Financial Statements. Their TMT Bar is sold under the brand 'Vraj' TMT Bars. Their diversified product range has resulted in a diversified product mix, which has reduced their dependency on a particular product and de-risked their revenue streams. The following table provides certain information in relation to the revenue obtained from their products for the periods indicated:

Particulars	December 31, 2023		Fiscal 2023		Fiscal 2022		Fiscal 2021	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%
TMT Bar	913.23	30.31%	1,799.51	34.90%	1,009.77	24.39%	447.01	15.38%
Sponge Iron	1,584.43	52.58%	2,691.28	52.19%	2,413.95	58.30%	1,511.89	52.01%
MS Billets	421.58	13.99%	511.93	9.93%	522.49	12.62%	843.53	29.02%
Sub Total	2,919.24	96.88%	5,002.72	97.09%	3,946.21	95.49%	2,802.43	96.40%
Others By Products								
Iron Ore Fines	47.73	1.58%	67.11	1.30%	119.66	2.89%	69.68	2.40%
Dolochar	14.58	0.48%	19.61	0.38%	14.23	0.34%	14.34	0.49%
Slag	0.69	0.02%	0.99	0.02%	0.59	0.01%	0.54	0.02%
Dedusting Dust	1.17	0.04%	1.13	0.02%	1.30	0.03%	1.39	0.05%
Waste and Scrap	1.47	0.05%	3.42	0.07%	4.41	0.11%	2.43	0.08%
Trading in Raw Material Coal	6.35	0.21%	17.43	0.34%	-	0.00%	-	0.00%
Iron Ore Pellet	17.44	0.58%	40.49	0.79%	36.39	0.88%	-	0.00%
Pig Iron	3.41	0.11%	3.78	0.07%	16.59	0.40%	16.17	0.56%
Silico Manganese	0.11	0.00%	-	0.00%	0.99	0.02%	-	0.00%
Other miscellaneous	1.03	0.03%	0.03	0.00%	0.06	0.00%	0.08	0.00%
Sub Total	93.97	3.12%	153.99	2.99%	194.22	4.69%	104.63	3.60%
Total	3,013.21	100%	5,156.71	100.00%	4,140.43	100.00%	2,907.06	100.00%

Key Strategies:

➤ **Expansion of manufacturing facilities**

Their current manufacturing facilities comprise two plants, one at Raipur spread across 19.27 acres and the other at Bilaspur spread around 33.66 acres. Their current manufacturing set-up consists of Sponge Iron with 120,000 TPA, MS Billets with 57,600 TPA, TMT Bars with 54,000 TPA, and their captive power plant with 5 MW. The Company is proposing to expand these capacities by adding capacity of Sponge Iron in Bilaspur with 115,500 TPA, MS Billets with 153,000 TPA, and captive power plant with 15 MW, respectively, as their capacity utilization has been increasing steadily over the past three fiscals. Hence, they believe expanding their capacities will enable them to cater to the evolving and increasing demand of the steel industry, serve their customers, and scale their business. By adding further production capacities, they intend to leverage their strong execution capabilities in a capital-efficient manner to maintain and improve their return ratios and drive sales growth through penetrating deeper in their established regional markets. Hence, they will be able to better cater to the increased demands of their customers and gain additional cost efficiencies through economies of scale and better cost controls, leading to improving their presence across the steel value chain. In addition, they believe their expansion plans and strategy will allow them to meet the anticipated increase in steel demand in the future, enabling them to supply growing markets more efficiently and drive profitability.

➤ **Reduce Debt Levels and improve Debt to Equity Ratio**

As on December 31, 2023, their total debt is ₹ 492.99 million as per financial indebtedness statement. This also includes loans obtained from the banks for the ongoing expansion project at Bilaspur Plant amounting to ₹ 328.50 million. Further, as on June 3, 2024, their debt for the ongoing expansion project at Bilaspur Plant is ₹ 700.00 million as certified vide certificate dated June 4, 2024, by M/s. Amitabh Agrawal & Co., Chartered Accountants. They intend to repay all the loans obtained for this expansion project from the Net Proceeds of the Issue and hence this would result in their debt being reduced substantially. Reducing their debt would ensure a strong, profitable, and robust balance sheet which would lead to wealth creation for their shareholders in the long term.

➤ **Strengthen their customer base by growing existing customer business and acquiring new customers**

Their growth is the result of the rise in their share of business with existing customers, acquiring new customers, and their ability to respond to emerging industry trends towards steel and iron industries. They intend to be a cost-efficient steel manufacturer and penetrate deeper in their regional market to capture a higher share of their existing markets, resulting in higher margins due to lower transportation costs of supplying to their local customers and better logistics management. They intend to strengthen their relationships with their existing customers and explore opportunities to grow by expanding the production capacities in the array of products that they offer to their customers. They have demonstrated the ability to grow, adapt, and integrate in response to their customers' needs. They intend to leverage their relationships with existing customers to increase their wallet share and repeat business with them as well as new business, and potentially become a key vendor for such customers for specific products.

➤ **Focus on import substitution and increasing exports.**

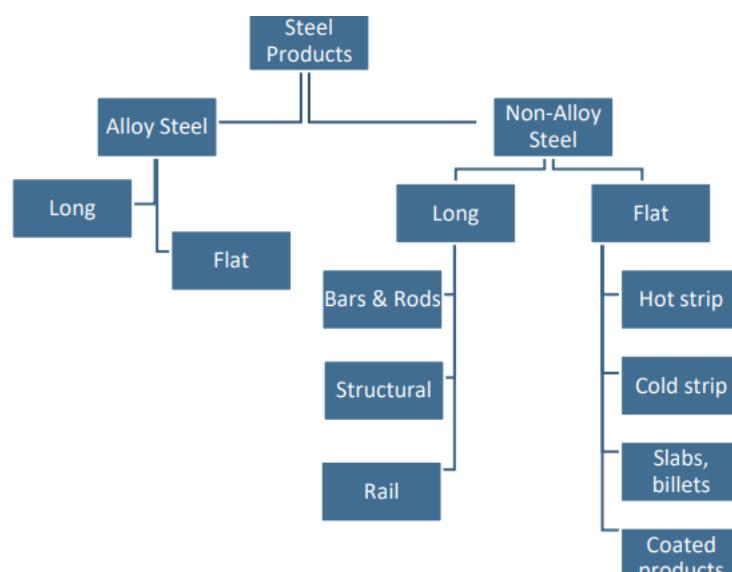
Their Company has a global footprint of exports to over twenty (20) countries. For the nine-month period ended December 31, 2023, December 31, 2022, and Fiscal 2023, 2022, and 2021, their revenue from exports amounted to ₹169.70 million, ₹195.67 million, ₹242.68 million, ₹192.95 million, and ₹128.43 million, accounting for 25.07%, 26.41%, 25.39%, 23.46%, and 20.56% of their revenue from operations, respectively. The rising adoption of the China-Plus-One strategy globally, wherein companies are minimizing their dependency on China and are diversifying their production and supply chains to other countries to minimize the risk of supply chain disruptions witnessed in China during the pandemic, is expected to result in larger export opportunities for the domestic chemical industry. Further, the changing regulatory and policy landscape in China has also prompted global companies to diversify supply risks. Indian manufacturers are expected to be key beneficiaries of this as very few countries other than India have the requisite scale, skilled labor availability, government support, etc., to cater to the large-scale requirements. Further, as global companies look to enhance supply chain resilience by diversifying manufacturing into other countries, India is expected to be an attractive option owing to its strategic location, large domestic market, and skilled manpower.

➤ **Industry Snapshot:**

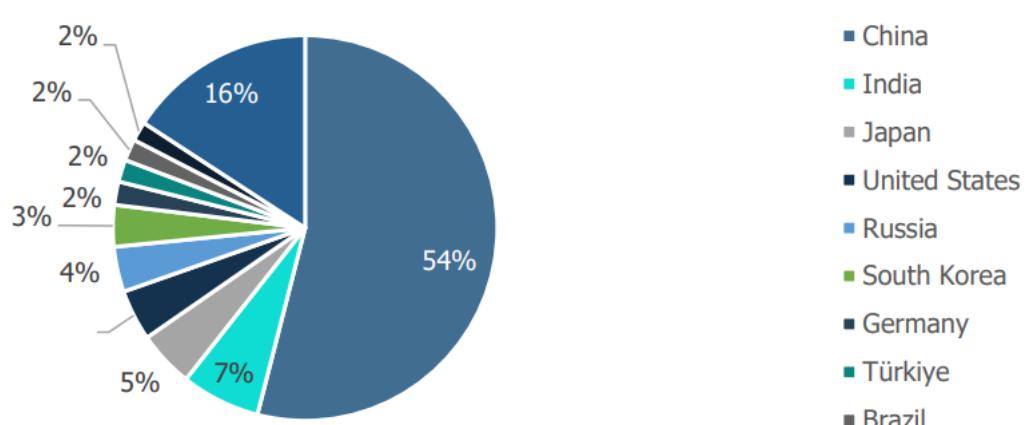
Overview of the Global Steel Industry

Steel is a paramount material in the fields of construction and engineering. It has widespread applications in industries such as automotive, construction, consumer goods, infrastructure, mechanical & medical equipment, packaging, and utensils, among others. Its popularity stems from its abundant availability, cost-effectiveness, exceptional strength and durability, ductility, and recyclability. According to the World Steel Association, there are over 3,500 different grades of steel produced worldwide, each possessing unique physical, chemical, and environmental properties to suit various applications.

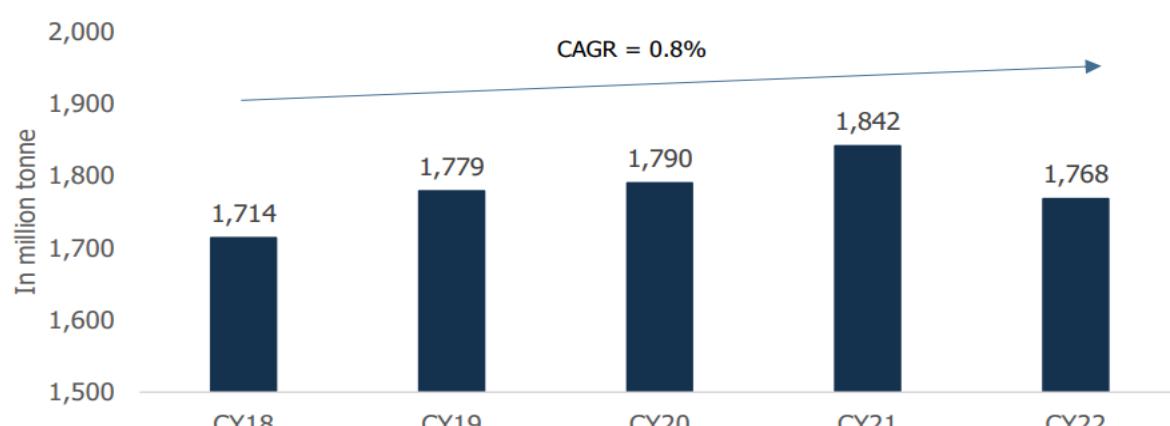
Types of Steel Products



Steel Production Geographical Region in CY22- 1,885 MT



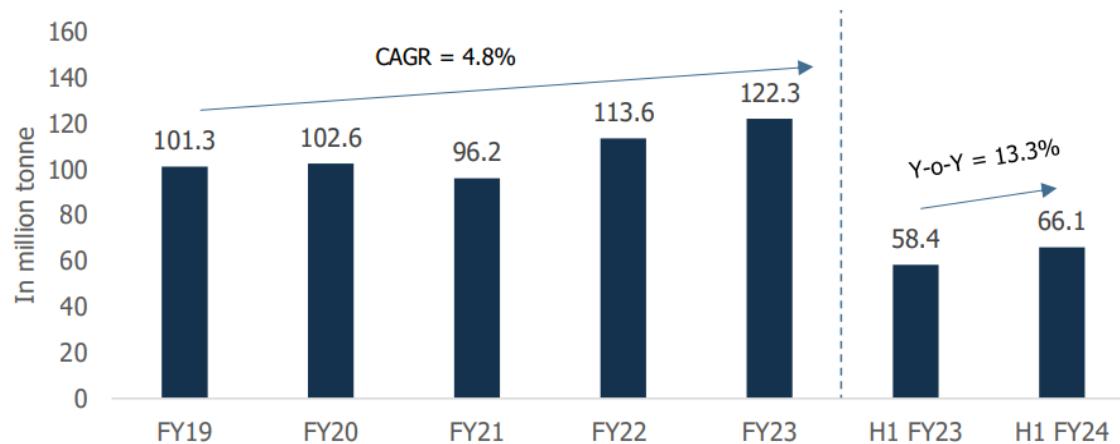
Global Steel Demand



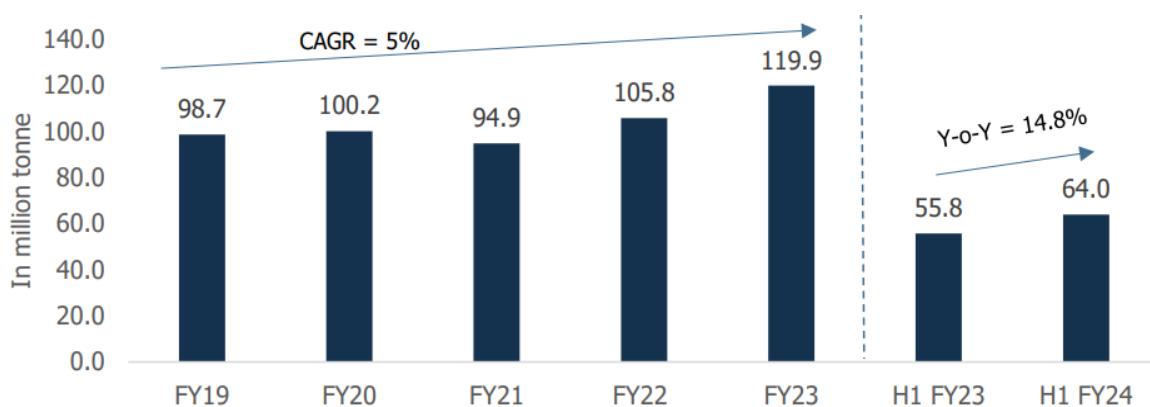
Overview of the Indian Steel Industry

India is the second-largest steel producer in the world with an installed capacity of 161.3 MT in FY23. It is also the second-largest consumer of finished steel with a consumption of 120 MT in FY23. The Indian steel sector growth over the years has been attributed to the domestic availability of raw materials such as iron ore and cost-effective labour. Also, the industry has benefitted from domestic demands in sectors such as construction, real estate, and automobiles. Whereas the vast coastline has enabled exports and imports, making India one of the leading countries in the global steel industry. Further, the per capita finished steel consumption in India was 81.1 kg in CY22, significantly lower than the world average of 222 kg per capita. The National Steel Policy 2017 envisages that per capita finished steel consumption will increase to 158-160 kg by FY31. In addition, steel has an output multiplier effect of 1.4x on GDP and an employment multiplier effect of 6.8x in India. Thus, the steel industry has significant domestic potential and is expected to play a key role in the future economic growth of the country.

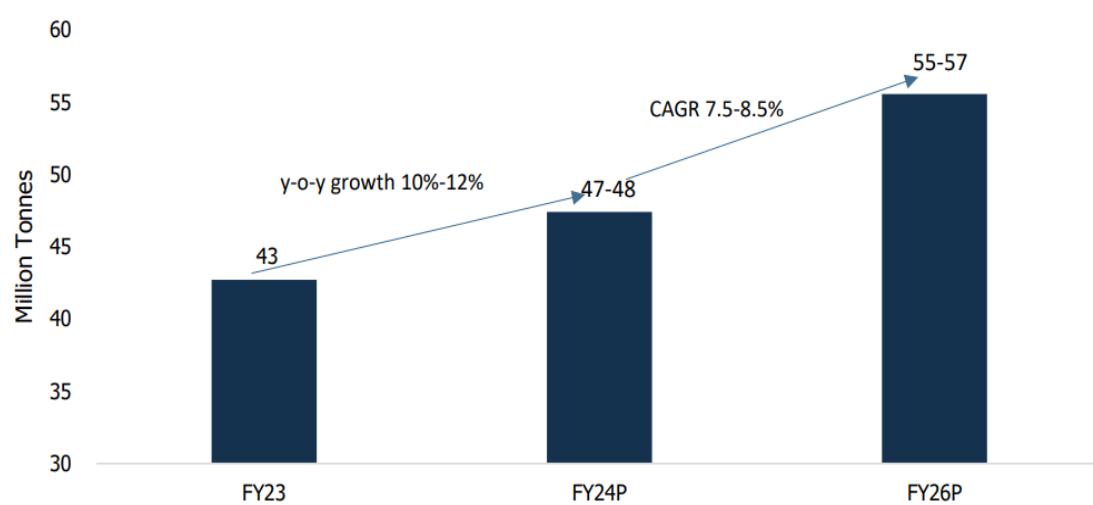
India's Finished Steel Production



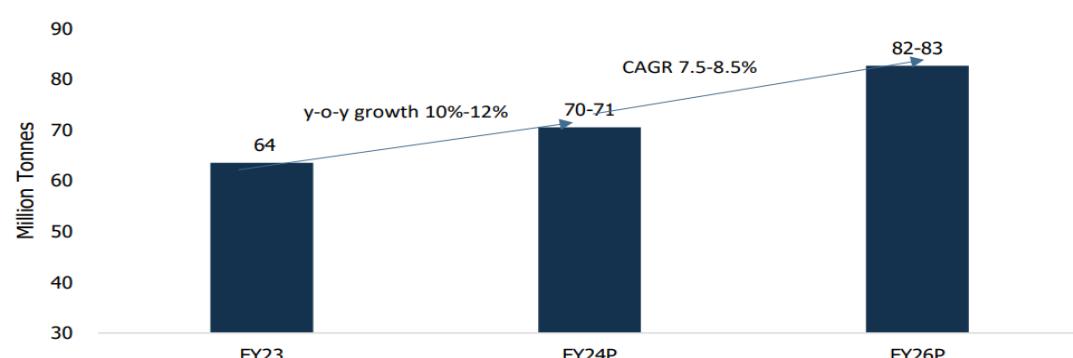
India's Finished Steel Consumption



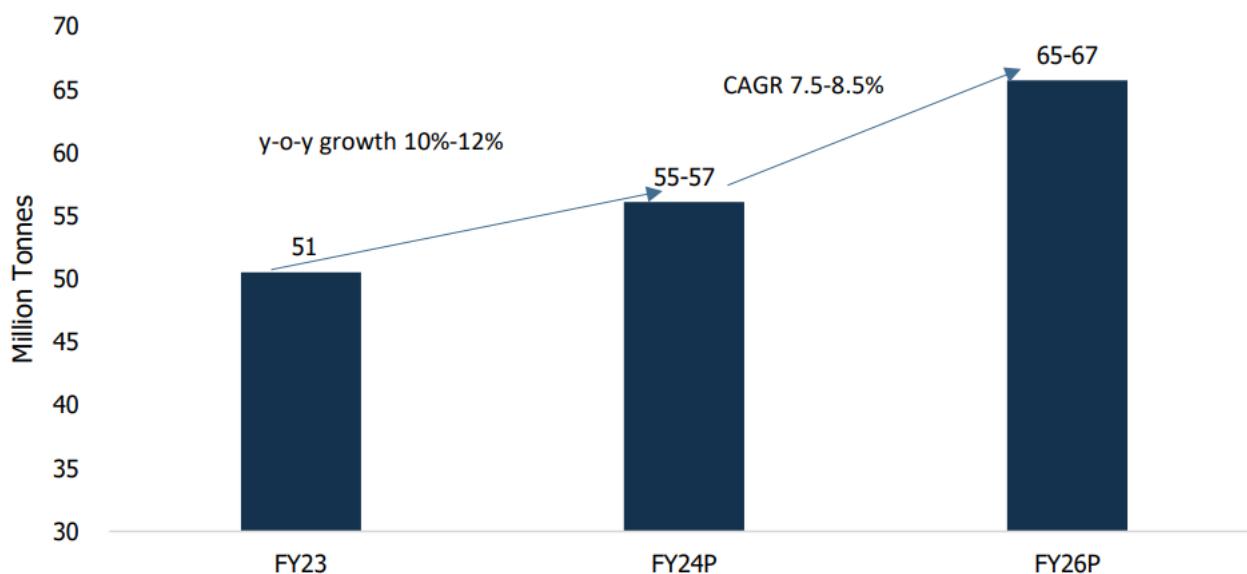
Sponge Iron Consumption (FY23-FY26P)



Billets Consumption (FY23-FY26P)



TMT Bars & Rods Consumption (FY23-FY26P)



Indian Crude Steel Production by Technology

There are three types of technologies, namely oxygen route, electric arc furnace, and induction furnaces, used for the production of crude steel in India. The oxygen route, also known as basic oxygen furnace, is a blast furnace that turns carbon-rich hot metal or pig iron into steel. It is the preferred technology for the production of crude steel. Oxygen route-based crude steel production has grown at a CAGR of 4.4% between FY19 and FY23 to reach 58.8 MT in FY23 and accounted for 46.2% of the total crude steel produced in FY23. Electric Arc Furnace (EAF) is a steel-making furnace, in which steel scrap is heated and melted by heat of electric arcs striking between the furnace electrodes and the metal bath. Electric Arc Furnace (EAF) accounted for 22.2% of total crude steel produced in FY23. Crude steel is produced by using electrical current to melt scrap steel, direct reduced iron, and/or pig iron, to produce molten steel. However, electric arc furnace-based crude steel production has de-grown from 28.5 MT in FY19 to 28.2 MT in FY23. While induction furnaces convert steel scrap and sponge iron into liquid steel by induction heating. This further gets processed into billets, blooms, ingots, etc. The induction furnace-based crude steel production has grown at a CAGR of 5.1% between FY19 and FY23 to reach 40.2 MT in FY23 and accounted for 31.6% of the total crude steel produced in FY23.

Accounting Ratios

Particulars	December 31, 2023	Fiscal 2023	Fiscal 2022	Fiscal 2021
Revenue from Operations	3013.21	5156.71	4140.43	2907.06
EBITDA	651.04	813.14	496.61	291.00
EBITDA Margin (%)	21.61%	15.77%	11.99%	10.01%
Restated profit for the period / year	445.80	539.97	287.04	109.85
Restated profit for the period / year Margin (%)	14.79%	10.47%	6.93%	3.78%
Return on Equity ("RoE") (%)	23.78%	38.32%	32.94%	19.01%
Return on Capital Employed ("RoCE") (%)	25.34%	44.98%	32.14%	20.68%
Net Debt / EBITDA Ratio	0.75	0.28	0.85	1.57

Comparison with listed entity

Name of the company	EPS (Basic) (₹)	RONW (%)	NAV (₹ per share)	EBITDA Margins	Revenue from Operations (₹ in Million)	Face Value per share	P/E	EV/EBITDA
Vraj Iron & Steel Limited	21.84	38.82%	285.00	15.77%	5,156.71	10	12.65*	9.09
Listed peers								
Sarda Energy and Minerals Limited	169.94	17.71%	967.72	26.35%	42,119.00	1.00	15.80	9.06
Godawari Power and Ispat Limited	61.16	20.31%	277.09	21.50%	57,530.40	5.00	16.50	10.00
Shyam Metalics and Energy Limited	33.26	11.85%	280.79	11.85%	1,26,101.80	10.00	17.90	11.00

Note: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on May 31, 2024.

2) */** P/E and EPS of company is calculated on basis TTM, and post issue no. of equity shares issued.

Key Risk:

- Both of their existing manufacturing facilities are concentrated in a single region i.e. Raipur and Bilaspur, Chhattisgarh. Further their Expansion Project is also being implemented at Bilaspur, Chhattisgarh and hence they face geographical concentration related risks.
- 100% of their revenue is from sale of their steel products such as TMT Bars, MS Billets, Sponge Iron & others related items. Volatility in the demand and pricing in the iron and steel industry is common and is cyclical in nature. A decrease in steel prices may have a material adverse effect on their business, results of operations, prospects and financial condition.

- Total capital expenditure for the Expansion Project is ₹1,645 million and they have incurred ₹1,020 million till June 03, 2024. Company have not yet placed orders / made payment in relation to ₹625 million to be incurred for the Expansion Project. Any delay in placing the orders or inability of the vendors to provide the plant and machineries or complete the civil and related works etc. in a timely manner, or at all, the same may result in time and cost over-runs.
- If they are unable to successfully implement their Expansion Project, including Captive Power Plant, their results of operations and financial condition could be adversely affected.
- Company do not have long-term agreements with their customers, and they derive a significant portion of their revenues from their top 10 (ten) customers. The loss of, or a significant reduction in the revenues they receive from, one or more of these customers which would have a material adverse effect on their business, results of operations and financial condition.
- Company Directors and their Promoter, namely, Gopal Sponge and Power Private Limited have provided personal and corporate guarantees to certain loan facilities availed by them, which if revoked may require alternative arrangements guarantees, repayments of amounts due or termination of the facilities. Total sanctioned and outstanding amount of such loans are ₹ 1,651.33 million and ₹ 492.99 million.

Valuation:

Vraj Iron and Steel Ltd. is an integrated and well-established manufacturing setup with diversified product mix with strong focus on value added products and manufacturing plants are strategically located, supported by robust architecture, leading to cost efficiencies and a stable supply chain along with Experienced Promoters, Board and management team.

At the upper price band company is valuing at P/E of 12.65x, EV/EBITDA 9.09x with a market cap of ₹ 6,827 million post issue of equity shares and return on net worth of 38.82%.

We believe that the IPO is fairly priced and recommend a “**Subscribe- Long Term**” rating to the IPO.

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Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps, Mid-Caps & Small Caps as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0%-15%	Below 0%
Mid Caps (101st-250th company)	>20%	0%-20%	Below 0%
Small caps (251st company onwards)	>25%	0%-25%	Below 0%

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