

## Vardhman Special Steels Limited

COMPANY SNAPSHOT					
CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs110	Rs151	Rs225	105%	BUY	Rs4

### About the Company:

Vardhman Special Steels Limited (VSSL) was demerged from Vardhman Textiles into a listed Company Vardhman Special Steels Ltd. VSSL, headquartered in Ludhiana, Punjab, is one of India's leading producers of special steels and caters to diverse requirements of the Engineering, Automotive, Tractor, Bearing and Allied Industries. The company also caters to the steel requirements of customers for forging applications in international markets of Thailand, Taiwan, Turkey, Russia and Spain to mention a few. With leveraging state-of-the-art manufacturing facilities and vast experience in the domain, the company has an extensive client list which includes globally renowned corporations such as Toyota, Hero Moto Corp, Caterpillar, Hino Motors, Maruti, Bajaj and Hyundai. The company has Mr. Sachit Jain as Chairman and Managing Director.

### Results Declared:

- The net sales clocked growth of 42.7% at Rs2955mn as against Rs2071mn in the same quarter last year
- The Ebitda margins stood at 5.2% down by 180bps mainly led by increase in raw material cost.
- The net profit was up by 21.3% at Rs71mn as compared to Rs58mn in the same quarter last year.
- The EPS for the quarter stands at Rs1.98

### Conference Call Highlights:

- The drop in the Ebitda margins is attributed to the increase in the raw material cost, electrode prices and rupee depreciation. The power cost is the highest in Q2 for the company as there is no rebate received by the Punjab Govt. This also led to increased expenses and thereby impacted the Ebitda margins.
- Interest costs have gone up mainly due to the increase in the inventory levels and capital employed
- The planned plant shut down has been postponed to April next year as the company has not been able to build up on sufficient inventory catering to the increased buoyancy in the industry currently.
- The expansions are on track although delayed. The company is working on improving the product mix.
- There are two price hikes in the industry, April and October. So October 1 the company has taken a price hike.
- The company re-iterates its target of 4500-6000Ebitda/tonne for Q3 & Q4 with a better H2 expected as compared to H1 performance.

### Financials:

Result Update (Q2FY2019)									
Q2FY19 Result (Rs mn)	Sept-18	Sept-17	y-o-y	June-18	q-o-q	H1FY19	H1FY18	y-o-y	FY19E
Total Income	2,955	2,071	42.7%	2,695	9.6%	5,650	4,281	32.0%	10,356
EBITDA	153	145	5.5%	178	(14.1%)	332	258	28.4%	777
Other Income	12	13	(8.2%)	18	(30.9%)	30	28	6.4%	38
Interest	56	52	9.1%	49	15.6%	105	109	(3.4%)	232
Depreciation	60	49	23.0%	57	5.7%	116	95	22.7%	216
Exceptional Items	0	0	-	0	-	0	0	-	0
Tax	(21)	0	-	0	-	(21)	0	-	(3)
Net Profit	71	58	21.3%	91	(22.1%)	161	83	95.0%	369

### Outlook and Recommendations:

The company has reported tepid results for the quarter majorly with the margins impacted by increase in raw material costs. However, the company expects that the H2 performance should be back on track and the chalked targets should be achieved. We maintain Buy on the stock with a target price of Rs225 over a 12 months horizon.

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Registered Office Address:  
Progressive Share Brokers Pvt. Ltd.  
122-124, Laxmi Plaza, Laxmi Indl Estate,  
New Link Rd, Andheri West,  
Mumbai-400053;  
www.progressiveshares.com  
Contact No.:022-40777500.

Compliance Officer:  
Mr. Shyam Agrawal,  
Email Id: compliance@progressiveshares.com,  
Contact No.:022-40777500.