

Vardhman Special Steels Limited

COMPANY SNAPSHOT					
CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs84	Rs151	Rs140	68%	BUY	Rs3.0

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 for the quarter clocked growth of 43.1% to Rs3125mn as compared to Rs2184mn in the same quarter last year
- The Ebitda margins stood at 7% for the quarter
- The net profit dropped by 34.9% to Rs62mn from Rs95mn in the comparative quarter
- The EPS stood at Rs1.7

Analyst Meet Update: Attended: 11/2/2019:

- The key industry for the company is Automobiles. If Auto is good then the company's performance by default is good. VSSL realizes the same and hence has derisking plans like high margins products, enter into new geographies, change in customer mix and expand into new industry applications. Although all of this is expected to happen over time.
- Sunflag, Mukand are the major peers for the company.
- The company has indicated of a shutdown in April for ~40 days. The inventory pile up has been done for the same which is also one of the reasons for the increased D:E ratio. Overall it will take atleast 2 years for the company to get its D:E ratio below 1.
- FY19 Sales should cross the Rs1000cr mark for the company. 18% ROCE is the target that it is working for.
- On the RM front, the company has indicated of it being a price taker, so nothing much can be done from company parse. The maximum it can stretch is 100-120 days of inventory.
- The capex is ~Rs200cr which will be funded through QIP and incremental debt
- The company is comfortable with Ebitda/tonne in the range of Rs4500-6000/tonne per year
- The company has started paying deferred taxes and should start paying current taxes from FY21-22. After that is where the management thinks of dividend coming into picture.
- VSSL has been looking for a strategic partner both for technical as well as financial support
- The receivables are expected to be in the same range of 60-65 days going ahead as well.
- EV would be a threat to the company as most of its steel goes into moving parts which will be constricted in EVs. The govt. target is of 2030 but it seems that the doable target extends to 2040-50.
- All the positions are hedged so the forex fluctuations are all of MTM and standard exports booked.
- The management has indicated of rebalancing its portfolio towards higher margin products
- In the Auto space, there has been a slowdown seen with a sudden drop from October onwards. However, the management takes it as a short term phenomenon of 2-3 months.
- The focus on exports is limited currently as the inland transport cost from where the current plant is situated is very high and non-conducive (~Rs3000 per tonne additional). The expansion or new plant that the company would have next would be planned taking this hurdle into consideration. The company has presence in Thailand with the next focus to be Japan.
- Passenger vehicles segment is the next biggest opportunity eyed by the company
- Some part of the incentives due from the govt. are expected in 4QFY19

Financials:

Result Update (Q3FY2019)									
Q3FY19 Result (Rs mn)	Dec-18	Dec-17	y-o-y	Sept-18	q-o-q	9MFY19	9MFY18	y-o-y	FY19E
Total Income	3,125	2,184	43.1%	2,955	5.8%	8,775	6,465	35.7%	11,452
EBITDA	220	189	16.3%	153	43.5%	572	447	27.9%	790
Other Income	4	10	(59.2%)	12	(67.5%)	13	38	(65.1%)	38
Interest	65	46	41.3%	56	16.0%	171	155	9.9%	232
Depreciation	62	57	8.6%	60	3.7%	178	152	17.4%	242
Exceptional Items	-	-	-	-	-	-	-	-	-
Tax	34	-	-	(21)	-	13	-	-	53
Net Profit	62	95	(34.9%)	70.7	(12.2%)	224	178	25.5%	301

Outlook and Recommendations:

There has been pressure seen at the operational levels majorly due to the increase in the raw material costs. Margin impact was due to slowdown in the Auto space. Although the company has indicated a short term bearable stress for the sector of its interest, we would like to take the cautious approach and tone down our target to Rs140 from the earlier Rs225 for a 12 month horizon keeping in mind the headwinds to be seen ahead at the macro level.

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