

CMP: Rs 86

Outlook: Positive

Stock Info

BSE	534392
NSE	VSSL
Bloomberg	VSSL IN
Reuters	VARM.NS
Sector	Steel
Face Value (Rs)	10
Equity Capital (Rs Cr)	40.39
Mkt Cap (Rs Cr)	338
52w H/L (Rs)	87 / 35
Average volume ('000)	10

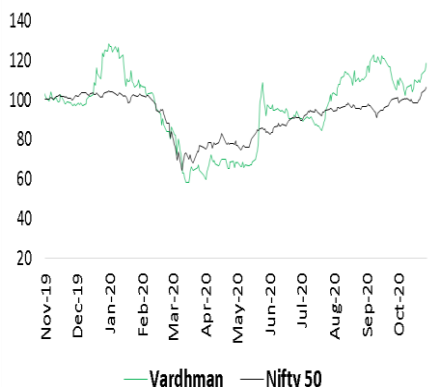
Shareholding Pattern %

(As on September, 2020)

Promoters	59.3
FII	0.0
DII	9.2
Public & Others	31.5

Stock Performance (%)

	3m	6m	12m
VSSL	21.4	84.4	21.0
Nifty 50	12.1	37.9	6.4



Vardhman Special steel (VSSL) has reported good set of numbers during Q2FY21 with strong volume growth. Volume recovery and growth led to normalcy in operational performance. Sales volume during the quarter grew by 32% YoY led by strong demand in the domestic auto sector. Revenue for the quarter increased by 17% YoY to Rs 247 cr. EBITDA for the quarter grew sharply to Rs 21 cr vs. Rs 3 cr. EBITDA margin for the quarter stood at 8.5% vs. 1.2% YoY, largely due to lower raw material cost. Gross margin of the company increased from 26% to 40% YoY. Company has returned back into profit of Rs 9 cr vs. loss of Rs 13 cr in previous quarter and Rs 3 cr loss in Q2FY20.

Conall Highlights:

- VSSL management focusing on higher EBITDA pattern by a way of reducing operating costs and a higher production. The EBITDA pattern is finally near the upper range of Rs 4500-6000/tonne, which was specified in the earlier guidance.
- Some of the items in other income were not sustainable this quarter, Rs 2 crore of the other income came from the Punjab State Steel Corporation on part of the earlier pending incentives.
- The impact of covid on demand of steel in the company seems to be normalizing. There has been a pent up demand for autos and due to covid, there has been a higher demand for cars & motorcycles, which has mainly led to the higher demand of steel. In the 1st half, demand for commercial vehicles was lower but that has started to pick up now.
- There has been a good production of kharip and rabi crops due to which the demand for tractors has also increased leading to a higher demand of steel. Good production is expected in the 2nd half too.
- Capacity utilization of the company is back to pre covid levels. In fact it is much better than last year's capacity utilization.
- The management stated that the stability of production is also increasing at a higher level.
- In terms of ROCE, for this quarter has reached a figure of 16%, excluding the fixed deposit of Rs 50 cr, which is the amount put in by Aichi and the income on that.
- The management has stated that in the future it is targeting at least Rs 5000/tonne of EBITDA, which should be it's normal profitability. The management expects this number to sustain for 2-3 years.
- The company hadn't cut the salary of any of it's employees or managers during the COVID crisis. Moreover, the company has also announced an increment in salary for all it's staff from January.

Valuation & View

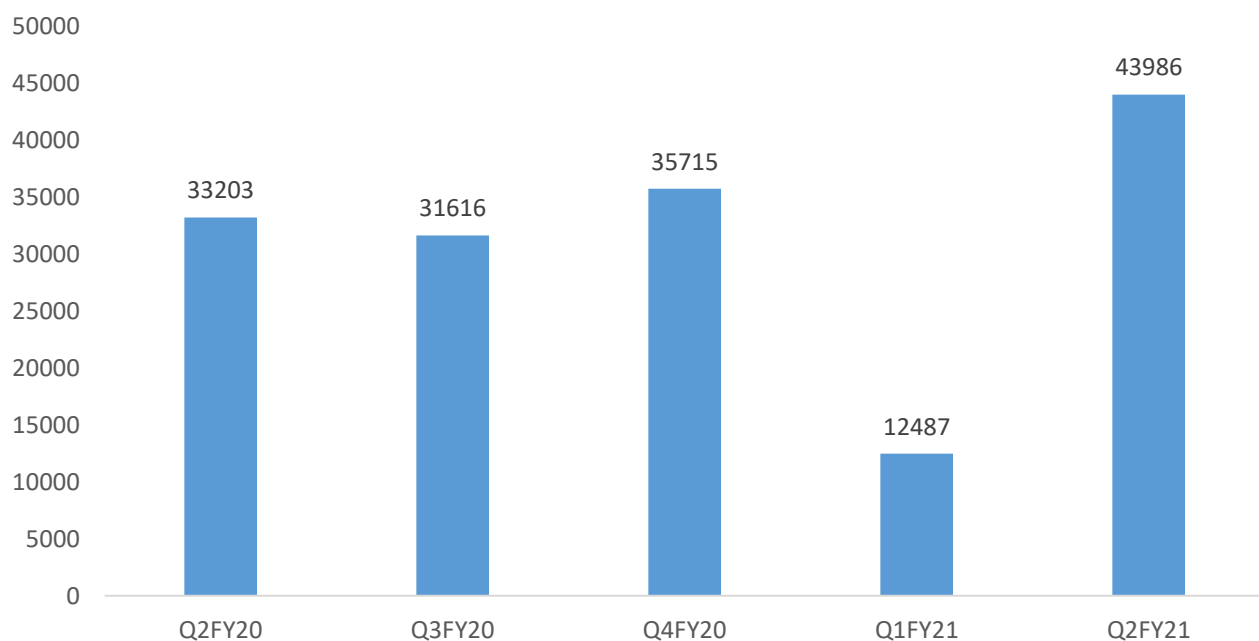
VSSL's Q2FY21 performance was encouraging on most fronts. With pick up in auto sales, company's products demand has increased which resulted into highest ever quarterly volume of 43,896 tonnes. Management has stated that, with the company's plan to increase the production and to improve the profitability, further improvement will be seen in coming quarter. Near term outlook of the company seem positive as we expect the demand to pick-up as the pent up demand starts building pressure on consumption cycle.

Quarterly (Standalone) (Rs Cr)

Quarterly (in Cr)	Q2FY21	Q2FY20	YoY	Q1FY21	QoQ
Sales	247	212	17%	68	264%
Material Cost	149	157	-5%	44	242%
Employee cost	13	11	14%	11	18%
Other Expenses	64	41	55%	23	179%
Total Expenses	226	209	8%	77	192%
EBITDA	21	3	709%	-9	NA
EBITDA Margin (%)	8.5	1.2	730 bps	-14	NA
Other Income	6	5	4%	2	216%
Depreciation	7	6	7%	7	2%
Finance cost	5	7	-26%	5	-6%
PBT	15	-5	NA	-20	NA
Tax	6	-2	NA	-7	NA
PAT	9	-3	NA	-13	NA
PAT Margin (%)	3.6	-1.5	NA	-18.8	NA

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Sales Volumes (tonnes)



Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Standalone Profit & Loss Account (Rs Cr)	FY15	FY16	FY17	FY18	FY19	FY20
Revenue From Operations	733.1	724.0	751.8	873.4	1120.8	846.2
<i>Less: Excise/Sevice Tax/Other Levies</i>	72.6	72.8	79.3	18.9	0.0	0.0
Revenue From Operations [Net]	660.5	651.2	672.4	854.5	1078.1	846.2
Other Operating Revenues	1.1	1.5	1.4	4.5	0.0	0.0
Total Operating Revenues	661.6	652.7	673.8	859.0	1078.1	846.2
Other Income	7.4	2.7	5.6	6.1	1.9	9.4
Total Revenue	669.0	655.4	679.5	865.1	1122.6	855.6
Cost Of Materials Consumed	408.9	325.1	364.2	488.9	799.3	389.3
Purchase Of Stock-In Trade	0.0	0.0	0.0	0.0	34.9	4.3
Changes In Inventories	3.7	29.9	-11.7	-19.2	-162.4	144.4
Employee Benefit Expenses	28.4	33.7	39.8	46.7	51.3	48.1
Finance Costs	20.2	23.0	28.3	21.4	23.7	25.7
Depreciation And Amortisation Expenses	13.9	17.0	18.1	21.5	23.9	25.7
Other Expenses	209.1	222.5	221.6	280.6	329.9	220.4
Total Expenses	684.1	651.2	660.3	840.0	1100.5	857.9
Profit/Loss Before Tax	-15.1	4.2	19.1	25.1	22.1	-2.3
Total Tax Expenses	0.0	0.0	0.0	0.1	-0.1	-5.7
Profit/Loss For The Period	-15.1	4.2	19.1	25.0	22.2	3.3
<i>Profit Margin (%)</i>	-2.3%	0.6%	2.8%	2.9%	2.1%	0.4%
Basic EPS (Rs.)	-8.15	2.27	10.31	7.91	6.22	0.89
Diluted EPS (Rs.)	-8.15	2.27	10.31	7.88	6.19	0.89

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Standalone Balance Sheet	FY15	FY16	FY17	FY18	FY19	FY20
Equities And Liabilities						
Equity Share Capital	18.6	18.6	18.6	35.7	35.8	40.4
Reserves and Surplus	151.2	160.6	179.5	303.6	326.2	373.2
Total Shareholders Funds	169.7	179.2	198.1	339.3	362.0	413.6
Non-Current Liabilities						
Long Term Borrowings	104.4	129.0	115.5	101.5	135.1	107.8
Other Long Term Liabilities	0.2	0.1	0.2	0.0	0.4	1.9
Long Term Provisions	0.5	0.6	0.8	0.9	1.0	1.2
Total Non-Current Liabilities	105.1	129.8	116.5	102.3	136.5	111.0
Current Liabilities						
Short Term Borrowings	239.1	166.8	138.7	118.5	186.8	148.6
Trade Payables	51.6	41.0	34.9	60.6	163.5	61.7
Other Current Liabilities	48.4	96.4	124.3	55.3	40.0	34.4
Short Term Provisions	0.6	0.6	0.3	0.6	0.5	0.9
Total Current Liabilities	339.8	304.9	298.1	235.0	390.8	245.7
Total Capital And Liabilities	614.6	613.8	612.7	676.7	889.3	770.2
Assets						
Non-Current Assets						
Tangible Assets	230.0	250.3	264.2	249.3	279.5	308.3
Intangible Assets	0.0	0.4	0.4	0.3	0.3	0.3
Capital Work-In-Progress	20.8	2.1	1.1	7.0	32.6	12.3
Fixed Assets	250.8	252.7	265.7	256.6	312.4	322.4
Non-Current Investments	14.1	1.4	0.7	0.0	0.0	51.4
Deferred Tax Assets [Net]	0.0	0.0	0.0	9.7	16.4	22.9
Long Term Loans And Advances	9.9	0.3	0.5	1.4	0.7	0.8
Other Non-Current Assets	0.0	12.2	10.8	20.9	14.1	11.8
Total Non-Current Assets	274.7	266.6	277.6	288.6	343.5	409.4
Current Assets						
Current Investments	0.0	13.1	0.3	8.2	0.0	5.0
Inventories	132.9	106.9	117.8	158.6	313.2	151.8
Trade Receivables	179.0	194.2	189.0	194.6	187.3	179.9
Cash And Cash Equivalent	8.7	3.8	6.0	7.5	0.3	2.3
Short Term Loans And Advances	19.4	0.5	0.7	1.0	1.0	12.7
Other Current Assets	0.0	28.8	21.3	18.3	44.0	9.2
Total Current Assets	339.9	347.2	335.1	388.1	545.8	360.9
Total Assets	614.6	613.8	612.7	676.7	889.3	770.2

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Cash-Flow Statement

Standalone Cash Flow Statement	FY15	FY16	FY17	FY18	FY19	FY20
Net Profit Before Tax	-15.1	4.2	19.1	25.1	22.1	-2.3
Net Cash From Operating Activities	-32.8	46.4	68.0	11.2	-18.9	135.4
Net Cash (used in)/from Investing Activities	-3.7	-15.8	-15.7	-16.3	-70.1	-88.2
Net Cash (used in)/from Financing Activities	31.2	-35.5	-50.2	6.6	81.8	-45.2
Net (decrease)/increase In Cash & Equivalents	-5.3	-4.9	2.2	1.5	-7.2	2.0
Opening Cash & Cash Equivalents	13.9	8.7	3.8	6.0	7.5	0.3
Closing Cash & Cash Equivalents	8.7	3.8	6.0	7.5	0.3	2.3

Source: Arian Research, Company Filings, Ace Equity, Bloomberg

Arihant Research Desk

Email: research@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880