

Tough times ahead; a washed out quarter when the pandemic is here to stay

CMP: Rs 61

Rating: Unrated

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)	257
52w H/L (Rs)	89 / 35

Shareholding Pattern %

(As on March, 2020)

Promoters	59.2
FII	0.0
DII	9.2
Public & Others	31.6

Stock Performance (%)

	3m	6m	12m
VSSL	-33.8	-34.8	-52.1
Nifty 50	-21.2	-18.9	-18.7

Vardhman Special Steels Limited was formed way back in 1973 and is in the business of making specialty steels to be used majorly by auto & ancillary makers both in domestic and overseas markets. The company is among the leading producers of special and alloy steels, catering to diverse requirements of hot rolled bars for engineering, automotive, tractor, bearing and allied industries. It started with an initial capacity of 50,000 metric tonnes of special & alloy steels. As of FY20, the company had a steel melting shop of 2 lakh tonnes annual capacity, rolling mill of 2 lakh tonnes annual capacity and bright bars of 36,000 tonnes annual capacity. Recently, the company has partnered with Aichi Steel Corporation of Japan, a leading specialty steel alloys manufacturer which has invested Rs 50 Cr for 11.46% of stake in the company and is working alongside Vardhman's management to produce enhanced quality products with their technological expertise in the industry.

Business Update for Q4 & FY20:

VSSL reported Q4FY20 results with better than expected results. The sales stood at Rs 206 Cr (up 9.4% QoQ), EBITDA stood at Rs 18.1 Cr (up 131% QoQ) and Profits at Rs 5.6 Cr.

For full year FY20, the sales stood at Rs 846 Cr (down 24.5% against Rs 1,120 Cr in FY19), EBITDA stood at Rs 39.7 Cr in Q4FY20 against 25.2 Cr in Q4FY19, and Loss as expected came at Rs 2.3 Cr.

Marginal glimpses of recovery in auto sector: VSSL did better than expected in the Q4FY20 quarter, with the reduction of sizeable inventories it had. Since, VSSL has almost its entire revenue stream from automotive sector, hence a recovery that was seen in auto sales numbers bottoming out, did not fruition as the Covid-19 pandemic arrived.

Improvement in Debts, Payables, Receivables and Inventories: VSSL reduced both its long & short term debts by more than 20% during FY20. The piled up inventory for continuous supply during planned shut-down over last year, reduced to less than half, its payable cycle improved along with marginal improvement in receivables.

Massive impact of Covid-19: VSSL will find itself under tremendous stress to survive, sustain and revive due to coronavirus. The company has already guided of major losses in Q1FY21 owing to the lockdown. Despite restarting its operations since 22nd April 2020 in a phase wise manner, the company is far behind the sales volume despatches of pre-covid era. Due to the demand picking up gradually and not a v-shaped recovery, several OEMs have revised/deferred/delayed the lifting of orders.

Valuation & View

Vardhman Special Steels Limited has a sizeable amount of reserve (Rs +373 Cr) which will float the company through these dark times as the company has to bear around Rs +40 Cr of fixed cost per quarter, no matter of the sales. Also, the near term outlook of auto sector remains grim as major economic losses, working from home culture shaping up, unemployment, holding of appraisals across the board, etc. will suppress any future urge of consumer sentiment propelling auto sales growth. However, as the economy unlocks gradually, we expect the demand pick-up in 2 wheeler and personal car segment will bounce back quickly. Hence, we remain bearish on the company's near term business outlook but do expect the auto sector to revive after almost 2 years of slowdown.

Concall Highlights

- The management felt relieved to have completed the planned upgradation of steel melting shop as well as start the operations of the new plant.
- Assessing that even without any sales for a whole year, VSSL would be able to survive, the company decided not to lay-off any employee or mandate a salary cut.
- EBITDA improved in the last quarter due to fall in raw material prices due to vanishing demand.
- The other income inflated as the company accounted interest income from FDR of around Rs 50 Cr received from Aichi Steel during the year.
- Sales by volume stood at 1,37,192 tonnes, a fall of 15% over FY19. In monetary terms, the sales have fallen by 24.5% over FY19.
- Fallen prices of steel have dragged down their EBITDA to Rs 49 Cr against Rs 69 Cr last year.
- Raw Material costs have also fallen significantly as the demand fell. The prices of electrodes have come down to Rs 150 per kg after being around Rs 700-800 per kg in FY19.
- The decrease in Inventories. The company cites last year's increased level of inventories were due to piling up finished goods for continuous supply to customers during the planned shut-down for upgradation.

Going Ahead Guidance:

- VSSL's management have clearly given guidance of a major loss in Q1FY21 citing lockdown and limited operations. Even as the economy reopened, the company said its capacity utilization will be below 50% in Q1FY21.
- As per the customers of VSSL, the demand for 2-wheelers and personal/small cars is increasing as the time passes by as people tend to avoid crowded public transportation services in India. This is encouraging for VSSL as the company's business is focussed to cater these segments.

Quarterly (Standalone) (Rs Cr)

Quarterly (in Cr)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Sales -	173.1	202.1	207.1	218.4	231.4	269.5	295.5	312.5	243.3	240.8	211.8	187.9	205.7
YOY Sales Growth %	10.5%	25.0%	22.4%	26.9%	33.7%	33.3%	42.7%	43.1%	5.1%	-10.7%	-28.3%	-39.9%	-15.5%
QoQ Sales Growth %		16.8%	2.4%	5.5%	5.9%	16.5%	9.6%	5.8%	-22.2%	-1.0%	-12.0%	-11.3%	9.4%
Expenses -	158.7	190.8	192.5	199.5	214.2	251.7	280.2	290.5	232.6	225.4	209.2	182.0	189.0
Raw Material	90.5	114.7	113.4	114.4	127.2	156.2	182.1	192.8	140.6	147.6	156.7	110.0	123.7
Material Cost %	52.3%	56.7%	54.8%	52.4%	55.0%	58.0%	61.6%	61.7%	57.8%	61.3%	74.0%	58.5%	65.5%
Employee Cost %	10.7	10.9	11.8	11.8	12.2	12.7	13.4	12.6	12.5	12.1	11.1	12.5	12.5
Employee Cost %	6.2%	5.4%	5.7%	5.4%	5.3%	4.7%	4.6%	4.0%	5.1%	5.0%	5.2%	6.7%	6.7%
Operating Profit	14.3	11.3	14.5	18.9	17.2	17.8	15.3	22.0	10.6	15.4	2.6	5.9	16.7
OPM %	8.3%	5.6%	7.0%	8.7%	7.4%	6.6%	5.2%	7.0%	4.4%	6.4%	1.2%	3.2%	3.2%
Other Income	3.2	1.5	1.3	1.0	2.3	1.8	1.2	0.4	0.5	0.7	5.4	1.9	1.5
Interest	8.3	5.7	5.2	4.6	5.9	4.9	5.6	6.5	6.6	8.1	6.5	6.0	5.1
Depreciation	4.5	4.6	4.9	5.7	6.3	5.7	6.0	6.2	6.1	6.1	6.3	6.7	6.6
EBITDA	17.5	12.8	15.9	19.9	19.5	19.6	16.6	22.4	11.2	16.0	8.0	7.9	18.1
EBITDA Margin (%)	10.1%	6.3%	7.7%	9.1%	8.4%	7.3%	5.6%	7.2%	4.6%	6.7%	3.8%	4.2%	8.8%
Profit before tax	4.7	2.5	5.8	9.5	7.3	9.1	4.9	9.6	-1.5	1.8	-4.9	-4.9	5.6
Tax %	0.0%	0.0%	0.0%	0.0%	0.8%	0.0%	-43.4%	35.6%	90.1%	37.0%	35.3%	137.3%	36.7%
Net Profit	4.7	2.5	5.8	9.5	7.2	9.1	7.1	6.2	-0.2	1.1	-3.2	1.8	3.6
Net Profit Margin(%)	2.7%	1.2%	2.8%	4.4%	3.1%	3.4%	2.4%	2.0%	-0.1%	0.5%	-1.5%	1.0%	1.7%
EPS in Rs	1.5	1.0	1.8	3.0	2.2	2.5	2.0	1.7	0.0	0.3	-0.9	0.5	0.9

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

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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: Arian 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 Equivalents	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
OtherCurrentAssets	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: Arianth 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

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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%

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