

Vardhman Specialty Steel Ltd

Benefiting from PLI and Scrappage Policies

Aichi Alliance icing on the cake



Kyon ki bhaiya, sabse bada rupaiya.

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BUY @ CMP INR 237
Target: INR 497 in 24 months
Upside Potential: 110%

Benefiting from PLI & Scrappage Policies. Aichi alliance icing on the cake

Vardhman Specialty Steels Ltd (VSSL), incorporated in 2010, is one of the leading producers of special steel in India. It has a production **capacity of 2,00,000 MTPA** (FY21 capacity utilization of 75%) in Ludhiana (Punjab) and supplies steel to engineering, automotive and allied industries.

Aichi Steel equity participation – shot in the arm for technical know-how and enhancing global market reach.

Toyota subsidiary, Aichi Steel Corp (Aichi) has an 11.4% equity participation along with technical assistance in specialty steel production. This will go a long way towards upgrading the quality of specialty steel to global standards and enhancing global market reach. Further as per the agreement, VSSL will add an **additional capacity of 80,000 MTPA** (capex of INR 250 cr through internal accruals) for EV and hybrid cars thereby becoming a part of Aichi's global supply chain. This will bolster VSSL's export revenue contribution to 25% over the next 4-5 years from the current 5%.

Tailwinds from China+1, PLI and Scrappage Policies to improve short to medium term revenue growth and profitability

China+1, PLI and Scrappage Policy have put could contribute to strong revenue growth and improving operating efficiency. We expect 13.4% volume CAGR to a 16.6% growth in revenue over the period FY21-24. Operating leverage and commencement of the new facility in FY23 should help EBITDA/tn to scale to INR 10,445 by FY24 from the current INR 6,878 in FY21. This should throw up substantial free cash flows and enable the corporation to be net debt free FY25/FY26.

At the CMP of INR 237, the stock is trading at 4.4X FY24 EV/EBITDA. **We value the stock at INR 497 (9X FY24 EV/EBITDA), which represents an upside of 110% from the CMP over the next 24 months.** Aichi's equity stake, the strong domestic growth outlook, significant export opportunities, products premiumization and improving balance sheet health should contribute to a re-rating. Risks to our growth outlook are a global meltdown and resurgence of the pandemic.

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY20	846.2	39.7	3.3	4.7	0.4	0.8	102.1	0.8	2.1	287.4	2.3	30.6
FY21	937.1	103.4	44.2	11.0	4.7	10.9	113.4	9.6	12.7	21.7	2.1	10.4
FY22E	1,162.4	161.8	81.0	13.9	7.0	20.0	131.9	15.2	18.3	11.9	1.8	6.8
FY23E	1,302.1	188.0	108.0	14.4	8.3	26.7	157.1	17.0	18.9	8.9	1.5	5.8
FY24E	1,486.8	228.7	139.7	15.4	9.4	34.5	190.0	18.1	22.2	6.9	1.2	4.4

Industry Metals

Scrip Details

Face Value (INR)	10.0
Market Cap (INR Cr)	961
Price (INR)	237
No of Shares O/S (Cr)	4.05
3M Avg Vol (000)	156
52W High/Low (INR)	309/65
Dividend Yield (%)	0.6

Shareholding (%) Jun 2021

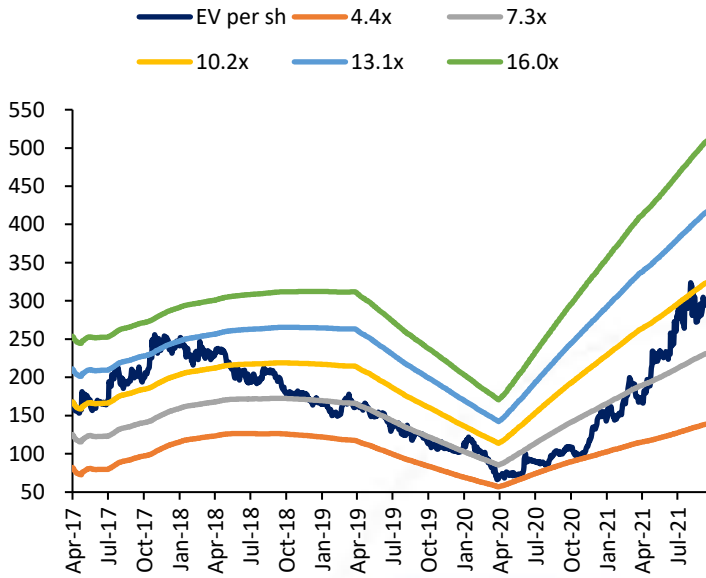
Promoter	60.9
Institution	1.4
Public	37.7
TOTAL	100.0

Price Chart

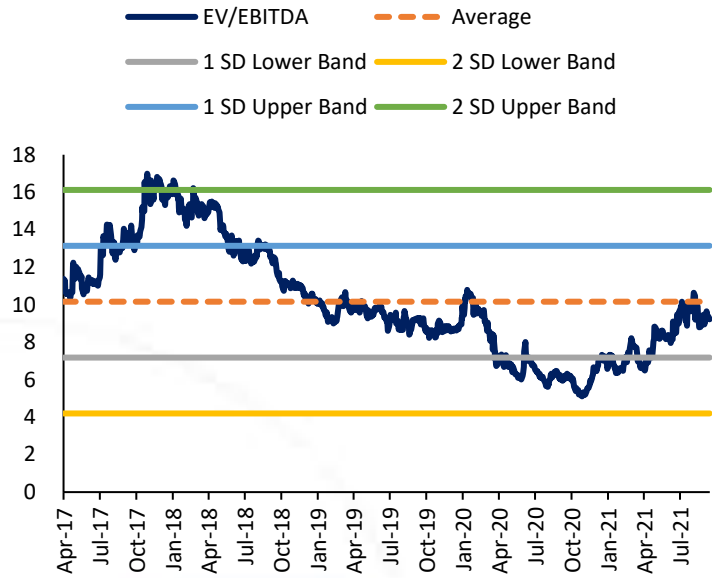


A healthy balance sheet and strong business potential deserves re-rating

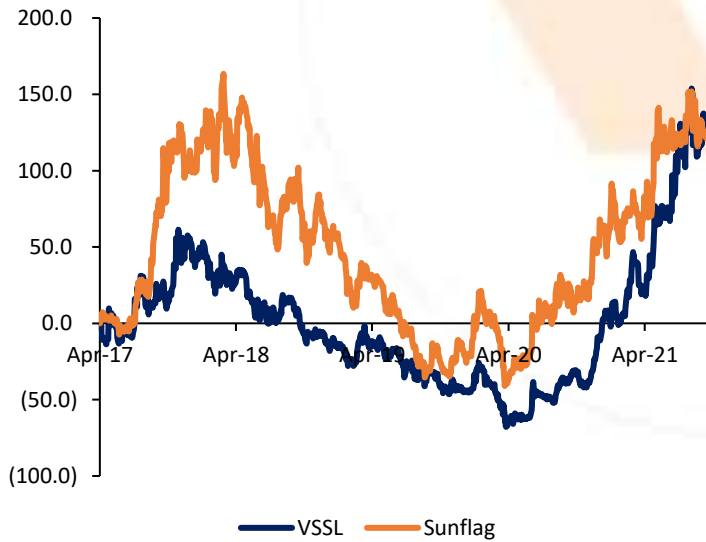
1 year forwarded EV/EBITDA



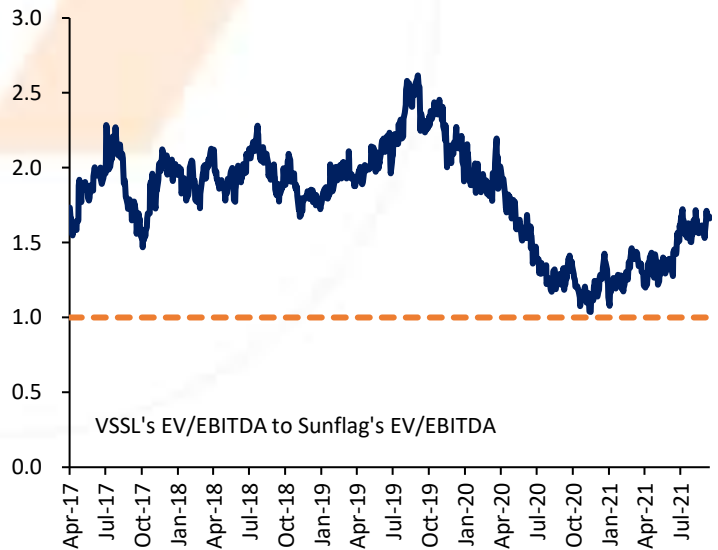
EV/EBITDA Standard Deviation



Price performance of both the companies remained inline



VSSL commands premium valuations to Sunflag Iron given better pedigree and growth visibility

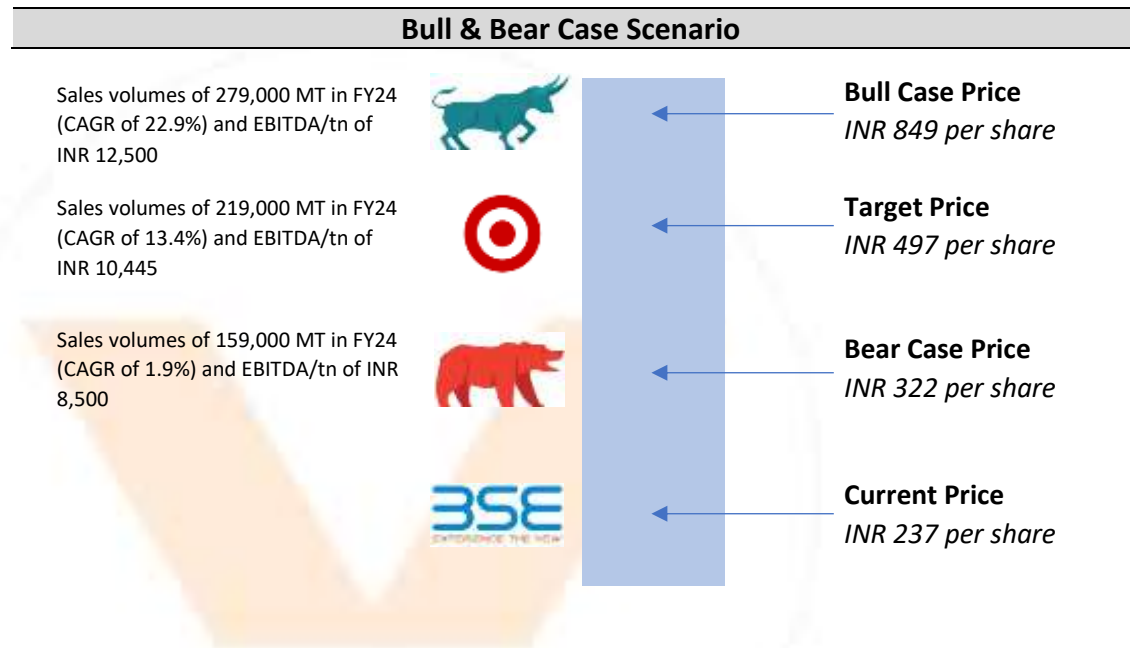


Source: Ventura Research

Our Bull and Bear Case Scenarios

We have prepared a Bull and Bear case scenario based on VSSL's FY24 Sales Volumes and EBITDA per MT.

- **Bull Case:** We have assumed 279 KMT of sales volumes in FY24 (CAGR of 22.9%) and EBITDA/tn of INR 12,500, along with the marginal re-rating to 10X EV/EBITDA, which will result in a Bull Case price target of INR 849 per share (upside of 258% from CMP).
- **Bear Case:** We have assumed 159 KMT of sales volumes in FY24 (CAGR of 1.9%) and EBITDA/tn of INR 8,500 at 8.0X EV/EBITDA, which will result in a Bear Case price target of INR 322 per share (upside of 36% from CMP).



Investment Triggers

- **Capacity Expansion:** VSSL is expanding its existing capacity of 200,000 MTPA by 80,000 MTPA. The new facility is in alliance with Aichi Steel Corp (a subsidiary of Toyota) and will use Japanese technology to produce export quality steel for the automotive segment. The focus would be on better production yield and lower wastage, which is expected to improve EBITDA/tn to INR 10,000 by FY24.
- **Aiming to become debt-free by FY25:** With better operating cash flow, the company is aiming to become debt-free by FY25, which will further improve net profit margins and return ratios.

Catalysts

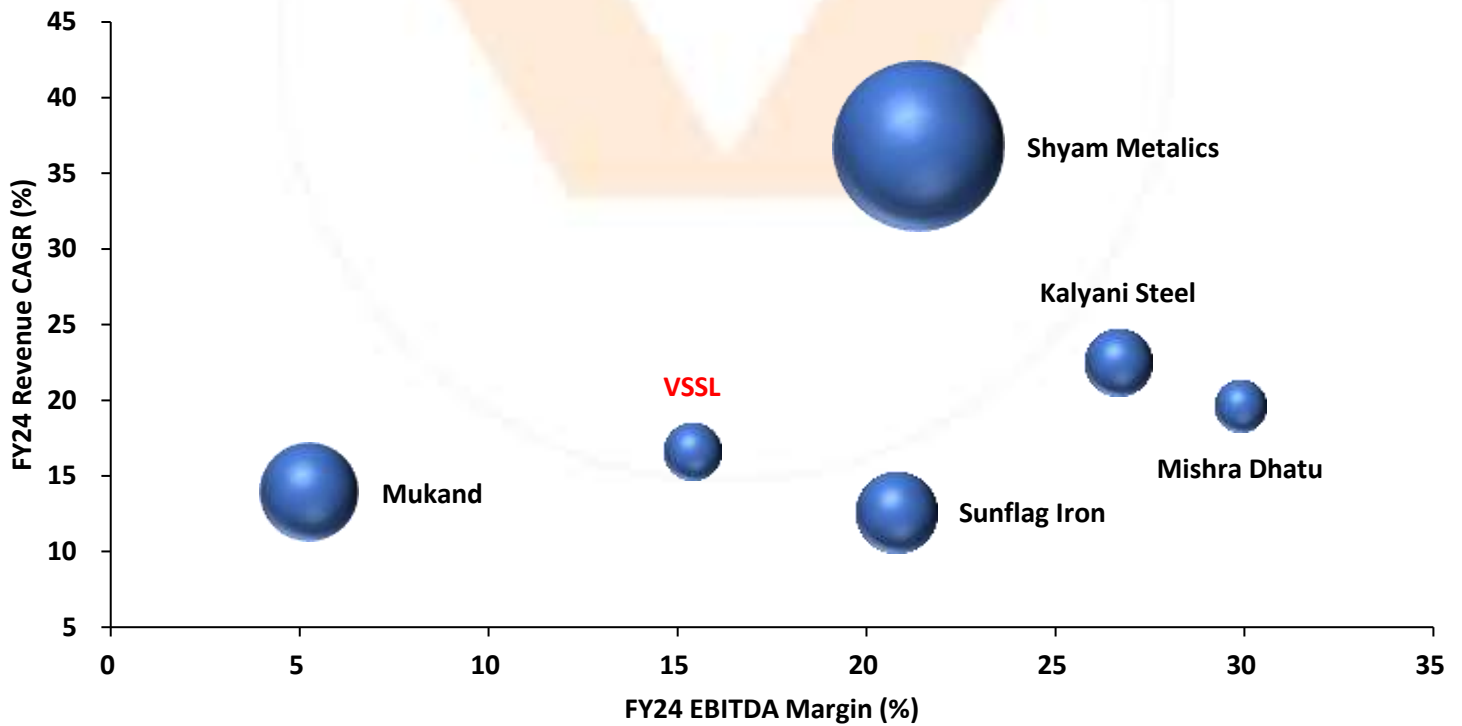
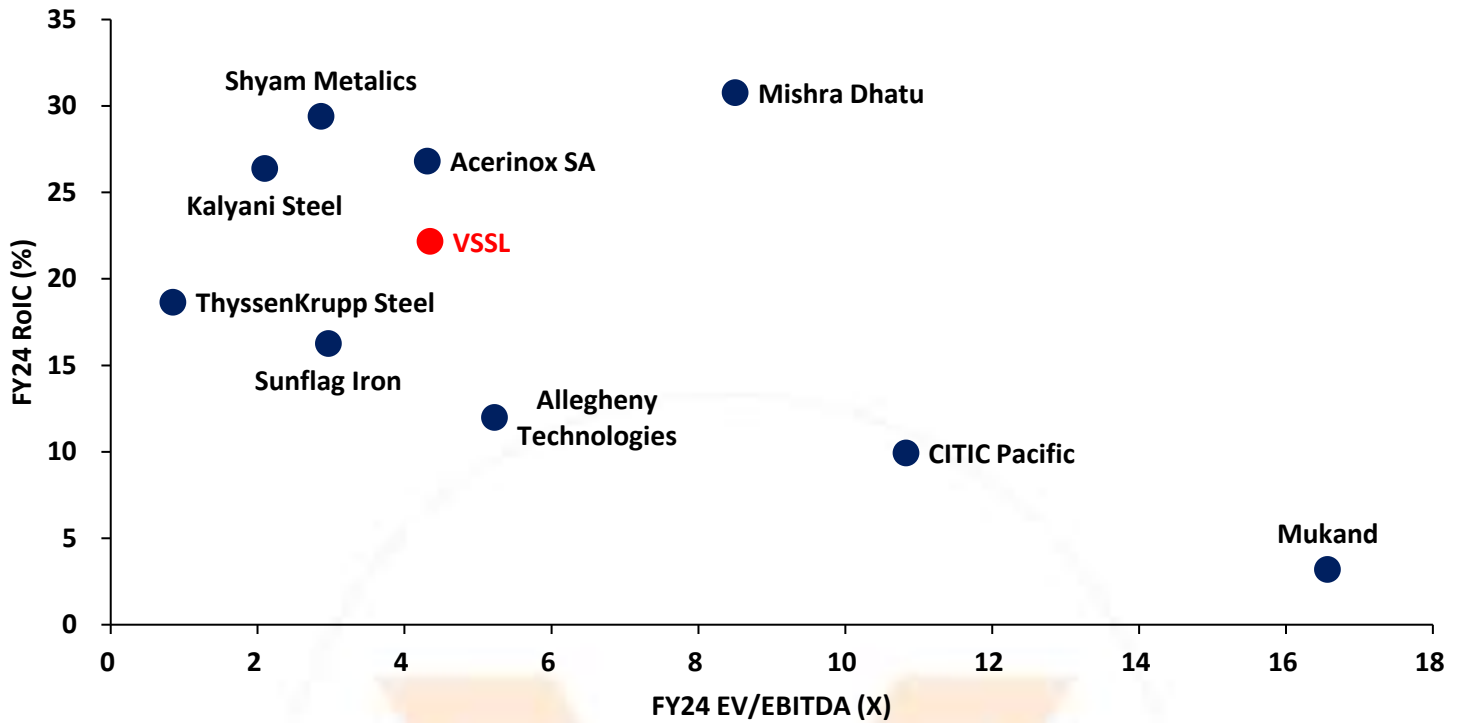
- **PLI scheme in specialty steel & automotive segment:** The PLI scheme aims to improve domestic demand for specialty steel. There are very few producers of specialty steel in India, therefore, the order flow would be fairly distributed among them. VSSL's fundamentals are better than its peers.
- **Make in India and China+1:** 'Make in India' & China+1 are likely to increase the manufacturing of critical components used in the capital goods and automotive sector in India. This is expected to improve demand for specialty steel.

Valuation and Comparable Metric of Domestic and Global Specialty Steel Manufacturing Companies

Company Name	Mkt Cap	Price	PEG 2024	P/E (X)			P/BV (X)			EV/EBITDA (X)			RoE (%)			RoIC (%)			Sales			EBITDA Margin (%)			Net Margin (%)		
				2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Domestic Peers (fig in INR Crores)																											
Vardhman Speciality Steel Ltd	966.0	237.0	0.2	11.9	8.9	7.0	1.8	1.5	1.2	6.8	5.7	4.4	15.0	16.7	17.6	18.3	18.9	22.2	1,162	1,302	1,487	13.9	14.4	15.4	7.0	8.3	9.3
Mukand Ltd	1,906.2	148.4	NA	9.7	7.2	5.7	1.9	1.7	1.5	23.4	20.2	16.6	9.8	11.5	12.8	2.4	2.6	3.2	3,381	3,588	4,025	4.4	4.9	5.3	1.5	1.8	2.0
Sunflag Iron & Steel Ltd	1,457.1	83.1	0.1	3.7	2.8	2.2	0.5	0.5	0.4	4.2	3.6	3.0	14.4	16.2	17.1	15.6	15.4	16.3	2,346	2,428	2,701	16.9	19.0	20.8	11.0	13.1	14.7
Kalyani Steel Ltd	1,675.4	389.2	0.1	2.8	2.1	1.6	0.6	0.5	0.4	3.0	2.6	2.1	23.3	23.7	23.3	36.6	29.2	26.4	1,574	1,951	2,185	26.2	24.5	26.7	23.7	28.3	31.7
Shyam Metalics & Energy Ltd	9,600.0	364.5	0.2	0.8	0.6	0.5	0.2	0.1	0.1	4.4	3.3	2.9	25.3	25.6	23.7	35.0	30.4	29.4	10,269	13,166	16,064	21.8	22.7	21.4	12.0	12.7	12.7
Mishra Dhatu Nigam Ltd	3,472.3	195.0	0.5	4.6	4.0	3.2	0.8	0.7	0.6	12.2	10.3	8.5	17.1	17.3	18.1	29.0	29.6	30.8	960	1,232	1,393	30.2	27.8	29.9	21.7	21.2	23.7
Global Peers (fig in USD mn)																											
ThyssenKrupp Steel Europe AG	6,479.0	10.4	0.2	11.5	11.1	9.5	0.5	0.5	0.5	1.0	0.9	0.9	4.5	4.5	5.1	15.6	14.1	18.7	40,711	40,897	41,817	6.2	5.8	6.2	1.4	1.4	1.6
Acerinox SA	3,549.0	13.1	NA	7.6	8.0	8.8	1.4	1.3	1.3	4.3	4.2	4.3	18.7	16.2	15.2	23.4	22.5	26.8	7,556	7,358	7,085	11.8	11.5	11.1	6.2	6.1	5.7
Allegheny Technologies Inc	2,137.7	16.8	0.1	21.7	13.2	12.6	2.1	1.6	1.4	8.0	6.2	5.2	9.6	12.0	11.2	9.6	11.1	12.0	2,935	3,234	3,419	13.1	14.6	15.2	3.4	5.0	5.0
CITIC Pacific	17,972.8	3.6	1.4	12.8	11.8	11.3	3.1	2.8	2.2	12.3	11.4	10.8	24.7	23.4	19.7	10.2	10.3	9.9	14,262	14,824	15,565	16.4	17.1	17.1	9.9	10.3	10.3

Source: Ventura Research & Bloomberg

More than 20% ROIC and significant room for margin expansion are potential re-rating factors



Source: Ventura Research, ACE Equity & Bloomberg

Financial Analysis and Projections

With all the key drivers in place, we expect VSSL's sales volumes and revenues to grow at a CAGR of 13.4% to 219,000 MT and 16.6% to INR 1,487 cr over FY21-24E. Value-added products for Aichi (from the new facility) are expected to improve operating profitability. EBITDA is estimated to grow at a CAGR of 30.3% to INR 229 cr, while EBITDA/tn could improve to INR 10,445/tn by FY24. The company aims to be debt-free by FY25, which would lead to faster growth in PAT (47.1% CAGR to INR 141 cr by FY24). Subsequently, RoE and RoIC are expected to improve to 17.8% (+819bps) and 22.2% (+948bps), respectively, by FY24.

VSSL's Financial Summary

Figures in INR Crores	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Sales Volume (000 MT)	161.7	137.2	150.3	172.7	195.0	219.0	240.0	262.0	279.0	288.5	294.5	298.0
<i>YoY Growth (%)</i>	6.3	(15.1)	9.5	14.9	12.9	12.3	9.6	9.2	6.5	3.4	2.1	1.2
<i>Capacity Utilization (%)</i>	80.8	68.6	75.1	86.4	78.0	78.2	85.7	87.3	93.0	96.2	98.2	99.3
<i>Average Realization (INR per MT)</i>	69,321	61,680	62,362	67,305	66,776	67,889	69,002	70,115	71,228	72,341	73,453	74,566
Revenue	1,120.8	846.2	937.1	1,162.4	1,302.1	1,486.8	1,656.0	1,837.0	1,987.3	2,087.0	2,163.2	2,222.1
<i>YoY Growth (%)</i>	30.5	(24.5)	10.7	24.0	12.0	14.2	11.4	10.9	8.2	5.0	3.7	2.7
Raw Material Cost	671.7	538.0	525.2	640.2	717.1	818.8	912.0	1,011.7	1,094.5	1,149.4	1,191.4	1,223.8
<i>Raw Material Cost per MT (INR)</i>	41,547	39,215	34,949	37,067	36,776	37,389	38,002	38,615	39,228	39,841	40,453	41,066
Manufacturing Expenses	155.7	87.5	92.4	106.2	119.9	134.7	147.6	161.1	171.6	177.4	181.1	183.3
<i>Manufacturing Exp per MT (INR)</i>	9,631	6,375	6,148	6,150	6,150	6,150	6,150	6,150	6,150	6,150	6,150	6,150
Employee Cost	51.3	48.1	59.6	75.7	81.0	89.4	94.8	103.3	108.5	113.4	117.9	122.1
<i>Employee Cost per MT (INR)</i>	3,173	3,508	3,967	4,383	4,153	4,084	3,951	3,945	3,889	3,931	4,004	4,096
Power & Fuel Cost	132.4	95.5	116.3	132.5	145.7	160.0	175.4	191.5	203.9	210.8	215.2	217.8
<i>Power & Fuel Cost per MT (INR)</i>	8,186	6,960	7,737	7,670	7,474	7,307	7,307	7,307	7,307	7,307	7,307	7,307
Selling & Distribution Expenses	27.3	21.4	21.1	25.9	29.3	32.9	36.0	39.3	41.9	43.3	44.2	44.7
<i>Selling & Distribution Exp per MT (INR)</i>	1,687	1,561	1,407	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Other Expenses	14.6	16.0	19.2	20.1	21.1	22.2	23.3	24.5	25.7	27.0	28.3	29.7
<i>Other Exp per MT (INR)</i>	901	1,166	1,275	1,165	1,084	1,013	971	934	921	935	961	998
EBITDA	67.8	39.7	103.4	161.8	188.0	228.7	266.9	305.6	341.3	365.7	385.1	400.8
<i>EBITDA Margin (%)</i>	6.1	4.7	11.0	13.9	14.4	15.4	16.1	16.6	17.2	17.5	17.8	18.0
<i>EBITDA per MT (INR)</i>	4,196.0	2,895.2	6,878.0	9,370.3	9,639.7	10,445.2	11,121.3	11,664.5	12,232.6	12,677.3	13,076.6	13,448.9
PAT	22.2	3.3	44.2	81.0	108.0	139.7	171.7	203.0	228.1	243.0	253.5	260.5
<i>PAT Margin (%)</i>	2.0	0.4	4.7	7.0	8.3	9.4	10.4	11.1	11.5	11.6	11.7	11.7
<i>PAT per MT (INR)</i>	1,373	243	2,941	4,689	5,539	6,378	7,154	7,748	8,176	8,423	8,607	8,742
Net Worth	362.0	413.6	459.4	534.3	636.2	769.8	935.4	1,132.4	1,354.4	1,591.3	1,838.7	2,093.1
<i>Return on Equity (%)</i>	6.1	0.8	9.6	15.2	17.0	18.1	18.4	17.9	16.8	15.3	13.8	12.4
Invested Capital	695.3	671.0	576.5	679.7	763.3	817.1	872.3	931.9	984.4	1,024.1	1,058.9	1,090.5
<i>Return on Invested Capital (%)</i>	6.3	2.1	12.7	18.3	18.9	22.2	24.6	26.7	28.4	29.1	29.4	29.3
Cash Flow from Operations	(18.9)	135.4	87.2	75.2	135.8	149.5	183.3	210.6	248.3	283.1	306.6	325.5
Cash Flow from Investing	(70.1)	(88.2)	6.8	(94.3)	(102.5)	(59.9)	(69.0)	(75.7)	(80.6)	(85.2)	(91.9)	(99.8)
Cash Flow from Financing	81.8	(45.3)	(94.0)	19.2	(32.5)	(79.7)	(122.9)	(37.3)	(6.1)	(6.1)	(6.1)	(6.1)
Net Cash Flow	(7.2)	2.0	0.0	0.2	0.9	10.0	(8.6)	97.7	161.6	191.9	208.6	219.6
Free Cash Flow	(55.9)	37.8	59.1	(37.0)	22.9	80.1	104.1	124.9	155.2	182.2	197.1	206.8
<i>YoY Growth (%)</i>	-294.1%	-167.5%	56.3%	-162.7%	-161.9%	249.4%	30.1%	20.0%	24.2%	17.4%	8.2%	4.9%
Total Debt	333.6	264.6	169.5	210.0	200.0	140.0	30.0	0.0	0.0	0.0	0.0	0.0
Net Debt	333.3	257.3	117.2	145.5	127.1	47.3	(63.1)	(200.4)	(370.0)	(567.2)	(779.8)	(1,002.6)
<i>Net Debt to Equity (X)</i>	0.9	0.6	0.3	0.3	0.2	0.1	(0.1)	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
<i>Net Debt to EBITDA (X)</i>	4.9	6.5	1.1	0.9	0.7	0.2	(0.2)	(0.7)	(1.1)	(1.6)	(2.0)	(2.5)

Source: Company Reports & Ventura Research

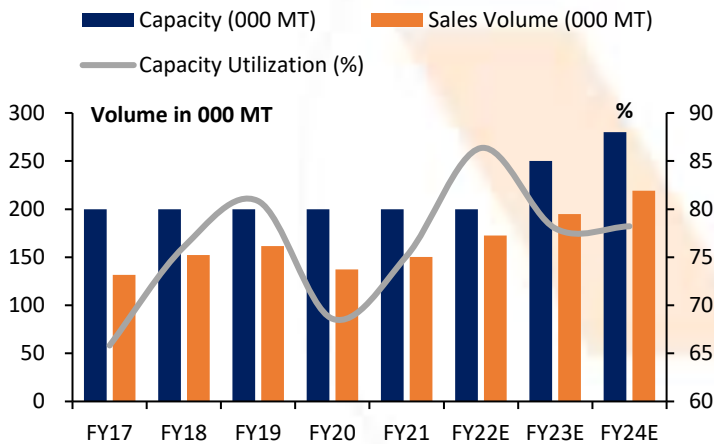
Strong and profitable growth on the cards

On account of the pandemic demand from the automotive segment was subdued in FY20 and FY21. This resulted in tepid revenue growth of 8.6% CAGR to INR 937 cr (volume CAGR of 3.4% to 1,50,265 MT and 5.1% CAGR in average realization to INR 62,362/tn) over the period FY17-21. Despite the volume drag, increasing average realization resulted in a faster 14.6% EBITDA CAGR to INR 103 cr (EBITDA/tn improved at a CAGR of 10.9% to INR 6,878/tn over the same period).

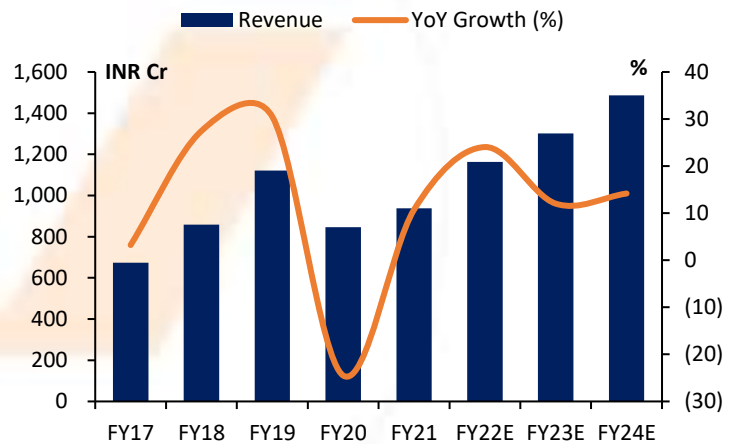
VSSL utilized the operating cash flows towards debt reduction and overall debt declined from INR 316 cr in FY17 to INR 170 cr in FY21 (repayment of INR 147 cr). This significantly reduced the Net Debt to Equity from 1.6X in FY17 to 0.3X in FY21, while Net Debt to EBITDA declined from 5.2X to 1.1X over the same period.

Alliance with AICHI and improvement in product quality to drive revenue, margins & balance sheet health

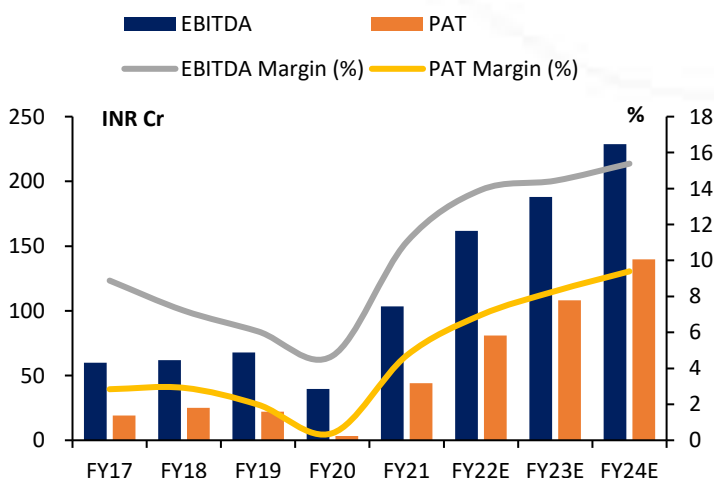
Sales volumes to improve due to Aichi Sourcing & PLI scheme



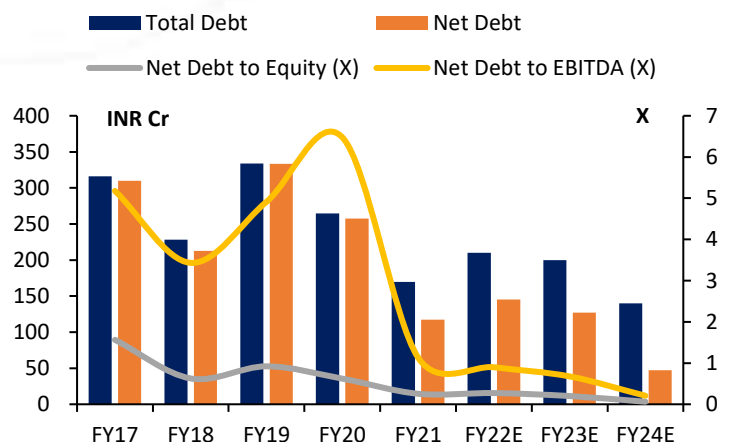
Revenues to improve on higher capacities and better realizations



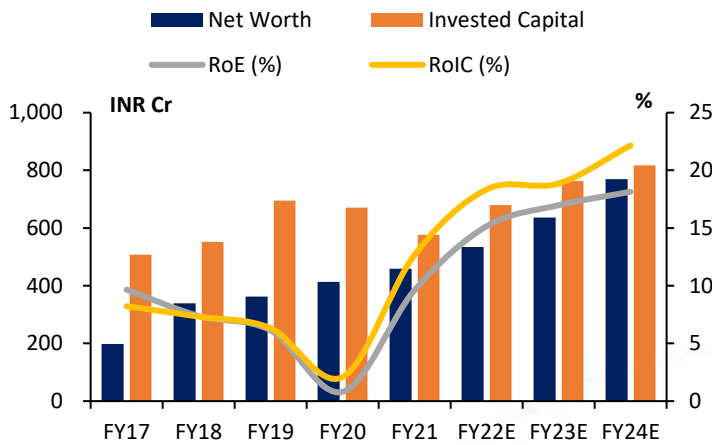
Value added products to drive profitability



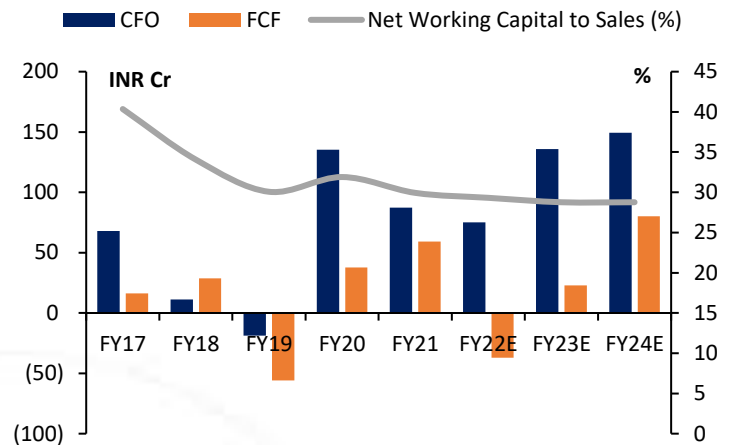
Operating cash flow would be utilized towards faster debt repayments



Higher profitability and debt repayment to improve return ratios



Improvement in margins accelerate cash flow generation

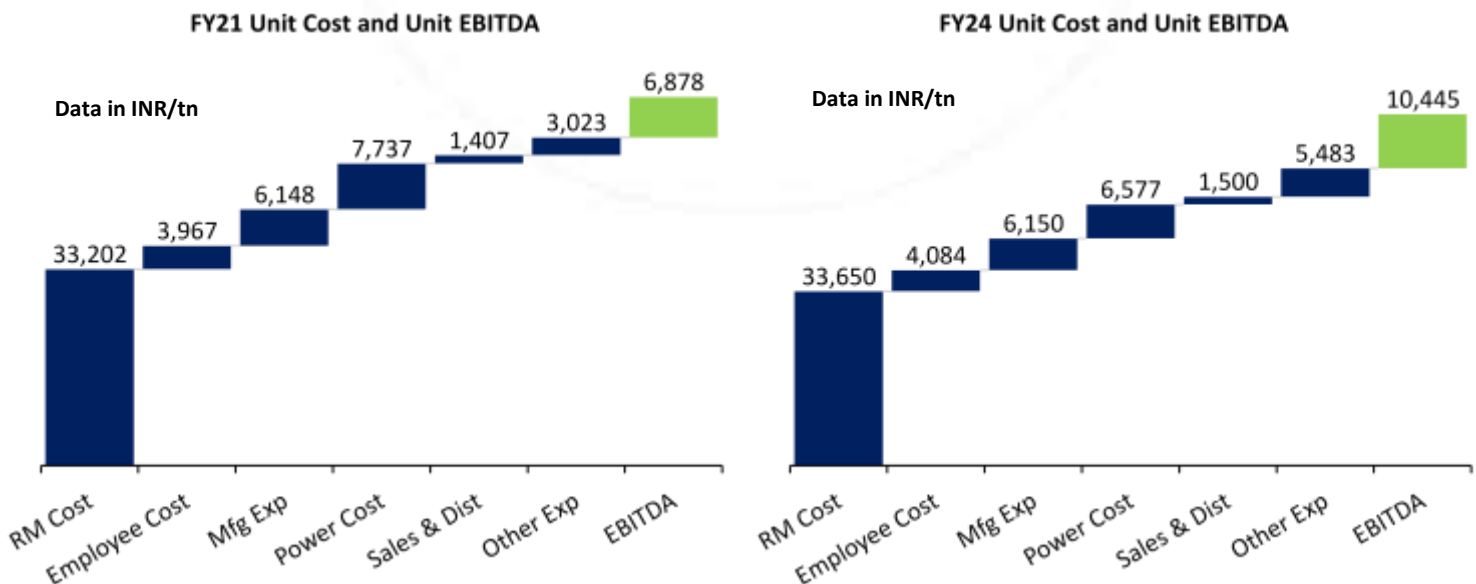


Source: Company Reports & Ventura Research

Going ahead, we expect the overall revenues to grow at 16.6% CAGR to INR 1,487 cr by FY24, on the back of 13.4% CAGR growth in volumes and average realization improving at 2.9% CAGR to INR 10,445/tn. With cost efficiencies at the new facility and availability of quality scrap in the domestic market, we are expecting EBITDA to show traction of 30.3% to INR 229 cr, while EBITDA/tn to improve by 14.9% CAGR to INR 10,445/tn.

Healthy operating cash flow would be utilized to repay the existing debt, which is expected to improve the bottom-line and return ratios. We are expecting the net debt to decline to INR 28 cr by FY24, while Net Debt to Equity and Net Debt to EBITDA to contract to 0.04X and 0.12X, respectively, by FY24.

VSSL's Unit Cost Analysis and EBITDA/tn



Source: Company Reports & Ventura Research

Break Even Volume Analysis – Current vs Future

Fig in INR Cr (unless specified)	Current	With Aichi Alliance
Sales Volume (tonnes)	83,000	71,700
Realization/tn (INR)	63,000	63,000
Revenue	523	452
Raw Material Volume (tonnes)	95,450	78,870
Raw Material Cost/tn (INR)	31,500	31,500
Raw Material Cost	301	248
Power & Fuel Cost/tn (INR)	6,940	6,639
Power Consumption (mn units)	81	67
Power & Fuel Cost	58	48
Selling & Distribution Cost/tn (INR)	1,500	1,500
Selling & Distribution Cost	12	11
Other Manufacturing Cost/tn (INR)	6,250	6,250
Other Manufacturing Expenses	52	45
Employee Cost (Fixed)	70	70
Other Fixed Admin Cost	30	30
Total Fixed Cost	100	100

Source: Ventura Research

VSSL's 10 years' timeline

FY13-15	FY15-19	FY19-20	FY20-21	FY22 & Beyond
<ul style="list-style-type: none"> •Volume CAGR: 23.3% to 116,401 MT •Revenue CAGR: 21.9% to INR 662 cr •EBITDA/tn: Very volatile. INR 2,306 in FY13, -INR 22,651 in FY14 and INR 994 in FY13 •RoCE: Declined from 1.6% to -0.4% •Slowdown in domestic auto industry and delay in implementation of new rolling mill impacted the performance 	<ul style="list-style-type: none"> •Volume CAGR: 8.6% to 161,676 MT •Revenue CAGR: 14.1% to INR 1,121 cr •EBITDA/tn: Grew at a CAGR of 43.3% to INR 4,196 in FY19. •RoCE: Improved from -0.4% to 6.3% •Introduced high quality critical steel, with better realization at the same cost. 	<ul style="list-style-type: none"> •Volume CAGR: Declined by 15.1% to 137,192 MT •Revenue CAGR: Declined by 24.5% to INR 846 cr •EBITDA/tn: Declined by 41.5% to INR 2,895. •RoCE: Declined from 6.3% to -3.0% •Subdued domestic auto demand impacted VSSL's sales volume. •Collaborated with Aichi to produce export quality steel. 	<ul style="list-style-type: none"> •Volume CAGR: 9.5% to 150,265 MT •Revenue CAGR: 10.7% to INR 937 cr •EBITDA/tn: Grew by 160.2% to INR 6,878 •RoCE: Improved from -3.0% to 7.7% •Aichi technology is being utilized in improving production yields, wastage control and cost efficiency. •VSSL gained expertise for high quality steel. 	<ul style="list-style-type: none"> •Volume/Revenue CAGR: Expected to be 10-13% for the next 3-4 years. •EBITDA/tn: Expected to be >INR 9,000 in FY22 and will gradually improve to INR 10,000 by FY24. •RoCE: Expected to be in the range of 12-16% •New product development with Aichi. •Export share to increase from <5% to 20-25%.

Source: Company Reports & Ventura Research

Capacity Expansion Road Map



Source: Company Reports & Industry Articles

The key factors contributing to the growth are enumerated below:

Alliance with Aichi to provide an edge over peers

VSSL has signed a technical assistance agreement with Aichi in which VSSL is adding 80,000 MTPA to its existing capacities of 2,00,000 MTPA to forward integrate into a specialized steel plant. The company has already secured environmental clearances and started building the capacity, which is expected to be ready by FY23. Product approvals from Aichi are already in place and production should initiate from late FY23.

VSSL allotted 46.29 lakh equity shares to Aichi (11.43% of paid-up equity capital) in Sept 2019 and offered a board seat to Mr Takashi Ishigami of Aichi on the VSSL board of directors. The promoters have increased their stake from 59.2% to 60.9% over the past 12 months. These transactions reflect the confidence of both Aichi and promoters in VSSL.

The benefits of the VSSL-Aichi alliance are as follows:

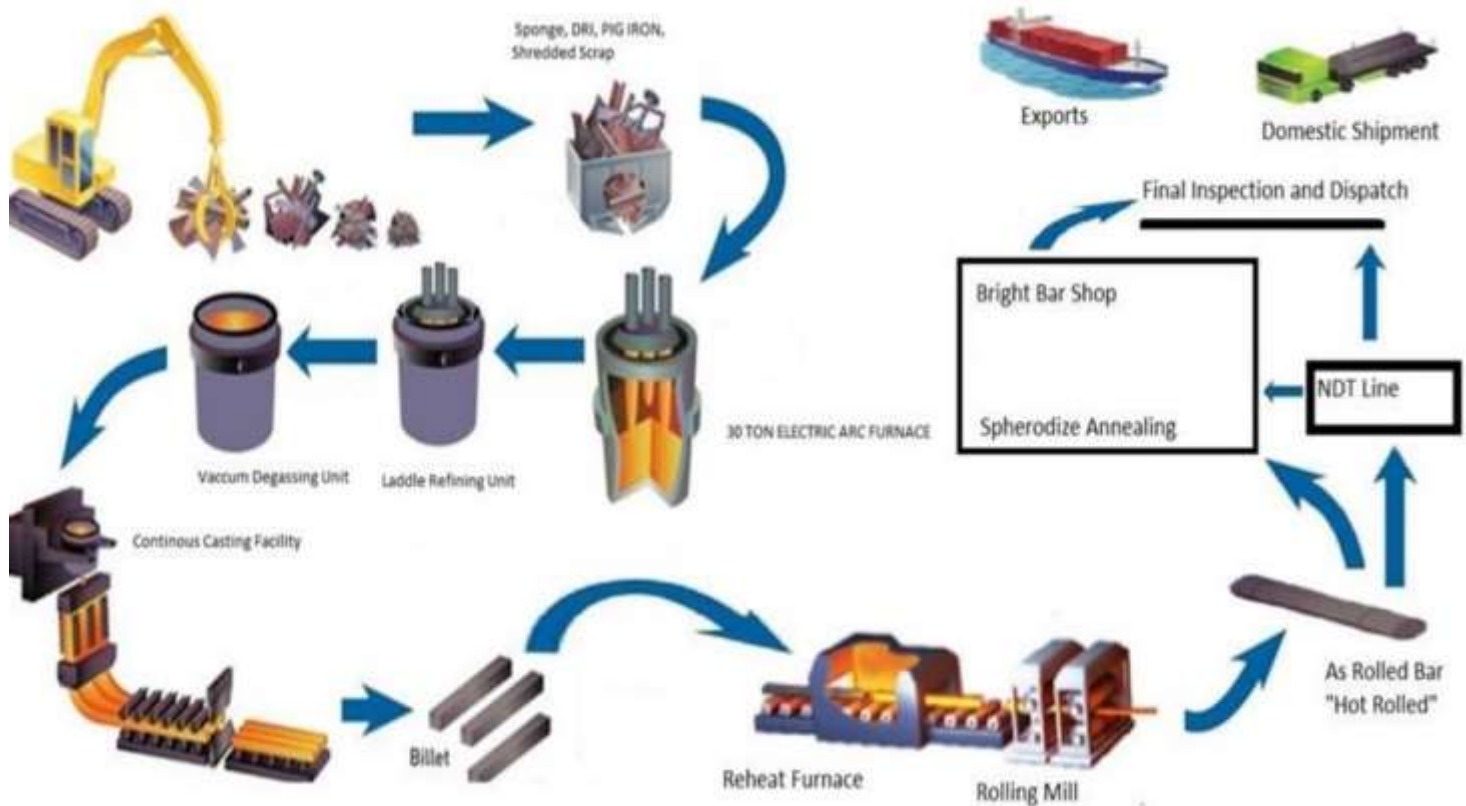
- VSSL will get technology and technical know-how to make steel for global automotive and engineering companies. Aichi will assist VSSL in developing steel for special applications in EVs and Hybrid cars
- Aichi is Toyota's subsidiary, and this alliance will pave the way for VSSL to seek registration as vendor for more plants of Toyota. *This is part of Toyota's derisking strategy as VSSL would be the only other vendor apart from Aichi supplying critical specialized steel to Toyota.*
- In addition, other global auto companies, in particular Japanese auto majors, are expected to be favorably inclined to this alliance.
- As VSSL integrates into Aichi's global supply chain, export contribution is expected to scale to 20-25% in the next 4-5 years.
- With the adoption of this new technology raw material wastage and improved productivity of high-grade steel should lead to a bump in EBITDA/tn upwards of INR 10,000 by FY24.

Scrapage policy to improve the availability of better-quality domestic scrap and reduce dependency on imports

VSSL uses scrap steel as a key raw material to produce specialized steel. Compared to sponge iron, specialized steel produced through the recycled route consumes less energy and emits lower carbon. However, in the absence of a sound scrapage policy, the availability of quality scrap was a challenge in India and specialized steel companies used to import the better-quality scrap to meet the shortfall in domestic supply.

With the new scrapage policy in place (announced in Aug 2021), the Indian specialty steel companies will get access to an abundant supply of quality steel scrap produced domestically. Further the pricing of scrap steel is expected to be more economical than imports.

Specialized Steel Production Process and Benefits from Scrapage Policy



Source: Company Reports

The current wastage in the production of rolled bars is ~15%, i.e., **100 MT of scrap produces 85 MT of rolled bars and consumes ~85,000 units of power**. With the better-quality scrap available domestically and Aichi's technology in place, the company is expecting the wastage to come down by 500-700bps to 8-10%. As a result, **100 MT will produce 90-92 MT of rolled bars at the same rate of power consumption, further improving economic profitability**.

Existing vs Expected Input-Output Ratio of Specialized Steel Production

The current conversion rate of scrap metal to black bars



Expected conversion rate with quality scrap and adoption of Aichi's production technology



Power consumption in both the process is same, i.e., 850 units to process 1 tonne of scrap

Source: Ventura Research

PLI scheme in specialty steel and automotive space to boost domestic demand and replace imports

PLI Scheme in Specialty Steel: The government has approved INR 6,322 cr for the specialized steel sector to enhance India's manufacturing capabilities. Out of the production of 102 mn MT of steel in FY21, only 18 mn MT of specialty steel was produced in India. Out of 6.7 mn MT of imports of steel in FY21, approximately 4.0 mn MT was for specialty steel, resulting in a forex outgo of INR 300 bn. PLI will boost manufacturing capacities in this segment and MSMEs will be able to source specialty steel domestically.

PLI Scheme in Specialized Steel

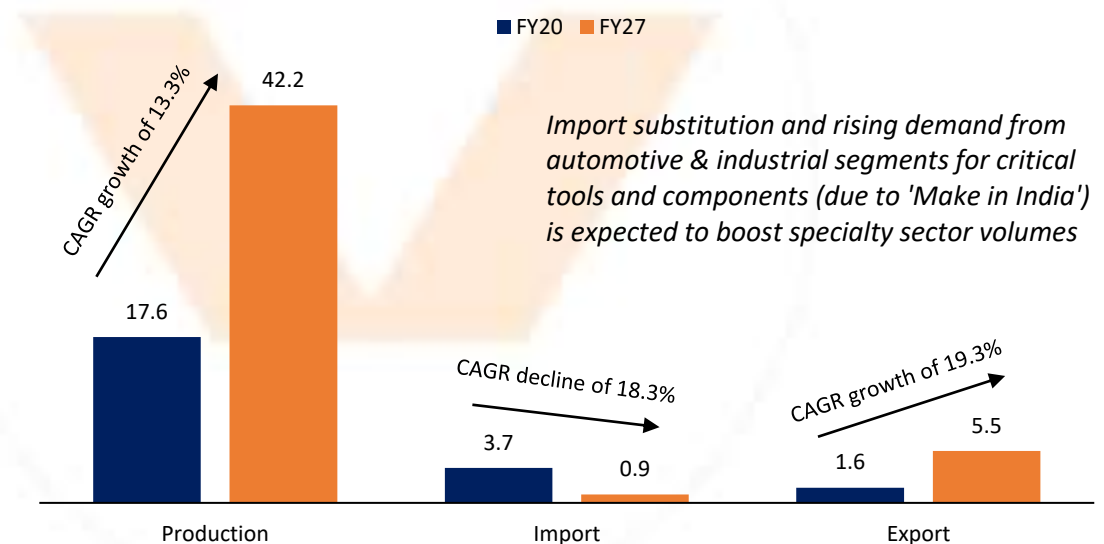
- **Aim:** To increase India's specialty production to 42 mn MT by FY27 from 18 mn MT in FY21.
- **Categories:** There are five categories of specialty steel that have been chosen in the PLI Scheme:
 - Coated/plated steel products.
 - High strength/wear-resistant steel.
 - Specialty rails.
 - Alloy steel products and steel wires.
 - Electrical steel.
- **Slabs:** There are three slabs of PLI incentives, the lowest being 4% and the highest being 12%.
- **Beneficiaries:** Any company registered in India, engaged in manufacturing of the identified 'specialty steel' grades will be eligible to participate in the scheme. It will help create global manufacturing hubs in India and bring the country on a par with global steel making majors such as South Korea and Japan.

Specialized Steel Production Process and Benefits from Scrappage Policy

Product Category	Indicative Projected Production		Indicative Projected Import		Indicative Projected Export		Indicative PLI Amount
	FY20	FY27	FY20	FY27	FY20	FY27	
	(in 000 Tonnes)						
Coated/Plated Steel Products	8,318	20,335	1,187	253	962	2,585	2,505
High Strength/Wear Resistant Steel	7,633	16,866	1,542	308	572	2,254	1,920
Specialty Rails	1	987	71	0	0	100	209
Alloy Steel Products & Steel Wires	1,082	2,655	300	156	95	540	852
Electrical Steel	590	1,411	658	219	31	88	809
Administrative Charges	0	0	0	0	0	0	27
Total	17,624	42,254	3,758	936	1,660	5,567	6,322

Source: Company Reports

Projected growth of Specialty Steel sector under PLI Scheme



Source: PLI Scheme document

With the scrappage policy in place and budgetary outlay of INR 6,322 cr towards the PLI scheme, the specialty steel sector is expected to generate investments of INR 40,000 cr in the coming years. The duration of the scheme will be for five years from FY24-28. The first incentive will be payable from FY24 based on commercial production of FY23 (VSSL's new facility is expected to commence operations in FY23).

PLI Scheme in Automotive Space: Government approved an INR 26,058 cr PLI scheme for auto, auto-components and Drone industries to enhance India's manufacturing capabilities. The Indian auto industry is expected to record strong growth in FY22, post recovery from the pandemic. EVs are likely to witness significant sales growth in FY22 scaling to be a USD 206 bn opportunity in India by 2030.

PLI Scheme in Automotive Space

- **Aim:** To incentivize advanced automotive technologies or auto components whose supply chains are weak, dormant or non-existing. It is aimed to boost new technology and the economy of clean fuels.
- **Categories:** It is a sales value linked plan, applicable to:
 - Battery electric vehicles.
 - Hydrogen fuel cells vehicles.
- **Beneficiaries:** It is a Sales Value Linked plan for advanced technology components, Complete and Semi-Knocked Down (CKD/SKD) kits, vehicle aggregates of 2-wheelers, 3-wheelers, passenger vehicles, commercial vehicles and tractors.
- It will encourage the production of auto components using advanced technologies and specialized steel that will boost localization, domestic manufacturing and also attract foreign investments.
- This scheme along with the already launched PLI for Advanced Chemistry Cell and Faster Adoption of Manufacturing of Electric Vehicles (FAME) Scheme will give a big boost to the manufacture of Electric Vehicles.

With the help of Aichi, VSSL has initiated steel supply for EVs and the volumes are expected to pick up significantly from FY24. However, given the shortcomings of the EV infrastructure in India, hybrid vehicles are expected to be a better alternative to EVs. Toyota India and Maruti Suzuki are also in support of hybrid models in India until charging infrastructure improves or EVs become more affordable. VSSL is developing steel for hybrid cars and is expected to start production from FY23.

The favorable policy environment and VSSL's capabilities to manufacture products for IC/ EVs/ Hybrids for both domestic and export markets put VSSL at an advantage.

Business Quality Score			
Key Criteria	Score	Risk	Comments
Management & Leadership			
Management Quality	8	Low	The management is of high quality, it has been able to deliver on guided lines; investor-friendly with timely updates on developments
Promoters Holding Pledge	10	Low	The promoter holding is 60.9% (increased from 59.2% in the past 12 months) and there is no promoter pledging as of 30th Jun 2021.
Board of Directors Profile	7	Low	The average experience of directors is >27 years with significant experience in manufacturing, accounts/finance, strategic planning and operations
Industry Consideration			
Industry Growth	8	Low	PLI scheme to improve domestic production of specialty steel, while new scrappage policy to reduce wastage and improve profitability
Regulatory Environment or Risk	8	Low	The company operates in the domestic market and is therefore not exposed to international regulations
Entry Barriers / Competition	8	Low	Entry of a new company in specialized steel would require a strong capital base and a huge investment. However, existing large players - Tata Steel & JSW Steel, could expand in this space to diversify their offerings
Business Prospects			
New Business / Client Potential	8	Low	Alliance with Aichi to improve product quality and increase the opportunities in the export market
Business Diversification	3	High	Steel is a competitive industry and VSSL has expertise in specialized steel. Entry in other steel product segments (other than specialized steel) would require huge capital investments
Market Share Potential	8	Low	VSSL is one of the leading producers of specialized steel in India and with Aichi, it could significantly expand its business opportunities (export and EV/hybrid cars) and gain market share
Margin Expansion Potential	10	Low	High-quality products from new plants and availability of quality scrap domestically to improve margins.
Earnings Growth	10	Low	With volume growth and margin expansion in place, we are expecting strong earnings growth in the coming years
Valuation and Risk			
Balance Sheet Strength	9	Low	Higher operating cash flow on account of better margins and strong volume growth, we are expecting return ratios and balance sheet health to improve
Debt Profile	9	Low	With the increase in FCF, the management is aiming to become debt-free by FY25
FCF Generation	7	Low	With all the key drivers in place, we are expecting positive FCF generation. However, regular capex requirements could restrict its growth
Dividend Policy	3	High	The company has never paid a dividend in the past 7-8 years. They declared the maiden dividend of INR 1.5/share in FY21 (payout ratio of 14%), and with the upcoming capex requirement we are not expecting higher payouts in the next 4-5 years
Total Score	116		
Ventura Score (%)	77	Low	The overall risk profile of the company is good and we consider it as a LOW risk company for investments

Source: Company Reports & Ventura Research

Annual Report Takeaways

We analyzed the FY21 annual report of VSSL and our key observations are as follows:

Key Takeaways

- **Proposed Expansion:** VSSL is incurring INR 250 cr of capex for expanding its production capacities by 80,000 MT (to 280,000 MT) at its existing facility at Ludhiana (Punjab). The expansion will happen in two phases – Phase I of 50,000 MTPA in FY23 and Phase II of 30,000 MTPA in FY24. The company got environmental clearance for this expansion in FY21 and the new facility will commence operations in FY23.
- **EBITDA Margin Expansion:** Metal scrap is the key raw material for VSSL. The company shifted from imported shredded scrap to local engineering scrap which reduced its sourcing cost. With the help of new technology from Aichi, the company produced longer billets which reduced the heat requirement and increased the production yield. The company is also working on the 3R principle – Reducing waste, Reusing and Recycling – to reduce the wastage and reuse of waste iron while manufacturing billets.
- **New Product Development:** VSSL started making steel for EVs and will be developing steels for Hybrid Cars in the near future. The company also implemented safety and quality control systems in its plant (in collaboration with Aichi).
- **Dividend Policy:** VSSL recommended its maiden dividend of INR 1.5 per share in FY21 (dividend payout ratio of 14%).

Pay Grades

The remuneration growth of Vice Chairman & MD and CFO has significantly outpaced the median remuneration growth of the company in the past 5 years. Further, it has also outpaced the CAGR growth in revenue, EBITDA and PAT over the same period.

Remuneration in the last 5 years						
Parameter (Fig in INR Cr)	FY17	FY18	FY19	FY20	FY21	CAGR (%)
Vice Chairman & MD	0.9	2.3	2.6	2.5	5.7	56.7
<i>Share in Total Employee Cost (%)</i>	<i>2.4</i>	<i>4.9</i>	<i>5.0</i>	<i>5.3</i>	<i>9.5</i>	
Chief Financial Officer	0.2	0.3	0.3	0.3	0.5	29.6
<i>Share in Total Employee Cost (%)</i>	<i>0.5</i>	<i>0.6</i>	<i>0.6</i>	<i>0.7</i>	<i>0.9</i>	
Remuneration of SVP/VP/GM	4.7	4.6	4.4	3.8	4.6	(0.3)
<i>Share in Total Employee Cost (%)</i>	<i>11.8</i>	<i>9.8</i>	<i>8.6</i>	<i>7.9</i>	<i>7.8</i>	
Median remuneration of employees	0.03	0.03	0.04	0.04	0.04	6.7
Employee Cost	40	47	51	48	60	10.6
<i>Employee Cost as % of Revenue (%)</i>	<i>5.9</i>	<i>5.4</i>	<i>4.6</i>	<i>5.7</i>	<i>6.4</i>	

Source: Company Reports & Ventura Research

Management & Leadership Team Turnover

Details on Board of Director and KMPs					
Board of Directors & KMP	FY17	FY18	FY19	FY20	FY21
Sachit Jain	VC & MD	VC & MD	VC & MD	VC & MD	VC & MD
Suchita Jain	NED	NED	NED	NED	NED
B.K. Choudhary	NED	NED	NED	NED	NED
Rajinder Kumar Jain	NED	NED	NED	NED	NED
Takashi Ishigami				NED	NED
Prafull Anubhai	ID	ID			
Rakesh Jain			ID	ID	ID
Rajeev Gupta	ID	ID	ID	ID	ID
Raghav Chandra					ID
Sanjeev Pahwa	ID	ID	ID	ID	ID
Sanjoy Bhattacharyya	ID	ID	ID	ID	ID
Shubhra Bhattacharya				ID	ID
Jayant Davar	ID	ID	ID		
Subhasis Dey	CEO	CEO			
Sanjeev Singla	CFO	CFO	CFO	CFO	CFO
M.K. Srivastava	SVP	SVP	SVP	COO	COO

VC & MD - Vice Chairman & Managing Director

NED - Non Executive Director

ID - Independent Director

CEO - Chief Executive Officer

CFO - Chief Financial Officer

COO - Chief Operating Officer

SVP - Sr Vice President

Source: Company Reports

Auditor qualifications & significant notes to accounts

BSR & Co LLP is the auditor and there were no qualifications/emphasis of matters highlighted by them in the FY21 Annual Report.

Royalty payments

VSSL started paying royalty to Aichi Steel Corp due to its technical assistance agreement with them to produce high quality steel.

Royalty Payments to Aichi Steel Corp					
Parameter (Fig in INR Cr)	FY17	FY18	FY19	FY20	FY21
Does the company paid royalty?	No	No	No	Yes	Yes
Royalty Paid	0.0	0.0	0.0	3.3	6.9
<i>Royalty as % of Revenue (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.4</i>	<i>0.7</i>

Source: Company Reports & Ventura Research

Major Related Party Transactions with promoters and KMPs

In the years FY17, FY18 and FY20, related party transactions are higher due to loan taken from Vardhman Textiles

Related Party Transactions are relatively low

Parameter (Fig in INR Cr)	FY17	FY18	FY19	FY20	FY21
Related Party Trans (excl royalty)	18.3	18.4	7.5	49.2	5.4
Compensation to KMP	2.4	3.9	3.5	3.6	7.9
<i>Transactions as % of Revenue (%)</i>	<i>3.1</i>	<i>2.6</i>	<i>1.0</i>	<i>6.2</i>	<i>1.4</i>

Source: Company Reports & Ventura Research

Contingent Liabilities

Contingent liabilities are very high compared to the net worth and revenue. However, these are mostly related to unexecuted orders and export commitments.

Contingent Liabilities are reasonably high

Parameter (Fig in INR Cr)	FY17	FY18	FY19	FY20	FY21
Sales tax, VAT and GST	7.3	0.8	1.8	0.4	0.7
Amount of contracts to be executed	6.4	58.1	19.2	1.7	9.1
Export commitments against import of capital goods under EPCG scheme	15.5	20.8	9.4	9.2	10.7
<i>Transactions as % of Revenue (%)</i>	<i>4.3</i>	<i>9.3</i>	<i>2.7</i>	<i>1.3</i>	<i>2.2</i>
<i>Transactions as % of Net Worth (%)</i>	<i>14.7</i>	<i>23.5</i>	<i>8.4</i>	<i>2.8</i>	<i>4.5</i>

Source: Company Reports & Ventura Research

Management Team

Key Person	Designation	Details
Mr Rajeev Gupta	Chairman & Independent Director	He is B. Tech from BHU/IIT, Varanasi and MBA from IIM, Ahmedabad. He has a rich experience of more than 35 years in the field of Investment Banking
Mr Sachit Jain	Vice Chairman & MD	He is B. Tech (Electrical) from IIT, New Delhi and MBA (Gold medalist) from IIM, Ahmedabad. He has also studied Financial Management from Stanford, USA. He has a rich experience of over 29 years in Textile & Steel.
Mr Sanjeev Singla	Chief Financial Officer	He holds a degree of Bachelor of Commerce and also CS (Inter). He has over 25 years of experience in Finance, Accounts, Taxation, Legal and related functions.

Source: Company Reports

Key Risks & Concerns

- Demand and pricing in the steel industry (for both raw material and finished products) are volatile and are sensitive to the cyclical nature of the industries it serves. Volatility in steel prices may have a material adverse effect on VSSL's operations, prospects and financial performance.
- Future estimates are based on the alliance with Aichi. Any change in terms or termination of the alliance could be expected business performance and impact future estimates for VSSL.
- VSSL's manufacturing plants and sources of raw materials are in Northern India and any adverse developments affecting this region could have an adverse effect on the company's business performance.
- PLI in specialized steel could attract other large players to diversify in this high margin product segment. They have better financial power and global presence compared to VSSL, which could increase the competition in the specialty steel industry.

Quarterly and Annual Performance

Figures in INR Crores	Q1FY20	Q2FY20	Q3FY20	Q4FY20	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY21	Q1FY22	FY22E	FY23E	FY24E
Sales Volume (000 MT)	36.7	33.2	31.6	35.7	137.2	12.5	44.0	46.0	47.8	150.3	43.7	172.7	195.0	219.0
YoY Growth (%)	0.0	0.0	0.0	0.0	(15.1)	(65.9)	32.5	45.4	33.9	9.5	250.0	14.9	12.9	12.3
Capacity Utilization (%)	73.3	66.4	63.2	71.4	68.6	25.0	88.0	91.9	95.7	75.1	87.4	86.4	78.0	78.2
Average Realization (INR per MT)	65,683	63,795	59,445	57,584	61,680	54,345	56,175	62,582	69,934	62,362	75,538	67,305	66,776	67,889
Revenue	240.8	211.8	187.9	205.7	846.2	67.9	247.1	287.7	334.5	937.1	330.1	1,162.4	1,302.1	1,486.8
YoY Growth (%)					(24.5)	(71.8)	16.7	53.1	62.6	10.7	386.5	24.0	12.0	14.2
Raw Material Cost	147.7	156.7	110.0	123.7	538.0	43.6	149.1	151.7	180.8	525.2	181.8	640.2	717.1	818.8
Raw Material Cost per MT (INR)	40,278	47,185	34,780	34,644	39,215	34,908	33,899	33,000	37,800	34,949	41,602	37,067	36,776	37,389
Employee Cost	12.1	11.1	12.5	12.5	48.1	10.7	12.6	17.9	18.4	59.6	18.7	75.7	81.0	89.4
Employee Cost per MT (INR)	3,290	3,337	3,954	3,497	3,508	8,577	2,871	3,888	3,847	3,967	4,276	4,383	4,153	4,084
Other Expenses	65.7	41.5	59.5	53.6	220.4	23.0	64.3	78.7	83.0	249.0	78.6	284.7	316.0	349.8
Other Exp per MT (INR)	17,922	12,487	18,832	15,016	16,061	18,427	14,609	17,111	17,358	16,568	17,975	16,485	16,207	15,971
EBITDA	15.4	2.6	5.9	15.8	39.7	(9.5)	21.1	39.5	52.3	103.4	51.1	161.8	188.0	228.7
EBITDA Margin (%)	6.4	1.2	3.2	7.7	4.7	(13.9)	8.5	13.7	15.6	11.0	15.5	13.9	14.4	15.4
EBITDA per MT (INR)	4,193	786	1,879	4,427	2,895	(7,568)	4,795	8,583	10,929	6,878	11,685	9,370	9,640	10,445
PAT	1.1	(3.2)	1.8	3.6	3.3	(12.8)	8.9	21.7	26.4	44.2	27.8	81.0	108.0	139.7
PAT Margin (%)	0.5	(1.5)	1.0	1.7	0.4	(18.8)	3.6	7.5	7.9	4.7	8.4	7.0	8.3	9.4
PAT per MT (INR)	311	(952)	572	1,000	243	(10,227)	2,032	4,712	5,514	2,941	6,361	4,689	5,539	6,378
Adjusted EPS	0.3	(0.8)	0.4	0.9	0.8	(3.2)	2.2	5.3	6.5	10.9	6.9	20.0	26.7	34.5
P/E Ratio										21.7		11.9	8.9	6.9
Enterprise Value										1,078.2		1,106.5	1,088.1	1,008.3
EV/EBITDA										10.4		6.8	5.8	4.4
Net Worth					413.6					459.4		534.3	636.2	769.8
Return on Equity (%)					0.8					9.6		15.2	17.0	18.1
Invested Capital					671.0					576.5		679.7	763.3	817.1
Return on Invested Capital (%)					2.1					12.7		18.3	18.9	22.2
Cash Flow from Operations					135.4					87.2		75.2	135.8	149.5
Cash Flow from Investing					(88.2)					6.8		(94.3)	(102.5)	(59.9)
Cash Flow from Financing					(45.3)					(94.0)		19.2	(32.5)	(79.7)
Net Cash Flow					2.0					0.0		0.2	0.9	10.0
Total Debt					264.6					169.5		210.0	200.0	140.0
Net Debt					257.3					117.2		145.5	127.1	47.3
Net Debt to Equity (X)					0.6					0.3		0.3	0.2	0.1
Net Debt to EBITDA (X)					6.5					1.1		0.9	0.7	0.2

Source: Company Reports & Ventura Research

Summary of Management Commentary and Quarterly Performance over last few quarters

Key Criteria	View	Comments
Q2FY21		
Business Performance	POSITIVE	<p>Sales volume up by 32.5% YoY to 43,986 MT and capacity utilization was 88.0%</p> <p>Revenues up 16.7% YoY to INR 247 cr, EBITDA up 708.0% to INR 21 cr (EBITDA/tn of INR 4,795), PBT of INR 15 cr (PBT/tn of INR 3,424) against loss of INR 5 cr in Q2FY20.</p> <p>Domestic automobile volumes were better compared to Q3FY20, which improved VSSL's sales volume. Periodic price hike improved the financial performance</p>
Outlook & Strategy	POSITIVE	<p>Sales volume guidance for FY21: More than 125,000 – 135,000 MT.</p> <p>EBITDA/tn guidance: For FY21 INR 4,500-6,000.</p>
Q3FY21		
Business Performance	POSITIVE	<p>Sales volume up by 45.4% YoY to 45,964 MT and capacity utilization was 91.9%</p> <p>Revenues up 53.1% YoY to INR 288 cr, EBITDA up 564.1% to INR 39 cr (EBITDA/tn of INR 8,583), PBT of INR 31 cr (PBT/tn of INR 6,374) against loss of INR 5 cr in Q3FY20.</p> <p>Domestic automobile volumes were better compared to Q3FY20, which improved VSSL's sales volume. Periodic price hike improved the financial performance</p>
Outlook & Strategy	POSITIVE	<p>Sales volume guidance for FY21: More than 150,000 MT.</p> <p>EBITDA/tn guidance: For FY21 INR 5,000-7,000, revised from INR 4,500-6,000 guided in Q2FY21.</p>
Q4FY21		
Business Performance	POSITIVE	<p>Sales volume up 33.9% YoY to 42,828 MT and capacity utilization was 95.7%</p> <p>Revenues up 62.6% YoY to INR 334 cr, EBITDA up 230.6% to INR 52 cr (EBITDA/tn of INR 10,929), PBT up 607.1% to INR 40 cr (PBT/tn of INR 8,338)</p> <p>Domestic automobile volumes were better compared to Q4FY20, which improved VSSL's sales volume. Periodic price hike improved the financial performance</p>
Outlook & Strategy	POSITIVE	<p>Sales volume guidance for FY22: 170,000 – 180,000 MT.</p> <p>EBITDA/tn guidance: For FY22 INR 7,000-9,000 and for FY24 INR 9,000-10,000</p>
Q1FY22		
Business Performance	POSITIVE	<p>Sales volume up 250.0% YoY to 43,705 MT and capacity utilization was 87.4%.</p> <p>Revenues up 386.5% YoY to INR 330 cr, EBITDA of INR 51 cr (EBITDA/tn of INR 11,685) against loss of INR 9 cr in Q1FY21, PBT of INR 43 cr (PBT/tn of INR 9,768) against loss of INR 20 cr in Q1FY21.</p> <p>An increase in capacity utilization and cost efficiencies from Aichi Steel along with strong metal prices, compared to Q1FY21, improved the overall performance.</p>
Outlook & Strategy	POSITIVE	<p>The company got environmental clearance for the new facility of 80,000 MTPA. Phase-I of 50,000 MTPA will be ready by FY23 and phase-II of 30,000 MTPA will be ready by FY24.</p> <p>Sales volume guidance for FY22: 165,000 – 175,000 MT, reduced from 170,000 – 180,000 MT guided in Q4FY21.</p> <p>EBITDA/tn guidance for FY22: INR 9,000.</p>

Source: Company Reports & Ventura Research

Financial Analysis & Projections

Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E	Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E
Income Statement						Per Share Data (Rs) & Yield (%)					
Revenue	846.2	937.1	1,162.4	1,302.1	1,486.8	Adjusted EPS	0.8	10.9	20.0	26.7	34.5
<i>YoY Growth (%)</i>	<i>(24.5)</i>	<i>10.7</i>	<i>24.0</i>	<i>12.0</i>	<i>14.2</i>	Adjusted Cash EPS	7.2	18.4	29.2	37.5	46.3
Raw Material Cost	538.0	525.2	640.2	717.1	818.8	Adjusted BVPS	102.1	113.4	131.9	157.1	190.0
<i>YoY Growth (%)</i>	<i>(19.9)</i>	<i>(2.4)</i>	<i>21.9</i>	<i>12.0</i>	<i>14.2</i>	CFO per share	33.4	21.5	18.6	33.5	36.9
Employee Cost	48.1	59.6	75.7	81.0	89.4	CFO Yield	14.1	9.1	7.8	14.1	15.6
<i>YoY Growth (%)</i>	<i>(6.2)</i>	<i>23.8</i>	<i>27.0</i>	<i>7.0</i>	<i>10.4</i>	FCF per share	9.3	14.6	(9.1)	5.7	19.8
Power & Fuel Cost	95.5	116.3	132.5	145.7	160.0	FCF Yield	3.9	6.2	(3.9)	2.4	8.3
<i>YoY Growth (%)</i>	<i>(27.9)</i>	<i>21.8</i>	<i>13.9</i>	<i>10.0</i>	<i>9.8</i>	Solvency Ratio (X)					
Other Expenses	124.9	132.7	152.2	170.3	189.7	Total Debt to Equity	0.6	0.4	0.4	0.3	0.2
<i>YoY Growth (%)</i>	<i>(36.8)</i>	<i>6.3</i>	<i>14.7</i>	<i>11.9</i>	<i>11.4</i>	Net Debt to Equity	0.6	0.3	0.3	0.2	0.1
EBITDA	39.7	103.4	161.8	188.0	228.7	Net Debt to EBITDA	6.5	1.1	0.9	0.7	0.2
<i>YoY Growth (%)</i>	<i>(41.5)</i>	<i>160.2</i>	<i>56.6</i>	<i>16.2</i>	<i>21.7</i>	Return Ratios (%)					
<i>Margin (%)</i>	<i>4.7</i>	<i>11.0</i>	<i>13.9</i>	<i>14.4</i>	<i>15.4</i>	Return on Equity	0.8	9.6	15.2	17.0	18.1
Depreciation	25.7	30.2	37.1	44.0	47.7	Return on Capital Employed	(3.0)	7.7	10.9	12.9	14.9
<i>Depreciation to Gross Block (%)</i>	<i>6.2</i>	<i>7.3</i>	<i>7.3</i>	<i>7.3</i>	<i>7.3</i>	Return on Invested Capital	2.1	12.7	18.3	18.9	22.2
EBIT	14.0	73.1	124.7	143.9	181.1	Working Capital Ratios					
<i>YoY Growth (%)</i>	<i>(68.1)</i>	<i>422.3</i>	<i>70.5</i>	<i>15.4</i>	<i>25.8</i>	Inventory Days	65	75	75	75	75
<i>Margin (%)</i>	<i>1.7</i>	<i>7.8</i>	<i>10.7</i>	<i>11.1</i>	<i>12.2</i>	Receivable Days	78	85	82	80	80
Other Income	9.4	13.0	15.0	16.8	19.2	Payable Days	27	51	50	50	50
Finance Cost	25.7	19.7	15.2	16.4	13.6	Net Working Capital Days	116	109	107	105	105
PBT	(2.3)	66.4	124.5	144.3	186.7	Net Working Capital to Sales (%)	31.9	29.9	29.3	28.8	28.8
<i>YoY Growth (%)</i>	<i>(110.5)</i>	<i>(2,961.1)</i>	<i>87.6</i>	<i>15.9</i>	<i>29.3</i>	Valuation (X)					
<i>Margin (%)</i>	<i>(0.3)</i>	<i>7.1</i>	<i>10.7</i>	<i>11.1</i>	<i>12.6</i>	P/E Ratio	287.4	21.7	11.9	8.9	6.9
Reported Tax	(5.7)	22.2	43.5	36.3	47.0	P/BV Ratio	2.3	2.1	1.8	1.5	1.2
<i>Tax Rate</i>	<i>244.0</i>	<i>33.4</i>	<i>35.0</i>	<i>25.2</i>	<i>25.2</i>	EV/EBITDA	30.6	10.4	6.8	5.8	4.4
PAT	3.3	44.2	81.0	108.0	139.7	EV/Sales	1.4	1.1	1.0	0.8	0.7
<i>YoY Growth (%)</i>	<i>(85.0)</i>	<i>1,223.2</i>	<i>83.2</i>	<i>33.4</i>	<i>29.3</i>	Cash Flow Statement					
<i>Margin (%)</i>	<i>0.4</i>	<i>4.7</i>	<i>7.0</i>	<i>8.3</i>	<i>9.4</i>	Profit Before Tax	(2.3)	66.4	124.5	144.3	186.7
Balance Sheet						Adjustments	65.0	53.6	54.5	61.6	62.9
Share Capital	40.4	40.5	40.5	40.5	40.5	Change in Working Capital	67.0	(10.5)	(60.3)	(33.8)	(53.1)
Total Reserves	373.2	418.9	493.8	595.7	729.3	Less: Tax Paid	5.7	(22.2)	(43.5)	(36.3)	(47.0)
Shareholders' Fund	413.6	459.4	534.3	636.2	769.8	Cash Flow from Operations	135.4	87.2	75.2	135.8	149.5
Long Term Borrowings	107.8	109.7	110.0	100.0	90.0	Net Capital Expenditure	(34.8)	(9.3)	(95.0)	(95.0)	(50.0)
Net Deferred Tax Liabilities	(20.0)	(9.7)	(9.7)	(9.7)	(9.7)	Change in Investments	(53.4)	16.1	0.7	(7.5)	(9.9)
Other Long Term Liabilities	1.9	1.5	1.8	2.0	2.3	Cash Flow from Investing	(88.2)	6.8	(94.3)	(102.5)	(59.9)
Long Term Provisions	20.1	1.8	2.2	2.4	2.6	Change in Borrowings	(68.6)	(75.0)	34.4	(16.1)	(66.1)
Total Liabilities	503.4	560.8	636.4	728.5	852.4	Less: Finance Cost	(25.7)	(19.7)	(15.2)	(16.4)	(13.6)
Gross Block	415.7	415.9	510.9	605.9	655.9	Proceeds from Equity	49.1	0.7	0.0	0.0	0.0
Less: Accumulated Depreciation	105.6	133.4	170.5	214.5	262.2	Cash Flow from Financing	(45.3)	(94.0)	19.2	(32.5)	(79.7)
Net Block	310.1	282.5	340.4	391.4	393.7	Net Cash Flow	2.0	0.0	0.2	0.9	10.0
<i>Fixed Asset Turnover Ratio</i>	<i>2.7</i>	<i>3.3</i>	<i>3.4</i>	<i>3.3</i>	<i>3.8</i>	Opening Balance of Cash	0.3	2.3	2.3	2.5	3.4
Capital Work in Progress	12.3	12.7	0.0	0.0	0.0	Closing Balance of Cash	2.3	2.3	2.5	3.4	13.4
Long Term Loans & Advances	34.5	15.5	19.2	21.5	24.6						
Other Non Current Assets	51.4	0.0	0.0	0.0	0.0						
Net Current Assets	95.1	250.0	276.8	315.6	434.2						
Total Assets	503.4	560.8	636.4	728.5	852.4						

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