moneywise. be wise.

# VRAJ IRON AND STEEL LIMITED

June 25, 2024

Vraj Iron And Steel Limited

**SMC Ranking**

★★☆☆☆ (2/5)

## Issue Highlights

| | |
|---|---|
| **Industry** | **Steel** |
| Fresh Issue (Shares) | 8,260,870 |
| **Net Offer to the Public** | **8,260,870** |
| Issue Size (Rs. Cr.) | 161-171 |
| Price Band (Rs.) | 195-207 |
| Offer Date | 26-Jun-24 |
| Close Date | 28-Jun-24 |
| Face Value | 10 |
| Lot Size | 72 |

## Issue Composition

| | In shares |
|---|---|
| Total Issue for Sale | 8,260,870 |
| QIB | 4,130,435 |
| NIB | 1,239,131 |
| Retail | 2,891,305 |

## Shareholding Pattern (%)

| Particulars | Pre-issue | Post -issue |
|---|---|---|
| Promoters & promoters group | 100.00% | 74.95% |
| QIB | 0.00% | 12.52% |
| NIB | 0.00% | 3.76% |
| Retail | 0.00% | 8.77% |
| **Total** | **100.00%** | **100.00%** |

*calculated on the upper price band

## Objects of the Issue

The company proposes to utilise the Net Proceeds in the following manner.

Funding for Capital Expenditure towards the "Expansion Project" at Bilaspur Plant:

Repayment or prepayment of borrowings from HDFC Bank obtained by the company for the capital expenditure towards the "Expansion Project" at Bilaspur Plant; and

Capital expenditure towards the "Expansion Project" at Bilaspur Plant.

General Corporate Purposes.

**Book Running Lead Manager**

- Aryaman Financial Services Limited

**Name of the registrar**

- Bigshare Services Private Limited

## About the company

Incorporated in June 2004, Vraj Iron and Steel Limited manufactures Sponge Iron, M.S. Billets, and TMT bars under the brand Vraj. The company runs two manufacturing plants in Raipur and Bilaspur, Chhattisgarh, covering 52.93 acres. As of March 31, 2023, the total installed capacity of the manufacturing plants was 231,600 tons per year, including intermediate and final products. The company currently has a production capacity of 57,600 TPA of MS Billets, which its rolling mills can use to manufacture TMT Bars with a production capacity of 54,000 TPA. The company's product portfolio comprises offerings such as Sponge Irons, TMT Bars, MS Billets, and by-products Dolochar, Pellets, and Pig Iron, which cater to a mix of industrial customers and end-users. The Raipur Plant has achieved the Environmental Management System Certification under the new ISO 14001:2015 standard. As of June 30, 2023, the company has a workforce of 533, including 298 permanent employees, 7 at the Registered Office, 200 at the Raipur Plant, 87 at the Bilaspur Plant, and 235 contract workers.

## Strength

**Integrated and well-established manufacturing setup:** The company currently operates 2 (two) integrated steel manufacturing plants, in Bilaspur and Raipur, Chhattisgarh. The integrated nature of its manufacturing plants has resulted in the control over all aspects of its operations (with the exception of sourcing of primary raw materials) as well as operating margins, thereby enabling it to focus more on quality and create multiple points of sale across the steel value chain. The company primarily focuses on manufacturing three main products, sponge iron, MS Billets and TMT Bars. It has a total capacity of 1,20,000 TPA for the production of Sponge Iron, where its backward integration begins. The company uses induction furnaces for production of steel. It has a captive power plant with installed capacity of 5MW which helps it to reduce energy cost. Additionally operating a captive power plant will decrease its exposure to disruptions to the electricity grid in times of power outages that can otherwise lead to costly production disruptions. The company is in the process of increasing the capacities of its existing manufacturing plants and captive power plant, which is expected to increase our aggregate installed capacity (comprising of intermediate and final products) from 2,31,600 TPA to 5,00,100 TPA and captive power plants aggregate installed capacity from 5 MW to 20 MW. The proposed expansion of Sponge Iron and Captive Power Plant are expected to become operational in Q4 of FY 2024-25 whereas MS Billets is expected to become operational in Q1 of FY 2025-26. Details for the installed capacities & proposed expansion are as below:

| Particulars | Unit of Measurement | Existing Installed Capacity | | | Proposed Expansion in Bilaspur | Installed Capacity after the Proposed Expansion | | |
|---|---|---|---|---|---|---|---|---|
| | | Raipur | Bilaspur | Total | | Raipur | Bilaspur | Total |
| Sponge Iron | TPA | 60,000 | 60,000 | **120,000** | 115,500 | 60,000 | 175,500 | **235,500** |
| MS Billets | TPA | 57,600 | - | **57,600** | 153,000 | 57,600 | 153,000 | **210,600** |
| TMT Bars | TPA | 54,000 | - | **54,000** | - | 54,000 | - | **54,000** |
| **Total Products** | **TPA** | **171,600** | **60,000** | **231,600** | **268,500** | **171,600** | **328,500** | **500,100** |
| **Captive Power Plant** | MW | 5 | - | 5 | 15 | 5 | 15 | 20 |

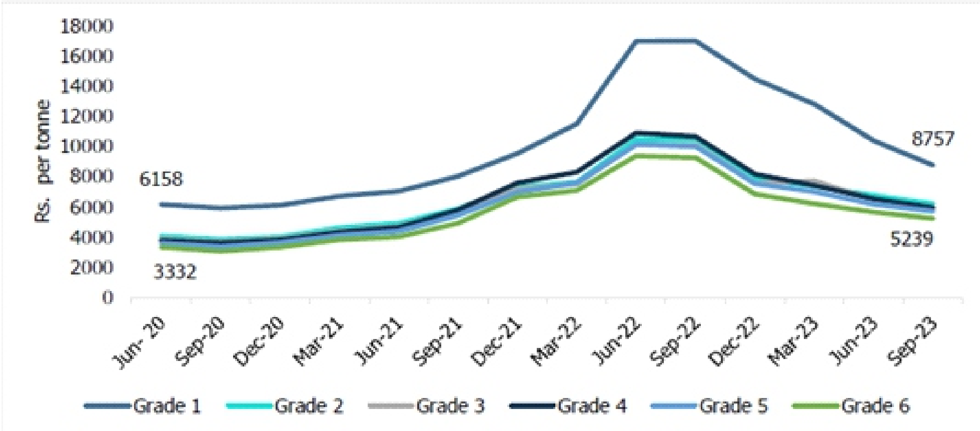
**Manufacturing plants are strategically located, supported by robust architecture, leading to cost efficiencies and a stable supply chain:** The two manufacturing plants of the company is strategically located at Bilaspur and Raipur within the mineral rich state of

Chhattisgarh and in close proximity to the mineral belt in eastern India. Its presence in these locations allows it to have easy access to raw materials and end users both which help it overcome significant entry barriers in comparison with its competitors. The company believes this lowers its transportation costs and provides it with logistics management and cost benefits, thereby improving its operating margins. The main advantages of buying raw materials from its existing suppliers are their enormous capacity, which allows it to meet its requirements of raw materials under any circumstance, reduced lead times and seamless material flow, on-time deliveries and direct line of communication. These advantages translate into higher efficiency for the company and lower prices of raw materials, resulting in better operating margins.

**Quantity and Average price of coal procured by the Company:**

| Particulars | December 31, 2023 | | Fiscal 2023 | | Fiscal 2022 | | Fiscal 2021 | |
|---|---|---|---|---|---|---|---|---|
| | Quantity (Tonne) | Average Price (INR) | Quantity (Tonne) | Average Price (INR) | Quantity (Tonne) | Average Price (INR) | Quantity (Tonne) | Average Price (INR) |
| Coal | 125,542 | 3,754 | 161,795 | 6,129 | 120,692 | 3,752 | 151,537 | 2,781 |

The historical data of the prices of different grades of coal (in Rs./tonne) in India is as depicted below:




*(Source: CareEdge Report)*

**Diversified product mix with strong focus on value added products:** Its products primarily comprise of Sponge Iron, TMT Bar and MS Billets which amounts to 96.88% 97.01%, 95.31% and 96.40% of total revenue from operations for period ended December 31, 2023, Fiscals 2023, 2022 and 2021 respectively, as per its restated Consolidated Financial Statements. Its TMT Bar is sold under the brand 'Vraj' TMT Bars. Its diversified product range has resulted in a diversified product mix, which has reduced its dependency on a particular product and de-risked its revenue streams.

**Consistent track record of growth and financial performance:** The company focus on operational and functional excellence has contributed to its track record of healthy financial performance with total income having grown at a CAGR of 33.4% between Fiscal 2021 and Fiscal 2023, EBITDA having grown at a CAGR of 67.2% between Fiscal 2021 to Fiscal 2023 and Profit After Tax at a CAGR of 121.7% between Fiscal 2021 and Fiscal 2023, on account an increase of value added products sales share, including TMT Bar and Sponge Iron, strong raw material procurement from nearby sources and margin expansions from robust cost controls. Its strong financial performance reflects the efficacy of the manufacturing and management protocols that the company has implemented and strong working capital management across its business while its steady operating cash flows enable it to meet the present and future needs of its customers and develop new value-added products.

## Strategies

**Expansion of manufacturing facilities:** Its current manufacturing facilities comprise of two plants one at Raipur spread across 19.27 acres and other at Bilaspur spread around 33.66 acres. The current manufacturing set-up consists of Sponge Iron with 120,000 TPA, MS Billets with 57,600 TPA, TMT Bars with 54,000 TPA and its captive power plant with 5 MW. The company is proposing to expand these capacities by adding capacity of Sponge Iron in Bilaspur with 115,500 TPA, MS Billets with 153,000TPA and captive power plant with 15MW, respectively, as its capacity utilization has been increasing steadily over the past three fiscals and hence, it believes expanding its capacities will enable it to cater to the evolving and increasing demand of the steel industry and serve its customers and scale the business.

| Sr. No | Particulars | Unit of Measurement | Installed Capacity as of December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021 | Utilised Capacity | | | |
|---|---|---|---|---|---|---|---|
| | | | | December 31, 2023* | Fiscal 2023 | Fiscal 2022 | Fiscal 2021 |
| 1. | Sponge Iron | TPA | 120,000 | 70.57% | 95.29% | 88.26% | 83.42% |
| 2. | MS Billets | TPA | 57,600 | 55.22% | 79.41% | 58.90% | 66.14% |
| 3. | TMT Bar | TPA | 54,000 | 36.13% | 62.71% | 39.93% | 20.77% |
| 4. | Captive Power Plant | MW | 5 | 36.88% | 57.27% | 48.93% | 47.48% |

** Not Annualized*

By adding further production capacities, the company intends to leverage its strong execution capabilities in a capital efficient manner to maintain and improve its return ratios and drive sales growth through penetrating deeper in its established regional markets, and hence the company will be able to better cater to the increased demands of its customers and gain additional cost efficiencies through economies of scale and better cost controls, leading to improving its presence across the steel value chain.

**Reduce Debt Levels and improve Debt to Equity Ratio:** As on December 31, 2023, the total debt of the company is Rs. 49.30 crore as per financial indebtedness statement. This also includes loans obtained from the banks for the on-going expansion project at Bilaspur Plant amounting to Rs. 32.85 crore. Further as on June 3, 2024, its debt for on-going expansion project at Bilaspur Plant is Rs. 70 crore as certified vide certificate dated June 4, 2024 by M/s. Amitabh Agrawal & Co., Chartered Accountants. The company intends to repay all the loans obtained for this expansion project from the Net Proceeds of the Issue and hence this would result in its debt being reduced substantially. Reducing its debt would ensure strong profitable and robust balance sheet which would lead to wealth creation for its shareholders in the long term.

**Continue to focus on improving operating efficiencies:** The growth of the company is the result of rise in its share of business with existing customers, acquiring new customers and its ability to respond to emerging industry trends towards steel and iron industries. The company intends to be a cost-efficient steel manufacturer and penetrate deeper in its regional market to capture a higher share of its existing markets, resulting in higher margins due to lower transportation costs of supplying to its local customers and better logistics management. The company intends to strengthen its relationships with its existing customers and explore opportunities to grow by expanding the production capacities in the array of products that it offers to the customers. The company has demonstrated the ability to grow, adapt and integrate in response to its customers' needs. The company also intends to leverage its relationships with existing customers to increase its wallet share and repeat business with them as well as new business, and potentially become a key vendor for such customers for specific products.

**Focus on operational efficiencies to improve returns:** The operations of the company is integrated across the product cycle, and almost all of its manufacturing processes are carried out in-house. This allows it to respond quickly and efficiently to any customer requirements or changes in global conditions without the need to depend on any external vendors. This helps the company to closely monitor the product quality, production costs and delivery schedules. The company has adopted a number of initiatives to increase its operational efficiency, such as (i) improving production line output by constantly improving productivity at the bottleneck operation through implementing

TPM (total productive maintenance) methodology on the shop floor and balancing line output through partial investments (if required), (ii) inventory management (working towards single piece flow and streamlining material movement), (iii) optimising shop floor layouts through simulation software to streamline people and material movement, (iv) reduction in internal rejection or rework by streamlining manufacturing processes.

## Risk factor

- Steel prices and demand are cyclical, meaning they experience periods of boom and bust. A decrease in steel prices could significantly hurt the company's profits and financial health.
- All of the company's manufacturing facilities are located in the same region (Raipur and Bilaspur, Chhattisgarh).This concentration makes the company vulnerable to disruptions specific to that region, such as natural disasters or infrastructure issues.
- The company's expansion project, including a captive power plant, is critical for its future growth. Failure to successfully implement this project could negatively impact its operations and financial health.
- The company has a history of negative cash flow, meaning it spends more money than it takes in. This trend could continue in the future, potentially limiting its ability to invest and grow.
- The steel industry faces competition from alternative materials and changing customer preferences. This competition could drive down steel prices and demand, impacting the company's cash flow and profitability.

## Peer comparison

| Co_Name | Total Income | PAT | EPS | P/E | P/BV | BV | FV | Price | Mcap |
|---|---|---|---|---|---|---|---|---|---|
| Sarda Energy | 3822.94 | 523.02 | 14.90 | 15.70 | 2.12 | 110.35 | 1 | 233.95 | 8243.96 |
| Godawari Power | 5455.35 | 936.55 | 68.89 | 16.45 | 3.42 | 331.13 | 5 | 1133.40 | 15408.00 |
| Shyam Metalics | 13195.22 | 1032.01 | 37.07 | 17.61 | 1.89 | 345.63 | 10 | 652.70 | 18218.94 |
| Vraj Iron & Steel Limited | 301.32 | 44.58 | 18.02 | 11.49 | 1.83 | 113.20 | 10 | 207.00 | 682.74 |

***Peer companies financials are TTM based**
*****Vraj Iron & Steel Limited Limited is based on Estimated Annualised FY24**

## Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.207, the stock is priced at pre issue P/E of 8.61x on an Estimated Annualised FY24 EPS of Rs.24.04. Post issue, the stock is priced at a P/E of 11.49x on its EPS of Rs.18.02. Looking at the P/B ratio at Rs.207 pre issue, book value of Rs. 81.85 of P/Bvx 2.53x. Post issue, book value of Rs. 113.20 of P/Bvx 1.83x.

Considering the P/E valuation, on the lower end of the price band of Rs.195, the stock is priced at pre issue P/E of 8.11x on an Estimated Annualised FY24 EPS of Rs.24.04. Post issue, the stock is priced at a P/E of 10.82x on its EPS of Rs.18.02. Looking at the P/B ratio at Rs.195 pre issue, book value of Rs. 81.85 of P/Bvx 2.38x. Post issue, book value of Rs. 113.20 of P/Bvx 1.72x.

## Industry Outlook

The Company belongs to Iron and Steel Industry. India is the second-largest steel producer in the world with an installed capacity of 161.3 MT in FY23. It is also the second- largest consumer of finished steel with a consumption of 120 MT in FY23. The Indian steel sector growth over the years has been attributed to the domestic availability of raw materials such as iron ore and cost-effective labour. Also, the industry has benefitted from domestic demands in sectors such as construction, real estate, and automobiles. Whereas the vast coastline has enabled exports and imports, making India one of the leading countries in the global steel industry.

smc
moneywise. be wise.

## Outlook

The company is engaged in manufacturing and marketing of sponge iron, M.S Billets, TMT Bars under its own brand "Vraj". Its captive power plants are helping them in reduced power costs. It is on expansion spree to meet rising demand for its products. It has posted good performances so far and post expansion, the company is confident of maintaining the trends. It's all expansion plans are likely to be on stream from Q1 of FY26. However, all of the company's manufacturing facilities are located in the same region (Raipur and Bilaspur, Chhattisgarh).This concentration makes the company vulnerable to disruptions specific to that region, such as natural disasters or infrastructure issues. A long term Investor may opt the Issue.

### An Indicative timetable in respect of the Issue is set out below:

| EVENT | INDICATIVE DATE (On or about) |
|---|---|
| BID/ISSUE OPENS ON | 26-June-24 |
| BID/ISSUE CLOSES ON | 28-June-24 |
| Finalisation of Basis of Allotment with the Designated Stock Exchange | 01-July-24 |
| Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account | 02-July-24 |
| Credit of Equity Shares to Demat Accounts of Allottees | 02-July-24 |
| Commencement of trading of the Equity Shares on the Stock Exchanges | 03-July-24 |

# Annexure

### Consolidated Financials

### Profit & Loss

Rs. in Cr.

| Particulars | Period ended 31-Dec-23 (9 Months) | Period ended 31-Mar-23 (12 Months) | Period ended 31-Mar-22 (12 Months) |
|---|---|---|---|
| Revenue from operations | 301.32 | 515.67 | 414.04 |
| Total expenditure | 242.77 | 438.99 | 366.06 |
| **Operating Profit** | **58.55** | **76.68** | **47.98** |
| OPM% | 19.43 | 14.87 | 11.59 |
| Other Income | 3.49 | 1.75 | 0.34 |
| **Total Net Income** | **62.04** | **78.43** | **48.32** |
| Interest | 1.94 | 2.99 | 3.95 |
| **PBDT** | **60.09** | **75.44** | **44.37** |
| Depreciation | 4.38 | 6.44 | 7.18 |
| **Restated Profit before tax** | **55.72** | **69.00** | **37.19** |
| **Share of Profit of associates** | **3.07** | **2.89** | **1.34** |
| **Restated Profit after Share of Profit of associates before Tax** | **58.78** | **71.88** | **38.53** |
| Tax | 14.20 | 17.89 | 9.83 |
| **PAT** | **44.58** | **54.00** | **28.70** |

**Balance sheet is on next page**

moneywise. be wise.

## Balance Sheet

Rs. in Cr.

| Particulars | As on 31-Dec-23 | As on 31-Mar-23 | As on 31-Mar-22 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 45.88 | 49.65 | 54.54 |
| Right of use assets | 3.28 | 3.31 | 3.35 |
| Capital work-in-progress | 24.49 | 0.19 | 0.19 |
| Investments accounted for using equity method | 22.14 | 16.40 | 14.02 |
| Financial Assets | | | |
| Investments | 0.74 | 1.60 | 1.45 |
| Other financial assets | 4.13 | 3.83 | 2.82 |
| Other Non Current Assets | 38.48 | 7.13 | 1.51 |
| **Total non-current assets** | **139.13** | **82.10** | **77.88** |
| **Current asset** | | | |
| Inventories | 50.35 | 31.71 | 31.93 |
| **Financial Assets** | | | |
| Trade receivables | 13.67 | 12.90 | 11.83 |
| Cash and cash equivalents | 0.18 | 0.26 | 0.28 |
| Bank balances other than (ii) above | 37.47 | 8.68 | 3.69 |
| Loans | 0.07 | 35.59 | 0.06 |
| Other financial assets | 0.38 | 0.16 | 0.12 |
| Other current assets | 11.81 | 20.13 | 24.98 |
| **Total current assets** | **113.92** | **109.44** | **72.90** |
| **Total Assets** | **253.05** | **191.54** | **150.77** |
| **Non-current liabilities** | | | |
| Borrowings | 35.39 | 7.99 | 17.09 |
| Lease liabilities | 1.41 | 1.41 | 1.42 |
| Provisions | 0.82 | 0.68 | 0.53 |
| Deferred Tax Liabilities (Net) | 2.86 | 2.55 | 2.53 |
| **Total Non- Financial liabilities** | **40.49** | **12.63** | **21.56** |
| **Current liabilities** | | | |
| **Financial Liabilities** | | | |
| Borrowings | 13.91 | 14.99 | 25.42 |
| Lease Liability | 0.16 | 0.16 | 0.16 |
| Trades Payable - MSME | 0.00 | 0.24 | 0.01 |
| Trades Payable - MESE | 4.85 | 13.26 | 7.89 |
| Other financial liabilities | 2.53 | 2.54 | 2.32 |
| Other current liabilities | 0.47 | 3.09 | 2.78 |
| Provisions | 0.05 | 0.05 | 0.05 |
| Current tax liabilities (net) | 3.10 | 3.67 | 3.44 |
| **Total Financial liabilities** | **25.06** | **38.00** | **42.07** |
| **Total** | **65.55** | **50.62** | **63.64** |
| | | | |
| Net worth represented by: | | | |
| Equity Share Capital | 24.72 | 4.94 | 4.94 |
| Other equity | 162.78 | 135.97 | 82.19 |
| **Net Worth** | **187.50** | **140.92** | **87.14** |

## RANKING METHODOLOGY

| | |
|---|---|
| **WEAK** | ★ |
| **NEUTRAL** | ★ ★ |
| **FAIR** | ★ ★ ★ |
| **GOOD** | ★ ★ ★ ★ |
| **EXCELLENT** | ★ ★ ★ ★ ★ |

E-mail: researchfeedback@smcindiaonline.com

smc
moneywise. be wise.

**Corporate Office:**
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

**Mumbai Office:**
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor ,Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

**Kolkata Office:**
18, Rabindra Sarani,
Poddar Court,Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004