Vraj Iron and Steel Limited

June 25, 2024

SMIFS LIMITED
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IPO Note

Vraj Iron and Steel ltd. is engaged in manufacturing of Sponge Iron, M.S. Billets, and TMT bars under the brand Vraj. The company currently operates through two manufacturing plants located at Raipur and Bilaspur in Chhattisgarh, spread across 52.93 acres. In 9MFY24, the aggregate installed capacity of the company's manufacturing plants was 2,31,600 tons per annum (TPA), comprising intermediate and final products. The manufacturing plant at Raipur also includes a captive power plant with an aggregate installed capacity of 5 MW as of 9MFY24.

Investment Rationale:

Expansion of manufacturing facilities:

- The company currently operates through two manufacturing plants located at Raipur and Bilaspur in Chhattisgarh, spread across 52.93 acres. In 9MFY24, the aggregate installed capacity of the company's manufacturing plants was 2,31,600 tons per annum (TPA), comprising intermediate and final products.
- The manufacturing plant at Raipur also includes a captive power plant with an aggregate installed capacity of 5 MW as of 9MFY24. The company is in the process of increasing the capacities of its existing manufacturing plants and captive power plant, which is expected to increase the aggregate installed capacity (comprising intermediate and final products) from 2,31,600 TPA to 5,00,100 TPA and the captive power plant's aggregate installed capacity from 5 MW to 20 MW.
- The proposed expansion of the Sponge Iron and Captive Power Plant is expected to become operational in Q4 of FY25, whereas MS Billets is expected to become operational in Q1 of FY26.

Manufacturing plants are strategically located, leading to cost efficiencies and a stable supply chain:

- Vraj's two manufacturing plants are strategically located at Bilaspur and Raipur within the mineral-rich state of Chhattisgarh, in close proximity to the mineral belt in eastern India. The company's presence in these locations allows it to have easy access to both raw materials and end users, helping overcome significant entry barriers compared to its competitors.
- Vraj believes this lowers its transportation costs and provides logistics management and cost benefits, thereby improving operating margins.
- The plants are tactically located near different mediums of transport that are constantly used by the business for inward and outward freight, further reducing costs and improving margins.

Reduce debt levels and improve Debt to Equity Ratio:

- The Company had obtained consent from the HDFC Bank, and this loan has no prepayment penalty. As of 9MFY24, the company's total debt is ₹492.99 million as per the financial indebtedness statement.
- This includes loans obtained from banks for the ongoing expansion project at the Bilaspur Plant amounting to ₹328.50 million. Further, as of June 3, 2024, the debt for the ongoing expansion project at the Bilaspur Plant is ₹700.00 million.
- The company intends to repay all the loans obtained for this expansion project from the Net Proceeds of the Issue, which would result in a substantial debt reduction.

Valuation and Outlook: Vraj Iron and Steel Ltd. is positioned to capitalize on the robust growth prospects of the steel industry, driven by rapid urbanization, infrastructure development, and government investments in key sectors. The steel industry is closely linked to GDP growth, with infrastructure projects and housing developments driving demand. The company's strategic expansion plans are set to significantly enhance its production capacity, which currently stands at 231,600 tons per annum (TPA) and is expected to increase to 500,100 TPA by FY26. This expansion, particularly the increase in the captive power plant's capacity from 5 MW to 20 MW, will improve operational efficiency and cost management, thereby bolstering future performance. Vraj's focus on high-margin products like TMT bars and sponge iron, coupled with robust cost control measures, has led to consistent financial growth. Also Vraj's strategy to reduce debt using proceeds from the IPO will strengthen its balance sheet, reduce interest expenses, and improve net profitability. The company reported healthy financial performance with total Income having grown at a CAGR of 33.4% between FY21 and FY23, EBITDA having grown at a CAGR of 67.2% between FY21 to FY23 and PAT at a CAGR of 121.7% between FY21 and FY23. The company's ROE and ROCE was reported at 38.32% and 44.98% respectively in FY23. We recommend a subscribe to the issue as the planned capacity expansions and reduction of debt are expected to further drive profitability through economies of scale and improved cost efficiencies. We recommend a subscribe to the issue as a good long term investment as the planned capacity expansions and reduction of debt are expected to drive future profitability.

Key Financial & Operating Metrics (Consolidated)

In INR mn	Revenue	YoY (%)	EBITDA	EBITDA %	PAT	EPS	ROE	ROCE
FY21	2907.06	-	276.54	9.51%	109.85	4.44	19.14	21.38
FY22	4140.43	42.43	484.3	11.70%	287.04	11.61	39.83	36.94
FY23	5156.71	24.55	771.7	14.96%	539.97	16.37	47.52	51.49

Issue Snapshot

Issue Open	26-June-24
Issue Close	28-June-24
Price Band	INR 195 - 207
Issue Size (Shares)	82,60,870
Market Cap (mln)	INR 12171

Particulars

Fresh Issue (INR mln)	INR 1710
OFS Issue (INR mln)	-
QIB	50%
Non-institutionals	15%
Retail	35%

Capital Structure

Pre Issue Equity	2,47,21,750
Post Issue Equity	3,29,82,620
Bid Lot	72 shares
Minimum Bid amount @ 195	INR 14040
Maximum Bid amount @ 207	INR 14904

Share Holding	Pre Issue	Post Issue
Promoters	99.99%	74.95%
Public	0.00%	25.05%

Particulars

Face Value	INR 10
Book Value	INR 108.69
EPS, Diluted	INR 16.37

Objects of the Issue

1. a. Repayment of borrowings- INR 700 mln
   b. Capex at Bilaspur plant - INR 945 mln
2. General Corporate purposes

SUBSCRIBE

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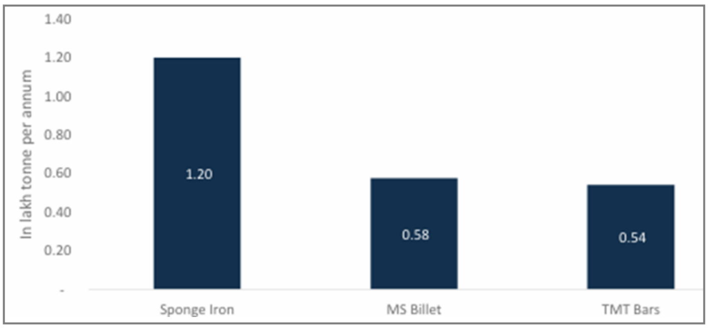
Profile of VISL:

Capacity as on March 31, 2023



Capacity and Capacity Utilisation:

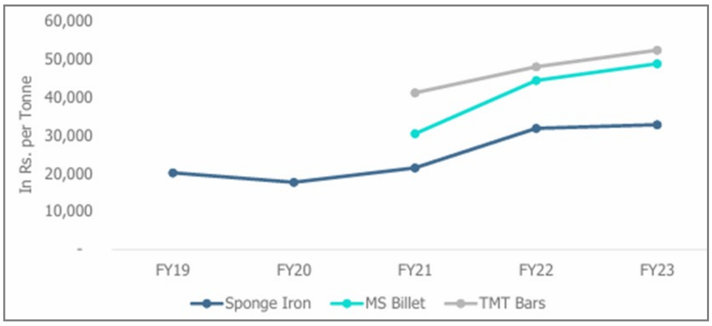
Sr. No	Particulars	Unit of Measurement	Installed Capacity as of December 31, 2023, Fiscal 2023, Fiscal 2022 and Fiscal 2021	Utilised Capacity			
				December 31, 2023*	Fiscal 2023	Fiscal 2022	Fiscal 2021
1.	Sponge Iron	TPA	120,000	70.57%	95.29%	88.26%	83.42%
2.	MS Billets	TPA	57,600	55.22%	79.41%	58.90%	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*

VISL – Product-wise Sales Volume Trend (in Tonnes)

	FY19	FY20	FY21	FY22	FY23
Sponge Iron	58,558	52,937	70,651	75,967	82,269
MS Billet	-	-	27,801	11,787	10,510
TMT Bars	-	-	10,879	21,071	34,431

VISL: Trend in Realization

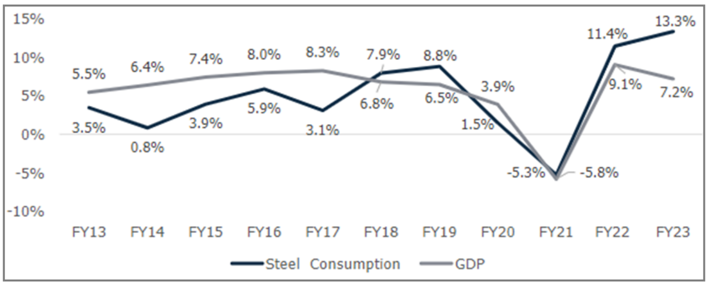


Industry Overview:

Correlation of Steel Demand with GDP Growth

The steel demand in India is closely correlated to GDP growth as expansion in GDP leads to healthy growth in construction and manufacturing as well as demand for housing, automobiles, and railways, which in turn drives steel consumption. While steel consumption growth lagged the GDP growth between FY13 to FY17, it has been broadly in line or higher than GDP growth since FY18, except in FY20.

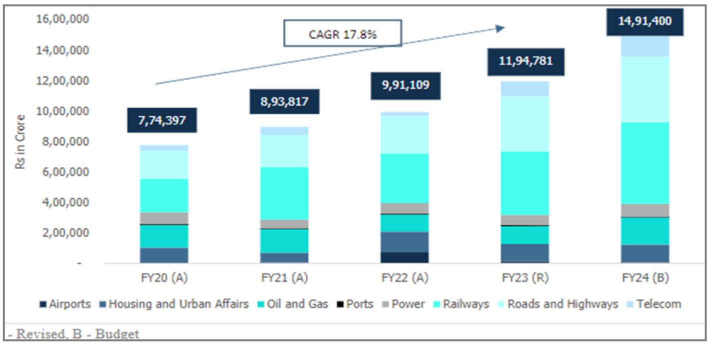
Steel Demand Growth and GDP Growth (In %)



Budgetary Outlay Towards Infrastructure and Governmental Infra-Projects

One of the key drivers for economic growth is the increased infrastructure investment thrust by the Government of India. In the Union Budget 2023-24, the government continued its focus on infrastructure development with budget estimates of capital expenditure towards the infrastructure sector of Rs. 14,91,400 crores (including investments in PSUs) in 2023-24, a 24.8% increase over the revised estimates of 2022-23. The Oil & Gas sector saw the highest increase in budgetary allocation to Rs. 1,77,908 crores, followed by telecom with Rs. 1,35,393 crores. The allocation for airports has reduced to Rs. 6,562 crores due to the sale of Air India and the privatization of airports.

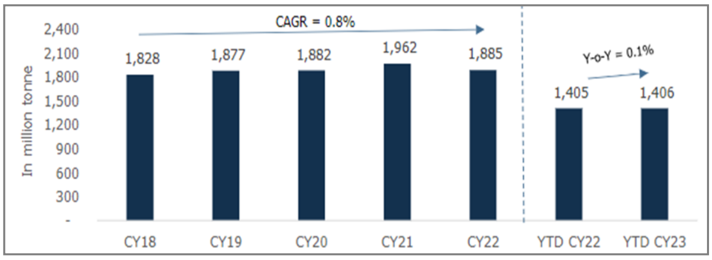
Key infrastructure sectors for Capital Expenditure in budget 2023-24



- Revised, B - Budget

Overview of steel industry

Global Crude Steel Production



Key Demand Drivers

Rapid Urbanization and Infrastructure Development: The demand for steel is rising due to rapid urbanization in developing economies, further leading to infrastructure development including residential housing, commercial buildings, and transportation. This will drive construction and infrastructure-related projects, thereby increasing the usage of steel.

Growing Population: The rising global population increases demand for various products, such as consumer goods, electronics, automobiles, etc., which, in turn, boosts the demand for steel. Additionally, growing disposable income and easy access to credit will also aid the growth in demand.

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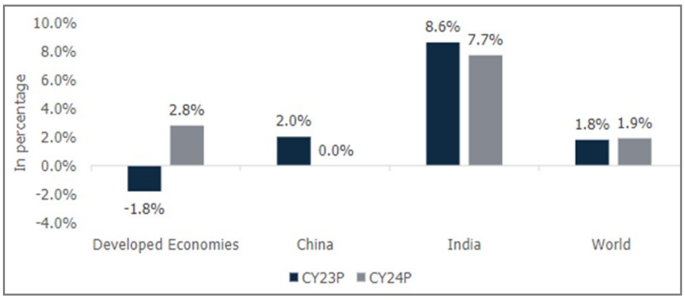
Government Investments in Infrastructure: The investments in infrastructure by the governments in various countries will drive the demand for steel as it is essential in providing structural support. These investments provide job opportunities for individuals across the countries and contribute to the overall economic growth.

Thriving Automobile Sector: The automobile sector is one of the major steel consumers globally. The steel demand is expected to be driven by the expanding global automobile industry, particularly in emerging countries. Furthermore, several countries are transitioning to electric vehicles (EVs). EVs require sizable investments in battery manufacturing, which heavily relies on steel. Thus, this transformation is likely to boost the steel demand in the auto industry.

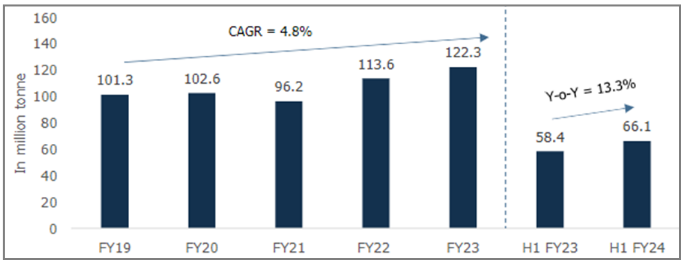
Environment Sustainability Awareness: There is a growing need for sustainable development leading to the shift toward renewable energy sources, such as solar panels and wind turbines, which require substantial usage of steel. This will increase the global consumption of steel.

Growing Demand for Reconstruction and Replacement: The steel demand for replacement and maintenance activities is on the rise. There is a regular need to replace existing infrastructure, mainly water and transportation infrastructure, and industrial facilities to provide better facilities to individuals across economies.

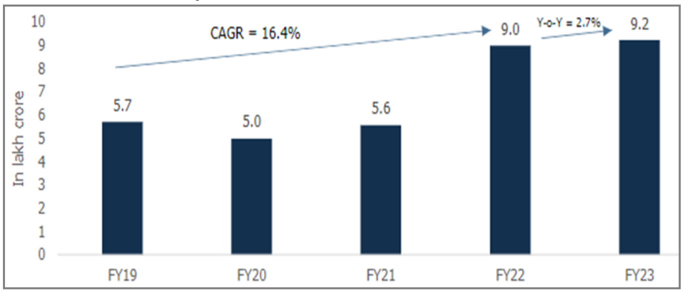
Steel Demand Growth Projections



India's Finished Steel Production



Finished Steel Industry Size

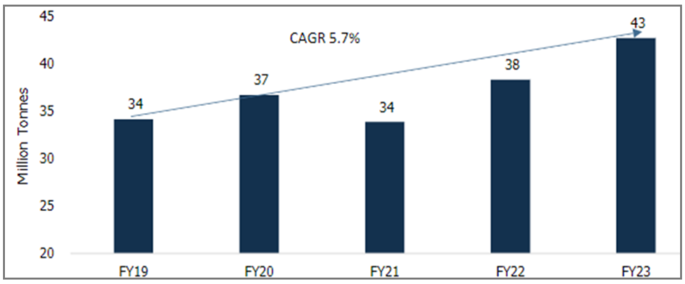


Trend in India's Consumption of Sponge Iron, Billets and TMT Bars/Rods

Sponge Iron

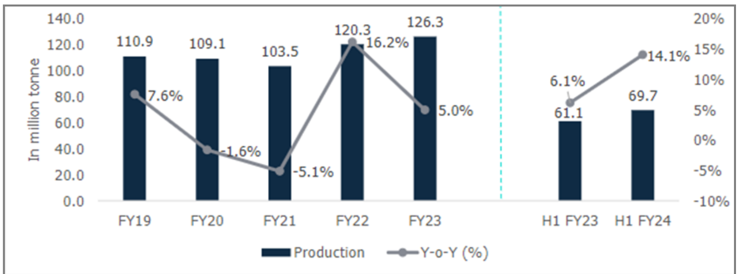
The domestic sponge iron consumption has grown at a CAGR of 5.7% over the past five years from 34 MT in FY19 to 43 MT in FY23.

Sponge Iron Consumption (FY19-FY23)



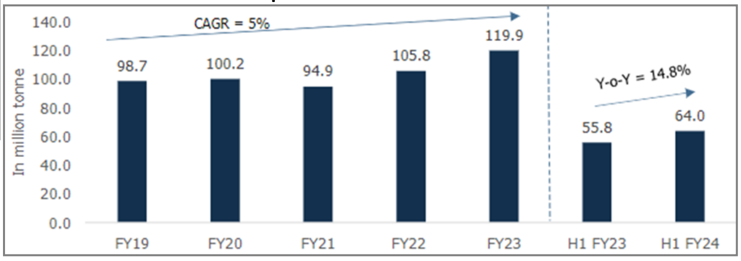
Overview of the Indian Steel Industry

Domestic Crude Steel Production

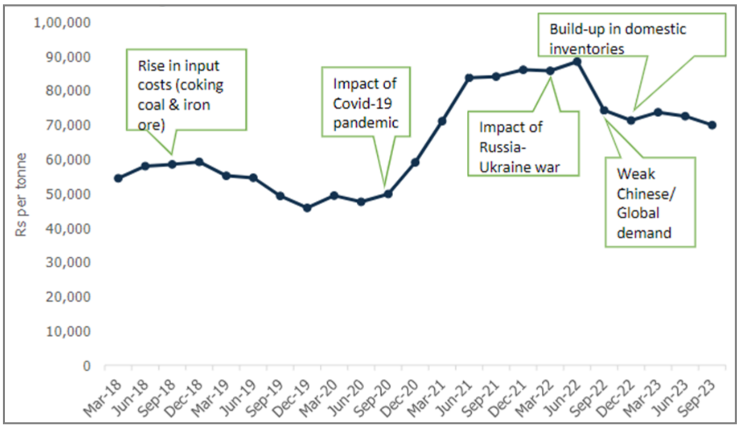


Source: CMIE
Note: H1 FY23 refers to the period from April 2022-September 2022
H1 FY24 refers to the period from April 2023- September 2023

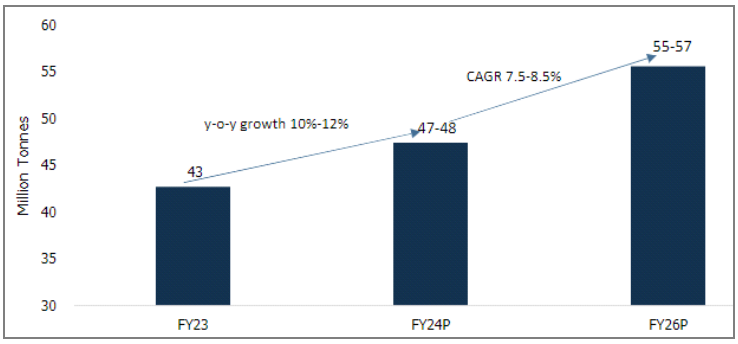
India's Finished Steel Consumption



Domestic Average Finished Steel Prices

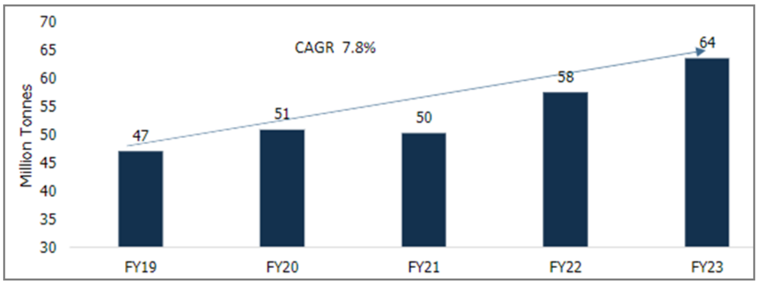


Sponge Iron Consumption (FY23-FY26P)

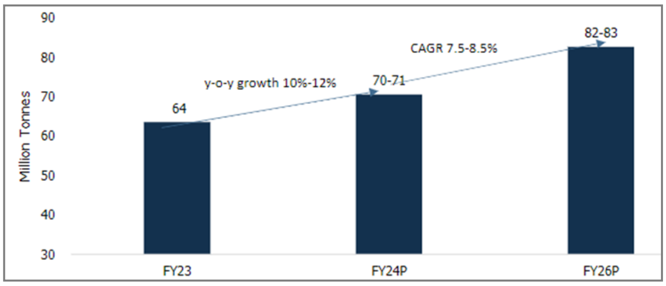


Billets

Billets Consumption (FY19-FY23)

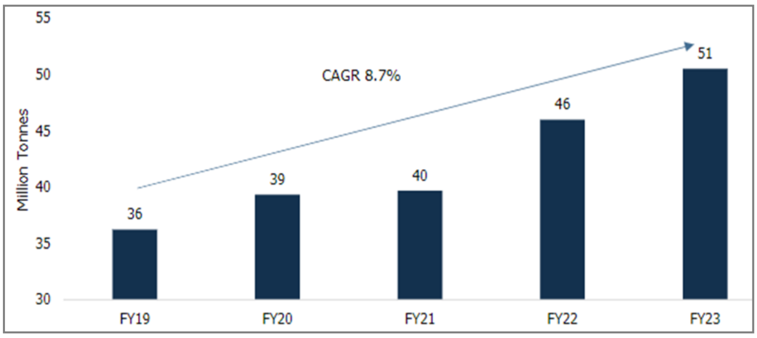


Billets Consumption (FY23-FY26P)

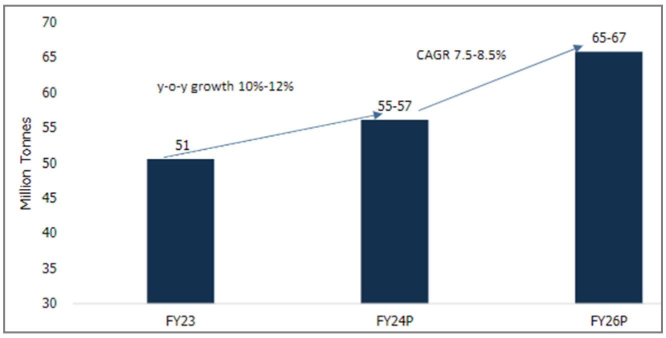


TMT Bars/Rods

TMT Bars & Rods Consumption (FY19-FY23)



TMT Bars & Rods Consumption (FY23-FY26P)



Investment rationale:

Expansion of manufacturing facilities: The company currently operates through two manufacturing plants located at Raipur and Bilaspur in Chhattisgarh, spread across 52.93 acres. In 9MFY24, the aggregate installed capacity of the company's manufacturing plants was 2,31,600 tons per annum (TPA), comprising intermediate and final products. The manufacturing plant at Raipur also includes a captive power plant with an aggregate installed capacity of 5 MW as of 9MFY24. The company is in the process of increasing the capacities of its existing manufacturing plants and captive power plant, which is expected to increase the aggregate installed capacity (comprising intermediate and final products) from 2,31,600 TPA to 5,00,100 TPA and the captive power plant's aggregate installed capacity from 5 MW to 20 MW. The proposed expansion of the Sponge Iron and Captive Power Plant is expected to become operational in Q4 of FY25, whereas MS Billets is expected to become operational in Q1 of FY26. By adding further production capacities, Vraj intends to leverage the company's strong execution capabilities in a capital-efficient manner to maintain and improve its return ratios and drive sales growth by penetrating deeper into its established regional markets. 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 an improved presence across the steel value chain. In addition, the company believes its expansion plans and strategy will allow it to meet the anticipated increase in steel demand in the future, enabling it to supply growing markets more efficiently and drive profitability.

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**

Cost of Expansion Project at Bilaspur Plant

(₹in million)

Particulars	Estimated Cost
Land & Site Development	Nil
Building & Civil Works	282.70
Plant & Machinery and other Equipments	1,314.40
Preoperative Expenses	47.90
Total	**1,645.00**

Manufacturing plants are strategically located, leading to cost efficiencies and a stable supply chain: Vraj's two manufacturing plants are strategically located at Bilaspur and Raipur within the mineral-rich state of Chhattisgarh, in close proximity to the mineral belt in eastern India. The company's presence in these locations allows it to have easy access to both raw materials and end users, helping overcome significant entry barriers compared to its competitors. Vraj believes this lowers its transportation costs and provides logistics management and cost benefits, thereby improving operating margins.

Moreover, Chhattisgarh accounted for the second-highest share (18.1%) in domestic iron ore production in FY21 and the highest share (22.1%) in domestic coal production in FY21. Furthermore, Odisha accounted for the highest share (51.2%) in domestic iron ore production in FY21, the second-highest share (21.5%) in domestic coal production in FY21, and the third-highest share (18.0%) in domestic manganese ore production in FY21. Such access and nearby availability of raw materials reduce the company's freight and fuel costs.

The plants are tactically located near different mediums of transport that are constantly used by the business for inward and outward freight, further reducing costs and improving margins. The company has entered into agreements for the purchase of iron ore lumps with NMDC Limited and fuel-supply agreements for the purchase of coal with South Eastern Coalfields Limited, enabling smooth production flow in its plants. The main advantages of buying raw materials from these existing suppliers are their enormous capacity, which allows them to meet Vraj's requirements under any circumstance, their reduced lead times, seamless material flow, on-time deliveries, and direct lines of communication. These advantages translate into higher efficiency and lower prices for raw materials, as can be observed in the table below, resulting in better operating margins.

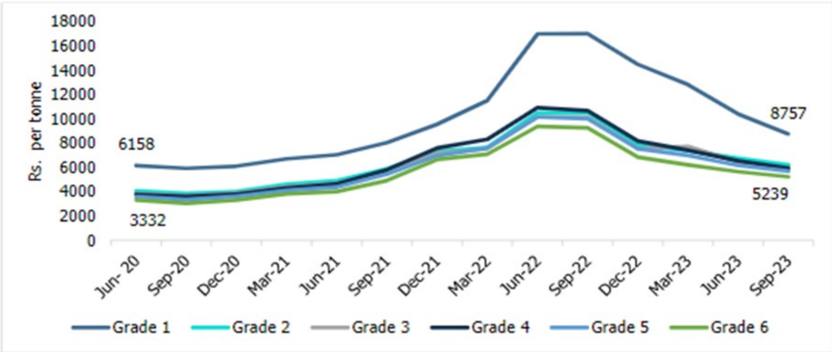
Vraj Iron and Steel Limited

June 25, 2024

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:



Reduce debt levels and improve Debt to Equity Ratio: The Company had obtained consent from the HDFC Bank, and this loan has no prepayment penalty. As of 9MFY24, the company's total debt is ₹492.99 million as per the financial indebtedness statement. This includes loans obtained from banks for the ongoing expansion project at the Bilaspur Plant amounting to ₹328.50 million. Further, as of June 3, 2024, the debt for the ongoing expansion project at the Bilaspur Plant is ₹700.00 million. The company intends to repay all the loans obtained for this expansion project from the Net Proceeds of the Issue, which would result in a substantial debt reduction. Reducing the company's debt would ensure a strong, profitable, and robust balance sheet, leading to wealth creation for shareholders in the long term.

Consistent track record of growth and financial performance: Vraj's focus on operational and functional excellence has contributed to its track record of healthy financial performance, with total income growing at a CAGR of 33.4% between FY21 and FY23, EBITDA growing at a CAGR of 67.2% between FY21 and FY23, and PAT growing at a CAGR of 121.7% between FY21 and FY23. This growth is attributed to an increase in the sales share of value-added products, including TMT Bar and Sponge Iron, strong raw material procurement from nearby sources, and margin expansions from robust cost controls.

For 9MFY24 and FY23, FY22, and FY21, the company's total revenue from operations from the manufacturing business was ₹2,984.89 million, ₹5,095.01 million, ₹4,086.47 million, and ₹2,890.88 million, respectively. For 9MFY24 and FY23, FY22, and FY21, Vraj achieved an EBITDA margin of 21.61%, 15.77%, 11.99%, and 10.01%, respectively. For the same periods, the company achieved a profit margin of 14.79%, 10.47%, 6.93%, and 3.78%, respectively.

This strong financial performance is attributable to the company's continued focus on product quality and process improvement, higher-margin products, competitive pricing, and cost rationalization. The company's strong financial performance reflects the efficacy of the manufacturing and management protocols that have been implemented and strong working capital management across the business.

Valuation and outlook: Vraj Iron and Steel Ltd. is positioned to capitalize on the robust growth prospects of the steel industry, driven by rapid urbanization, infrastructure development, and government investments in key sectors. The steel industry is closely linked to GDP growth, with infrastructure projects and housing developments driving demand. The company's strategic expansion plans are set to significantly enhance its production capacity, which currently stands at 231,600 tons per annum (TPA) and is expected to increase to 500,100 TPA by FY26. This expansion, particularly the increase in the captive power plant's capacity from 5 MW to 20 MW, will improve operational efficiency and cost management, thereby bolstering future performance. Vraj's focus on high-margin products like TMT bars and sponge iron, coupled with robust cost control measures, has led to consistent financial growth. Also Vraj's strategy to reduce debt using proceeds from the IPO will strengthen its balance sheet, reduce interest expenses, and improve net profitability. The company reported healthy financial performance with total Income having grown at a CAGR of 33.4% between FY21 and FY23, EBITDA having grown at a CAGR of 67.2% between FY21 to FY23 and PAT at a CAGR of 121.7% between FY21 and FY23. The company's ROE and ROCE was reported at 38.32% and 44.98% respectively in FY23. We recommend a subscribe to the issue as the planned capacity expansions and reduction of debt are expected to further drive profitability through economies of scale and improved cost efficiencies. We recommend a subscribe to the issue as a good long term investment as the planned capacity expansions and reduction of debt are expected to drive future profitability.

Particulars	Vraj Iron & Steel Ltd.	Sarda Energy & Minerals Limited	Godawari Power & Ispat Ltd.	Shyam Metalics & Energy Ltd.
Revenue	5,156.71	42,119.00	57,530.40	1,26,101.80
EBITDA	813.14	11,100.00	12,367.60	14,860.30
EBITDA Margin (%)	15.77%	26.35%	21.50%	11.78%
PAT	539.97	6,039.80	7,933.60	8,484.10
PAR Margin %	10.47%	14.34%	13.79%	6.73%
ROE %	38.32%	18.83%	21.98%	13.06%
Net Debt / EBITDA	0.28	1.32	-0.19	0.3

Particulars	CMP	EPS	P/E
Vraj Iron & Steel Limited	207	18.02	11.49
Sarda Energy and Minerals Limited	236	14.84	15.9
Godawari Power and Ispat Limited	1135	68.89	16.48
Shyam Metalics and Energy Limited	656	37.07	17.7

Peer Comparison

IPO Note

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Income Statement

Y/E (INR mn)	FY21	FY22	FY23
Revenue	2907.06	4140.43	5156.71
Expenses:			
Employee Cost	55.72	66.34	72.93
Total Expenses	2630.52	3656.13	4385.01
EBITDA	276.54	484.30	771.70
EBITDA Margin %	9.51%	11.70%	14.96%
Interest	62.08	43.99	34.80
Depreciation	72.66	71.82	64.42
Other Income	2.26	3.40	17.50
PBT	144.06	371.89	689.98
PAT	109.85	287.04	539.97
EPS	4.44	11.61	21.84

Balance Sheet

Y/E (INR mn)	FY21	FY22	FY23
Source of funds			
Equity Share Capital	49.44	49.44	49.44
Reserves	524.43	817.88	1355.64
Total Share holders funds	573.87	867.32	1405.08
Total Debt	457.81	425.14	229.82
Curent Liabilities	389.35	492.18	521.65
Trade Payables	119.67	78.99	134.98
Total Non-Current Liabilities	320.47	215.64	126.28
Total Liabilities	1283.69	1575.14	2053.01
Application of funds			
Fixed Assets	638.43	578.89	529.52
Cash and Bank	34.02	39.69	89.45
Total Current Assets	469.20	800.43	1236.07
Other current assets	3.78	2.51	5.30
Sundry Debtors	69.86	118.35	128.95
Total Assets	1283.69	1575.14	2053.01

Cash Flow

Y/E (INR mn)	FY21	FY22	FY23
Profit Before Tax	144.06	371.89	689.98
Adjustment	130.31	108.16	77.37
Changes In working Capital	-18.93	-328.24	36.66
Cash Flow after changes in Working	255.44	151.81	804.01
Tax Paid	-33.36	-64.37	-175.28
Cash From Operating Activities	222.08	87.44	628.73
Cash Flow from Investing Activities	-60.02	-13.60	-403.68
Cash from Financing Activities	-161.48	-72.16	-225.20
Net Cash Inflow / Outflow	0.58	1.68	-0.15
Opening Cash & Cash Equivalents	0.50	1.10	2.79
Closing Cash & Cash Equivalent	1.08	2.78	2.64

Key Ratios

Y/E (INR mln)	FY21	FY22	FY23
Growth Ratio			
Net Sales Growth(%)	0.00	42.43	24.55
EBITDA Growth(%)	0.00	74.93	61.82
PAT Growth(%)	0.00	161.30	88.12
Margin Ratios			
Gross Profit	24.85	23.07	25.81
PBIDTM	9.59	11.78	15.30
EBITM	7.59	10.37	14.61
PBT	5.45	9.31	13.94
PAT	3.78	6.93	10.47
Return Ratios			
ROA	8.56	20.08	29.77
ROE	19.14	39.83	47.52
ROCE	21.38	36.94	51.49
Turnover Ratios			
Asset Turnover(x)	2.26	2.90	2.84
Inventory Turnover(x)	12.92	15.22	16.21
Debtors Turnover(x)	41.61	44.00	41.70
Fixed Asset Turnover (x)	3.06	4.34	5.34
Solvency Ratios			
Total Debt/Equity(x)	0.80	0.49	0.16
Current Ratio(x)	1.21	1.63	2.37
Quick Ratio(x)	0.63	0.98	1.76
Interest Cover(x)	3.55	9.76	21.66

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