



## Company Overview

Vraj Iron and Steel is engaged in the manufacturing and sales of Sponge Iron, MS Billets, and TMT Bars under the brand Vraj. It currently operates through two manufacturing plants which are located at Raipur and Bilaspur in Chhattisgarh spread across 52.9 acres. As of December 31, 2023, the aggregate installed capacity of its manufacturing plants was 231,600 TPA (comprising of intermediate and final products). Its manufacturing plant at Raipur also includes a captive power plant with an aggregate installed capacity of 5 MW as of December 31, 2023. The company's primary products including Sponge Iron, TMT Bars, MS Billets and by-products including Dolochar, Pellet and Pig Iron cater to a mix of customers that consist of industrial customers and end-users. The company sells its products directly as well as through brokers / dealers. As of December 31, 2023, the company had a workforce of 531 employees and workers, comprising of 296 permanent employees including three Directors, nine employees at the Registered Office, 193 employees at Raipur plant and 91 employees at Bilaspur plant and 235 contract workers. The company's EBITDA margin stood at 21.6%, 15.8%, 12.0% and 10.0% and PAT margin at 14.8%, 10.5%, 6.9% and 3.8% for 9MFY24, FY23, FY22 and FY21, respectively.

## Objects of the issue

The company proposes to utilise the net proceeds in the following manner:

- ⇒ Funding of capital expenditure towards the "Expansion Project" at Bilaspur plant:
  - a) Repayment or prepayment of borrowings from HDFC Bank obtained by the company for the capital expenditure towards the expansion project at Bilaspur plant and
  - b) Capital expenditure towards the expansion project at Bilaspur plant.
- ⇒ General corporate purposes.

## Investment Rationale

### Integrated and well-established manufacturing footprint enables a competitive advantage

The integrated nature of the company's manufacturing plants has resulted in the control over all aspects of operations (with the exception of sourcing of primary raw materials) as well as operating margins, thereby enabling the company 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 having a total capacity of 120,000 TPA, MS Billets with a total capacity of 57,600 TPA and TMT Bars having a total capacity of 54,000 TPA. The company also has a captive power plant with an installed capacity of 5MW which helps to reduce energy cost. The company is proposing to expand these capacities by adding capacity of Sponge Iron in Bilaspur with 115,500 TPA, MS Billets with 153,000 TPA and captive power plant with 15MW, respectively, as their capacity utilization has been increasing steadily over the past three fiscals. Hence, the company believes that an expansion of these capacities will enable it to cater to the evolving and increasing demand of the steel industry and scale its business further.

### Diversified product mix with a strong focus on value added products

The company's products primarily comprise of Sponge Iron, TMT Bars and MS Billets, amounting to 96.9% 97.0%, 95.3% and 96.4% of total revenue from operations for 9MFY24, FY23, FY22 and FY21, respectively. The company's diversified product mix has reduced their dependency on a particular product and de-risked its revenue streams. For 9MFY24, FY23, FY22 and FY21, the company witnessed a shift in its sales mix, with TMT Bars contributing 30.3%, 34.9%, 24.4% and 15.4%, respectively. Sponge Iron has also contributed around 53% share to their revenue from operations during the last three years and 9MFY24. The company believes that such integrated operations will result in cost efficiencies and higher operating margins going ahead.

## Issue Details

Offer Period	26 <sup>th</sup> June 2024 - 28 <sup>th</sup> June 2024
Price Band	Rs.195 to Rs.207
Bid Lot	72
Listing	BSE & NSE
Issue Size (no. of shares in mn)	8.2
Issue Size (Rs. in bn)	1.7
Face Value (Rs.)	10

## Issue Structure

QIB	50%
NIB	15%
Retail	35%

BRLM Aryaman Financial Services Ltd.

Registrar Bigshare Services Pvt. Ltd.

Particulars	Pre Issue %	Post Issue %
Promoters and promoter group	100.00	74.95
Public	0.00	25.05
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

# Vraj Iron and Steel Ltd.

## Valuation

The average global finished steel consumption per capita was recorded at 222 kg in CY22. In comparison, India has a consumption rate of 81.1 kg per capita in CY22 which is considerably lower than the global average. The National Steel Policy estimates that the per capita finished consumption of steel in India will increase to 158-160 kg by 2031. Further, steel output has an output multiplier of 1.4x on GDP and an employment multiplier of 6.8x domestically. Thus, the steel industry is expected to showcase significant domestic potential and play a key role in the future economic growth of India. The domestic growth prospects aligns with Vraj Iron and Steel which is a Sponge Iron, MS Billets and TMT Bars manufacturing company with a strong focus on improving operational efficiency, robust supply chain management and prudent debt management. The company is aiming to be a cost-efficient steel manufacturer and penetrate deeper into the regional market to capture a higher share of the existing market. The company is also planning to expand its existing manufacturing and power plant capacity which will further help in improving its financial performance and provides an edge over its competitors. On the financial front, the Revenue/EBITDA/PAT grew at a CAGR of 33%/67%/121% between the fiscal years 2021 and 2023. **On the upper price band, the issue is valued at a P/E of 8.6x based on FY24 earnings, which we feel is fairly valued. We, therefore, recommend a SUBSCRIBE rating for the issue.**

## Key Risks

- ⇒ 100% of the company's revenue is derived from its steel products. Volatility in the demand and pricing in the iron and steel industry is cyclical in nature. A decrease in steel prices may have an adverse effect on its business.
- ⇒ The company derives significant portion of its revenue from its top 10 customers. In the case that the company loses one or more of these customers, it would have a negative impact on its business.
- ⇒ The company faces substantial competition from domestic steel producers. Developments in the competitive environment in the steel industry, such as consolidation among its competitors, could have adverse effect on its competitive position.

# Vraj Iron and Steel Ltd.

## Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
<b>Revenue</b>				
Revenue from Operations	2,907	4,140	5,157	3,013
<b>Total Revenue</b>	<b>2,907</b>	<b>4,140</b>	<b>5,157</b>	<b>3,013</b>
<b>Expenses</b>				
Cost of material consumed	2,132	3,143	3,755	2,055
Changes in inventory	34	-12	11	-99
Employee benefit expenses	56	66	73	58
Purchase of stocks in trade	18	54	60	27
Other expenses	392	409	491	386
<b>Total Operating Expenses</b>	<b>2,633</b>	<b>3,661</b>	<b>4,390</b>	<b>2,428</b>
<b>EBITDA</b>	<b>274</b>	<b>480</b>	<b>767</b>	<b>585</b>
Depreciation and Amortization expenses	73	72	64	44
Other income	2	3	18	35
<b>EBIT</b>	<b>204</b>	<b>411</b>	<b>720</b>	<b>577</b>
Finance costs	60	39	30	19
Share of Profit(Loss) of associate	14	13	29	31
<b>PBT</b>	<b>159</b>	<b>385</b>	<b>719</b>	<b>588</b>
Current tax	39	95	178	141
Deferred Tax charge/ (credit)	9	3	1	1
<b>Total tax</b>	<b>49</b>	<b>98</b>	<b>179</b>	<b>142</b>
<b>PAT</b>	<b>110</b>	<b>287</b>	<b>540</b>	<b>446</b>
<b>Diluted EPS</b>	<b>4.4</b>	<b>11.6</b>	<b>21.8</b>	<b>18</b>
<b>Particulars</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>9MFY24</b>
Cash Flow from operating activities	222	87	629	-102
Cash flow from investing activities	-60	-14	-404	-143
Cash flow from financing activities	-161	-72	-225	244
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1</b>	<b>2</b>	<b>-0</b>	<b>-1</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1</b>	<b>1</b>	<b>3</b>	<b>3</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>2</b>

Source: RHP, BP Equities Research

# Vraj Iron and Steel Ltd.

## Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	9MFY24
<b>Assets</b>				
<b>Non-Current Assets</b>				
Property, plant and equipment	605	545	496	459
Right of Use assets	34	33	33	33
Capital WIP	2	2	2	245
Investments accounted for using equity method	122	140	164	221
<b>Financial Assets</b>				
(i) Investments	11	14	16	7
(ii) Other financial assets	38	28	38	41
Other non current assets	8	15	71	385
<b>Total Non current assets</b>	<b>819</b>	<b>779</b>	<b>821</b>	<b>1,391</b>
<b>Current Assets</b>				
Inventories	225	319	317	504
<b>Financial Assets</b>				
(i) Trade Receivables	70	118	129	137
(ii) Cash and cash equivalents	1	3	3	2
(iii) Balances other than cash and cash equivalents	33	37	87	375
(iv) Loans	1	1	356	1
(v) Other financial assets	1	1	2	4
Other current assets	114	250	201	118
<b>Total Current Assets</b>	<b>445</b>	<b>729</b>	<b>1,094</b>	<b>1,139</b>
<b>Total Assets</b>	<b>1,263</b>	<b>1,508</b>	<b>1,915</b>	<b>2,530</b>
<b>Equity and Liabilities</b>				
Equity Share Capital	49	49	49	247
Other Equity	529	822	1360	1628
<b>Total Equity</b>	<b>578</b>	<b>871</b>	<b>1,409</b>	<b>1,875</b>
<b>Liabilities</b>				
<b>Non-Current Liabilities</b>				
<b>Financial Liabilities</b>				
(i) Borrowings	282	171	80	354
(ii) Lease Liabilities	14	14	14	14
Provisions	4	5	7	8
Deferred tax liabilities (net)	20	25	25	29
<b>Total Non-Current Liabilities</b>	<b>320</b>	<b>216</b>	<b>126</b>	<b>405</b>
<b>Current Liabilities</b>				
<b>Financial Liabilities</b>				
(i) Borrowings	175	254	150	139
(ii) Lease liabilities	2	2	2	2
(iii) Trade Payables				
Due to micro and small enterprise	0	0	2	0
Due to other than micro and small enterprise	119	79	133	49
(iv) Other financial liabilities	32	23	25	25
Other current liabilities	32	28	31	5
Provisions	0	0	1	1
Current tax liabilities (net)	4	34	37	31
<b>Total Current Liabilities</b>	<b>365</b>	<b>421</b>	<b>380</b>	<b>251</b>
<b>Total Equity and Liabilities</b>	<b>1,263</b>	<b>1,508</b>	<b>1,915</b>	<b>2,530</b>

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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