

One Stop Investment Avenue



GEPL
CAPITAL



IPO Note

VRAJ IRON AND STEEL LTD

Jun 26, 2024





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Details of the Issue

Price Band	₹ 195 - ₹ 207
Issue Size	₹ 171 Cr
Face Value	₹ 10
Bid Lot	72
Listing on	BSE, NSE
Post Issue Mcap	₹ 682.74 Cr
Investment Range	₹ 14,040 - ₹ 14,904

Important Indicative Dates (2024)

Opening	26 - Jun
Closing	28 - Jun
Basis of Allotment	01 - July
Refund Initiation	02 - July
Credit to Demat	02 - July
Listing Date	03 - July

Lead Manager

Aryaman Financial Services Limited

Offer Details

Offer Size	₹ 171 Cr
Fresh Issue	₹ 171 Cr
OFS	-

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	85.5	4.13	4.38	50
NIB	25.65	1.23	1.31	15
Retail	59.8	2.89	3.06	35
Em-ploy.	-	-	-	-
Total	171	8.20	8.76	100

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Company Profile

Vraj Iron and Steel Limited, established in June 2004, operates two manufacturing facilities across 52.93 acres in Raipur and Bilaspur, Chhattisgarh. Specializing in Sponge Iron, M.S. Billets, and TMT Bars branded as Vraj, the company boasts an annual production capacity of 231,600 tons as of March 31, 2023. Their product lineup includes Sponge Iron, TMT Bars, MS Billets, and by-products like Dolochar, Pellets, and Pig Iron, serving both industrial clients and end-users. The Raipur Plant is ISO 14001:2015 certified for Environmental Management, underscoring their commitment to sustainability. With a workforce of 533 as of June 30, 2023, including 298 permanent employees and 235 contract workers, Vraj Iron and Steel remains a significant player in the steel manufacturing sector.

Business Highlights & Services

Company operate two manufacturing plants located in Raipur and Bilaspur, Chhattisgarh, covering 52.93 acres. As of December 31, 2023, these plants have a combined installed capacity of 231,600 TPA (intermediate and final products) and include a 5 MW captive power plant in Raipur. Company expanding its capacities to 500,100 TPA and increasing the power plant's capacity to 20 MW. The Sponge Iron and Captive Power Plant expansion will be operational by Q4 FY 2024-25, and MS Billets by Q1 FY 2025-26. Company product range includes Sponge Iron, TMT Bars, MS Billets, and by-products like Dolochar, Pellet, and Pig Iron, catering to industrial customers and end-users directly or through brokers/dealers. It Raipur plant has received the ISO 14001: 2015 Environment Management System Certification.

As of December 31, 2023, the workforce comprised 531 employees and workers, with 296 permanent employees (including 3 Directors and 9 at the Registered Office), 193 at the Raipur Plant, 91 at the Bilaspur Plant, and 235 contract workers.

As of December 31, 2023, company total debt stands at ₹492.99 Mn, including ₹328.50 Mn in loans for the ongoing expansion project at the Bilaspur Plant. By June 3, 2024, debt for this project increased to ₹700.00 Mn, as certified by M/s. Amitabh Agrawal & Co., Chartered Accountants. It plan to repay these loans using the Net Proceeds of the Issue, significantly reducing the debt and strengthening their balance sheet, which will enhance long-term shareholder value.



Company growth is driven by increasing business with existing customers, acquiring new ones, and adapting to trends in the steel and iron industries. It aim to be a cost-efficient steel manufacturer, deepen on regional market presence, and improve margins through reduced transportation costs and better logistics. It plan to expand production capacities and strengthen relationships with existing customers, leveraging these relationships to increase its market share and secure repeat and new business. The strategy is to become a key vendor for specific products, demonstrating the ability to grow and adapt to customer needs.

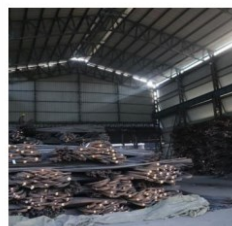
Company have achieved a RoCE of 25.34%, 44.98%, 32.14%, and 20.68% and a RoE of 23.78%, 38.32%, 32.94%, and 19.01% for the nine months ended December 31, 2023 (non-annualised) and Fiscals 2023, 2022, and 2021, respectively. Company integrated operations span the entire product cycle, with in-house manufacturing enabling quick, efficient responses to customer needs and global changes. This integration ensures tight control over product quality, production costs, and delivery schedules.



To enhance operational efficiency, it have implemented TPM on the shop floor, improved inventory management, optimized shop floor layouts using simulation software, and reduced internal rejection and rework. It continuously monitor and benchmark operational efficiency across the plants, distributing activities to optimize capacity utilization.

Business Segment and Brand portfolio

Sr. No.	Name of Product	Description	End use
1	Sponge Iron 	A critical raw material for the steel industry. Sponge iron is the key raw material required to manufacture good quality steel. Sponge iron is a spongy mass of iron which is a metallic product produced through direct reduction of iron ore/iron pellet in the solid state. It is quite versatile and can be used in both induction as well as electric arc furnaces. It is used as raw material for Billets manufacturing. Our Company has an installed capacity of producing over 1, 20,000 TPA of Sponge iron annually.	Industrial-Downstream steel manufacturing
2	MS Billets 	MS Billets are semi-finished casting product produced in a steel mill that needs to be further processed to transform them into a finished good. It is around or square cross-sectioned metal length which is created directly by the process of continuous casting or by indirectly hot rolling an ingot. It is used as raw material for TMT Bars manufacturing.	Industrial-Downstream steel manufacturing
3	TMT Bars	TMT steel bars of exceptional quality are manufactured through a hot rolling process in which heated iron billets are continuously	Industrial

Sr. No.	Name of Product	Description	End use
		passed through rollers of decreasing diameters. This TMT Saria is passed through a water cooling system for thermo mechanical treatment after which they exit the last rolling mill.	

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%



Industries Outlook

Chart 28: Sponge Iron Consumption (FY23-FY26P)

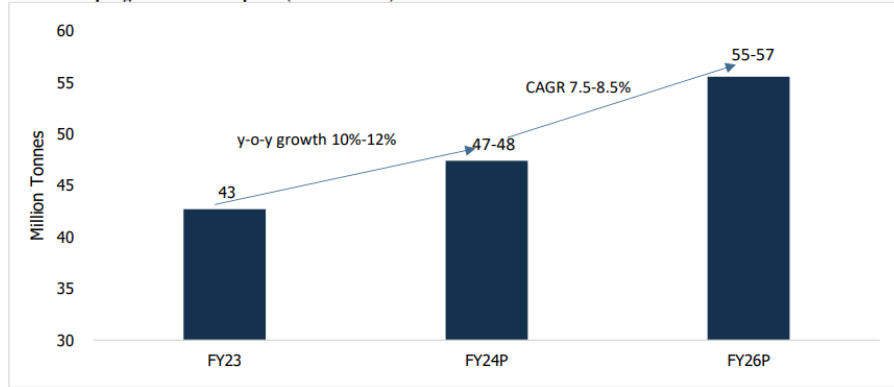


Chart 30: Billets Consumption (FY23-FY26P)

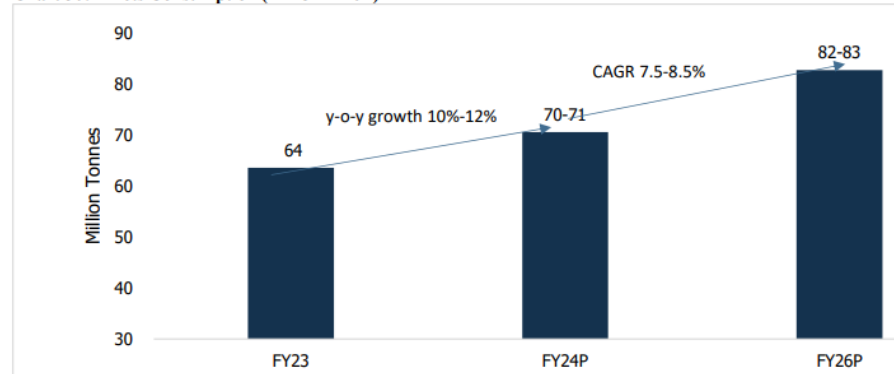
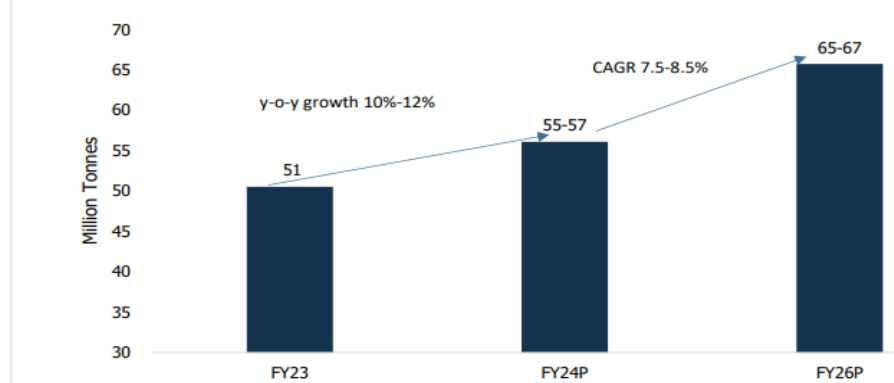


Chart 32: TMT Bars & Rods Consumption (FY23-FY26P)



Peers Comparison

(₹ in million, except percentages and ratios)

Particulars	CMP*	EPS	RONW (%)	NAV per share (₹)**	EBITDA Margin	Revenue from Operations (₹ in Million)	Face Value (₹)
Vraj Iron & Steel Limited	[●]	21.84	38.32%	285	15.77%	5,156.71	10.00
Sarda Energy and Minerals Limited	224.15	169.94	17.71%	967.72	26.35%	42,119.00	1.00
Godawari Power and Ispat Limited	966.75	61.16	20.31%	277.09	21.50%	57,530.40	5.00
Shyam Metals and Energy Limited	608.85	33.26	11.85%	280.79	11.78%	126,101.8	10.00

**Companies Competitive Strength :**

- Integrated and well-established manufacturing setup.
- Manufacturing plants are strategically located, supported by robust architecture, leading to cost efficiencies and a stable supply chain.
- Diversified product mix with strong focus on value added products.
- Experienced Promoter, Board and management team.
- Consistent track record of growth and financial performance.

Key Strategies Implemented by Company

- Expansion of manufacturing facilities.
- Reduce Debt Levels and improve Debt to Equity Ratio.
- Strengthen the customer base by growing existing customer business and acquiring new customers.
- Evaluate growth opportunities through selective acquisitions.
- Focus on operational efficiencies to improve returns.

Particular (INR in Cr)	9MFY24	FY23	FY22	FY21
Equity Capital	25	5	5	5
Reserves and Surplus	163	136	82	53
Net Worth	188	141	87	58
Revenue	301	516	414	291
Growth (%)		25%	42%	
EBITDA	62	79.00	49.70	28.8
EBITDAM (%)	21%	15%	12%	10%
PAT	45	54.00	29.00	11
PATM (%)	15%	10%	7%	4%
ROCE (%)	25.34%	44.98%	32%	20.68%
ROE (%)	23.73%	38.32%	32.94%	19.00%

Valuations and Recommendation:

- Based on annualized FY24 earnings to post-IPO paid-up equity capital of the company, The issue is priced at a P/E of 11.3X. Thus the issue appears to be fairly value compared to peers.
- Vraj Iron and Steel is leading manufacturing of Sponge Iron, M.S. Billets, and TMT bars, strategically located for operational efficiency and poised for growth through value-added products and ongoing expansions. Company has demonstrated a strong financial performance over the three Years, revenue/EBITDA/PAT grow by 21%/41%/69% CAGR. The steel industry is poised for growth driven by urbanization, infrastructure development, and increased demand in sectors like automobiles. Globally, steel demand is expected to remain steadily. In India, per capita steel consumption is lower than the global average but is projected to increase significantly by 2031, supported by government policies and domestic demand growth of 9-11% annually until 2026. Expansion plans at the Bilaspur plant aim to leverage existing infrastructure for improved margins and operational control across the value chain. Hence, we recommend an "Subscribe" rating for the issue.



Notes

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