

A CASE STUDY



Vardhman

Delivering Excellence, Since 1965

By Chaitanya Rao

A space shuttle is shown launching from the Earth's surface, ascending into space. The Earth is visible in the background, and the shuttle is surrounded by a large plume of fire and smoke. The text 'READY FOR TAKE OFF' is overlaid on the image in a large, white, textured font.

**READY FOR
TAKE OFF**

VARDHAMAN SPECIAL STEELS LIMITED

COMPANY OVERVIEW



Amongst India's Leading Steel Bar Producers for Automotive Applications

- Incorporated in May 2010
- Headquartered in Ludhiana, Punjab
- Caters to sectors such as Engineering, Automotive, Tractor, Bearing and Allied Industries



Experienced Management Team

- Significant experience in Steel Industry
- Long term vision and proven ability to achieve long term goals for Company
- Strategic alliance with Aichi Steel Corporation



200+ Reputed and long-term customers

- Toyota, Hero Moto Corp, Caterpillar, Hino Motors, Maruti, Bajaj and Hyundai, among others



State-of-art manufacturing facilities

- Cutting-edge manufacturing technology
- Manufacturing Capacity
 - Billets - 2,60,000 MTPA
 - Rolled Bars - 2,00,000 MTPA



Quality Standards, Assurance & Certifications

- ISO 14001 (2015); ISO 45001 (2018); ISO 9001 (2015); IATF 16949 (2016) & ISO 17025 (2017)
- Pioneers in green steel manufacturing for auto sector



Strong Domestic & International Customer Base for forging applications

- Thailand, Taiwan, Turkey, Russia, Germany and Spain



Specialized Product offerings -

- Steel Bars and Rods and Bright Bars of various categories of Special & Alloy Steels

1973-2011

- **1973** - Started as Oswal Steels - 50,000 TPA capacity of special & alloy steels
- **1986** - Acquired Mohta Alloys with capacity of 1,00,000 TPA
- **1995** - Installed modern Steel Melting Shop with Electromagnetic Stirrer
- **2000** - Commissioned Vacuum Degassing System
- **2001** - Strengthened product portfolio - added Bright Bar Facility
- **2010** - Independent identity under Vardhman Group

2012 - 2015

- **2012** - Listed on BSE & NSE
- **2013** - Installed fully automatic rolling mill with capacity of 1,50,000 TPA & Magnaflex leakage testing system (Dr. Foerster Germany), and Ultrasonic Testing from (Olympus, Canada)
- **July 2015** - Installed Fume Extraction system
- **Aug 2015** - Increased Bright bars capacity to 36,000 TPA & 1,80,000 TPA for Hot Rolled

2016 - 2017

- **Dec 2016** - Upgraded transformer & allied equipment to reduce melting time & resulting in SMS capacity to 1,65,000 TPA
- **April 2017** - Rights Issue of Rs 67.85 Cr.
- **Oct 2017** - Purchased ~8 acres of adjoining land for Rs. 36 Cr.

2018 - Till Date

- **Feb. 2018** - QIP of Rs 50 Cr.
- **June 2018** - CRISIL upgraded credit rating
- **Aug 2018** - Change in Statutory Auditors to M/s B. S. R. & Co. LLP
- **Feb 2019** - Fortified Board of Directors -one Independent Woman Director and one Additional Director appointed
- **Sept 2019** - Replacement of electric arc furnace and other related activities
- **Nov 2019** - Signs Technical Assistance Agreement with Aichi Steel Corporation (ASC) - Issuance of equity shares on preferential basis worth Rs. 50 Cr.
- Appointed Additional Director as representative of Aichi Steel Corporation
- **July 2021** - Received environmental clearance for capacity expansion
- **Mar 2023** - Joins hands with ASC to start mass production
- **May 2023** - Issued Bonus Share in ratio 1:1

.... Transforming into one of India's leading steel bar producers

Financial Performance:

- Q2 FY25 achieved the highest sales ever, reaching 59,000 tonnes, a 20% increase from 49,000 tonnes in the previous corresponding quarter.
- Revenue for Q2 FY25 stood at ₹494 crores, up 20% from ₹415 crores year-on-year.
- EBITDA for Q2 increased by 31%, with EBITDA per tonne at ₹8,200.
- H1 FY25 total sales reached 1,09,000 tonnes, a 13% increase from 96,000 tonnes in H1 FY24.
- Revenue for H1 FY25 was ₹909 crores, marking a 10.31% increase compared to ₹824 crores in H1 FY24.
- H1 EBITDA was ₹96 crores, a 31% increase, with EBITDA per tonne at ₹8,800

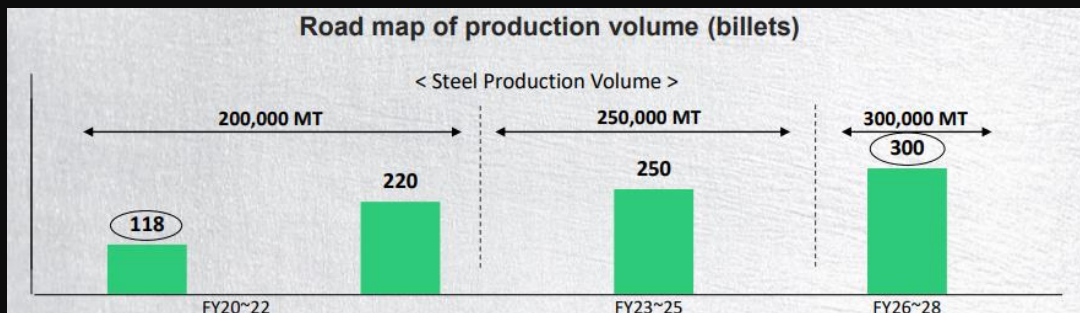
Capacity Expansion:

- Current melting capacity tested at 285,000 tonnes, with plans to produce 250,000 tonnes of saleable material post-rolling mill expansion.
- Aiming to reach 300,000 tonnes of melting capacity, once they are able to achieve this level of 300,000 tonnes, then the company will attempt to get a license to increase the environmental approval for more than 300,000.
- New equipment named Kocks Block is to be introduced, which will necessitate a planned shutdown for expansion. This will impact sales in Q3 and Q4 FY25. The planned shutdown will last a month.
- Once the Kocks Block is introduced, there will be another shutdown next year (probably during Q2) for 3-4 days for attaching a new reheating furnace so that the company's rolling mill capacity is complete and well-equipped for servicing big orders.
- Once completed this move will further translate into the following: - **(Approx)**

3,00,000 tonnes = Input (billets)

2,75,000 tonnes = Rolled Product Bars

2,68,000 - 2,70,000 = Saleable Products



Advantages of using the new equipment (Kocks Block & Reheating Furnace)

- The company's Overall capacity will go up.
- The company will save margins on outsourced job work on rolling products, which has been a temporary measure due to capacity constraints, amounting to ₹9 crores in Q2.
- This in turn will increase the bottom line for the company.
- Billet size will also increase, resulting in higher realisations and higher yields.
- With Kocks Block the company's inventory levels will come down and they will also be able to service their big customers with far better quality and precision and also according.

Solar Power Plant:

- The Company will be commissioning a solar power plant which is a Joint Venture with a French Company named Aamerco, wherein VSSI will own 26% and the balance 74% will be owned by the French company.
- If everything goes according to plan the plant will be commissioned by coming March and it will be 45% of the company's total power consumption in turn reducing power costs.
- If everything goes according to the plan the benefits of the above arrangements will be seen immediately in the books from April (approximately Q1 Results).

Strategic Developments:

- Discussions are ongoing for a new Greenfield plant, with an expected announcement by mid-next year.
- New board members added:

Mr. Kalsi

40 years with Maruti. [Member of the Executive Board of Maruti Suzuki & Head of Marketing of Maruti

Mr. Hemant Bharat Ram

DCM Group

- This is a planned succession planning at the Board as two Board Members are retiring next year.
- Successfully approved replacement of Japanese imported steel with Vardhman's steel for a large automobile OEM, transitioning from Tier-2 to Tier-1 supplier status.
- Currently VSSI is transitioning from a Tier-2/Tier-3 supplier to a Tier-1 supplier wherein the company will directly deliver to OEMs.

- OEMs generally buy components and assemblies from Tier-1 suppliers as very few have their own gear-making operations.
- Tier-1 supplier status will have negligible or close to zero effect on margins but will be a very prestigious status to achieve.

Operational Insights:

- Management says due to the huge influx of imports from China in HRC (Hot Rolled Coils) the whole steel segment has been affected and therefore there is pressure from the OEs to reduce prices. Our costs have also come down, but prices did come down in Q2 beyond what we anticipated. So, that's why the Q2 margins are a bit lower than the Q1 margins.
- Increased working capital utilization due to the slowdown in the sector and also as the company engaged with non-strategic customers where outstandings are higher, but debt levels remain manageable.
- Inventory levels and receivable days have increased due to strategic decisions to maintain volumes amidst market slowdowns.
- Outsourced job work has been a temporary measure due to capacity constraints.
- Once regular markets pick Working Capital days (WC) will come back to normal.

Margin Guidance:

- Current EBITDA per tonne guidance remains at ₹7,000 to ₹10,000, with aspirations to increase to ₹8,000 to ₹11,000 next year.
- Anticipated cost reductions from solar plant commissioning are expected to contribute towards margin improvements.
- Exports are at 5-7 % which the company wants to increase to around 20%.

Market Dynamics:

- Operating in a challenging environment with a slowdown in the automobile sector; however, management remains optimistic about future growth.
- Green steel and circular economy trends gaining traction, with serious discussions with automotive OEMs about sustainability.
- Management notes the impact of global steel pricing and import pressures, particularly from China, affecting margins.

- Currently, because of Chinese dumping, the prices are low, so not many people want to buy more from India. And Japanese currency is also weaker, so the cost advantage in buying from India is not as much. But gradually, slowly the company is progressing and increasing their exports into Southeast Asia primarily.

Future Outlook:

- Management expresses confidence in the long-term growth of the steel industry, particularly in light of increasing automotive production demands.
- Focus on enhancing four-wheeler business from 38% to 50% of sales, leveraging growth opportunities in the Indian automotive sector.
- Plans to explore strategic investments in scrap sourcing directly from OEMs to ensure raw material supply amidst volatile prices.
- Mr. Sachit Jain, Vice Chairman and Managing Director stated that we are at advanced stages with the European OEM for supply of steel to them for very specialized projects.
- Management stated that in the next 6 months company will come with a concrete announcement about their new plant.

My View:

- When I had first bought and had just started researching about the company and had started publishing my initial reports about the company it was a 1000-1500 Cr Market Cap Company. Today it is a 2000 Cr company. As stated in my earlier report company is very well intact with its growth trajectory and ambition to emerge as the #1 Special Steels Manufacturer in India.
- One major reason for my interest in the company is that after so many years now it has the backing of a good global partner Aichi Steel (Toyota) and the management is very Proactive and also has completed 50 years in the steel business kind of a rare feat in this field.
- They are mastering new styles of products that cater specially to Large OEMs domestically as well as internationally and as stated in their conference calls going forward Aichi Steel will be sharing their patented products with VSSL to manufacture and give to them and VSSL will be the sole producer other than Aichi in the whole world.
- An issue related to capacity problems is already being taken care of for the next 2-3 years. After that, they are confident in servicing the requirements through various ways like outsourcing and also various Greenfield and Brownfield expansions.
- The next few quarters of the company may be less entertaining in terms of numbers because of certain capex operations and changes in the prices of raw materials, gas, etc.
- But as the Management has been rightly saying in their conference calls one shouldn't view their company on a Q-o-Q basis but view them on an annual basis and see their growth trajectory. Because at present in real terms after wastage and all other factors they are doing 2.3 lakh tonnes of production and now they are only catering mainly to Toyota which is quite enough owing to their size but going forward they'll rope in others too on a big level.
- They have also been awarded under the PLI SCHEME for which they will be getting approximately Rs.30 crores over 3 years.

Having said this, I would like to point out one thing which is for the above factors to materialise all it will take at least 3-4 years minimum. Also, there are many risks associated with the sector like price fluctuations, China dumping, slowdown in the industry, etc. But I feel if one can sit tight the future is very bright for this stock.

GLOSSARY

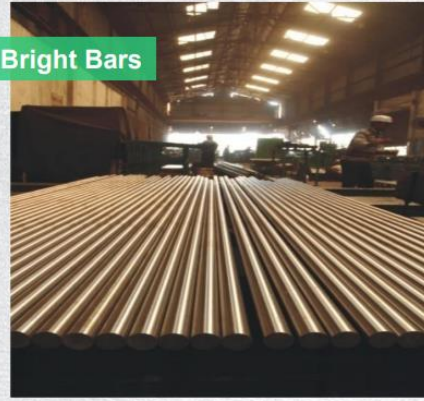
WIDE RANGE OF ROLLED & BRIGHT BARS PRODUCTS

Hot Rolled Bars



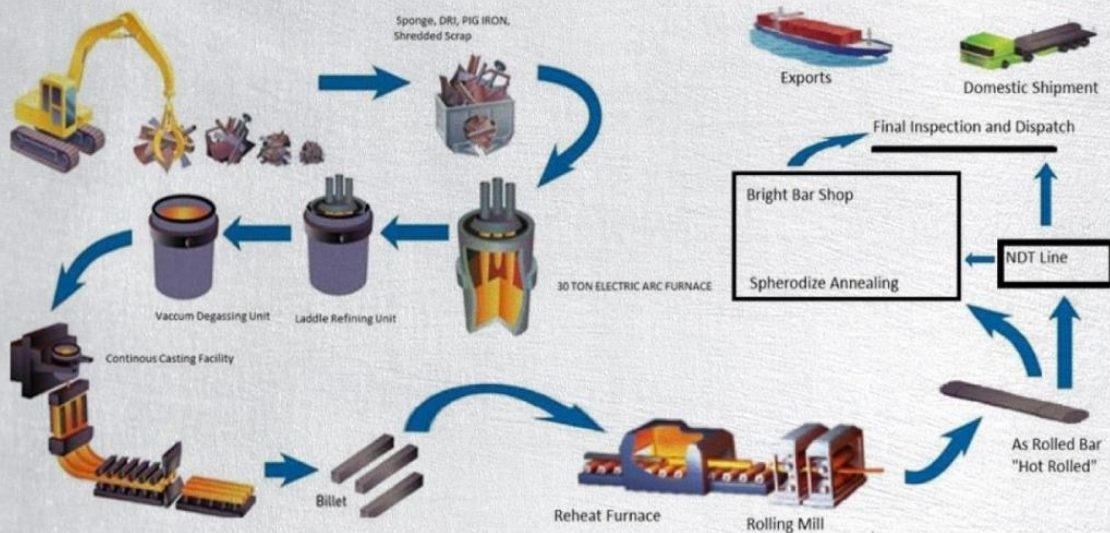
- Diameter Size : Increased from 25-70 MM in 2012 to 16-120 MM

Bright Bars



- Size : 14.66 to 78 mm (Peeled), 18 to 55.25 mm (Drawn)

PROCESS FLOW



STATE OF ART MANUFACTURING FACILITIES



Steel Melting Shop

Annual Capacity : 2,40,000 TPA

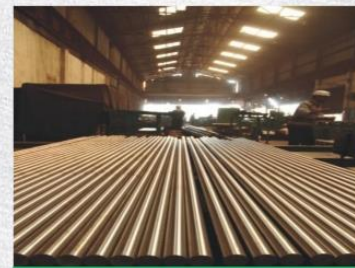
- 30 MT Ultra High Power (UHP) Eccentric Bottom Tapping (EBT Type)
- Fully automated continuous feeding system for DRI & other raw materials
- Automatic lance manipulator for oxygen and coke injection
- Electrode regulation system - Melt Controller
- CELOX for active oxygen measurement (Electronite)



Rolling Mill

Annual Capacity : 2,00,000 TPA

- Rolling Mill installed in 2013-14
- Mill with complete automation
- 33 TPH "Walking" Hearth Type Reheating Furnace
- Reversible 2 high shift able stand with Bar Manipulator
- 10 Continuous Stands in Horizontal & Vertical configuration
- Online Dimensional Measurements
- Rack Type Cooling bed designed for better straightness & Hardness levels
- Abrasive Cutter



Bright Bars

Annual Capacity : 48,000 TPA

- Bar Peeling & Centreless Grinding
 - Straightening
 - Peeling
 - Cold drawing
 - Polishing
 - Centreless grinding
 - Full length bar Magnetic Particle Inspection
 - High Speed Band Saws
 - Circular Saw - Cut to Length Steel

ROLLING MILL & BRIGHT BARS

Rolling Mill



Reheating Furnace

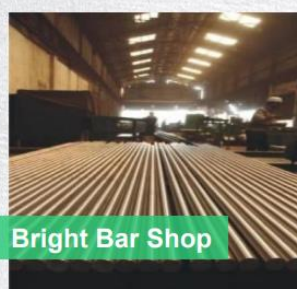
Bright Bar Shop



Spheroidizing & Annealing Machines



Rolling Mill



Bright Bar Shop

STRATEGICALLY LOCATED WAREHOUSING FACILITIES



- One Owned Warehouse
 - Bilaspur Haryana
- Five Leased Warehouses in India
 - Bangalore
 - Chennai
 - Rudrapur
 - Pune
 - Aurangabad

200+ REPUTED & LONG TERM CUSTOMERS....

Cars



Two Wheelers



HCL/LCVs



Auto Components



Tractors



Off Highway Vehicles



VSSL ENTERED A STRATEGIC ALLIANCE WITH AICHI STEEL CORPORATION (ASC) JAPAN

(Main material maker for Toyota)



Gasoline



Phase - 1

- Technology and technical know how shared with VSSL to make steel for Toyota companies and other OEM's
- To raise quality of steel of VSSL to be supplied to future ready cars like Hybrid, Hydrogen fuel and Electric



Hybrid



Phase - 2

- Increase VSSL production capacity with aim to achieve high quality combined with minimum cost
- Enable VSSL to build optimal global production system and customer requirements in India and ASEAN regions



EV's

TARGET

To make Japanese quality steel in India for Indian auto majors and ASEAN region
 To reduce manufacturing costs by reducing and eliminating waste

TIMELINE FOR ACTIVITIES

Phase 1

- Continuous improvement in quality and productivity by strengthening existing procedures
- Focus on Improving safety levels
- Start marketing to customers in India, Thailand, Philippines and Indonesia
- FY 2021-22 – Year of Sampling for Aichi

2019-2022

Phase 2

- Initiate CAPEX to increase production capacity to 250,000 MT in first phase
- FY 23: Year of manufacturing of Trial orders for Aichi
- Anticipate to receive orders from Aichi for Southeast Asia as well as import substitutions
- ✓ Joins hands with ASC to start mass production in Mar'23
- FY 24: Start supply of products against firm orders for Aichi

Take Japanese approvals like Yamaha, Mushashi, JTEKT, Toyota, Aichi Forge, Suzuki, Hino Motors

2022-2025

Phase 3

Production 300,000MT / year
 Export 60,000 MT / year

- Vardhman may look forward to Forging business in India
- Time for Aichi to Invest more in Vardhman
- VSSL AICHI may lay foundation for future steel company in India

2025-2028

Goal 2030

VSSL to emerge as #1 Special Steels' Manufacturer in India