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VRAJ IRON AND STREEL LIMITED

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IPO Report

25th June '24

Snapshot

Vraj iron and Steel Limited is engaged in manufacturing of Sponge Iron, M.S. Billets, and TMT bars under the brand Vraj. Company currently operate through two manufacturing plants which are located at Raipur and Bilaspur in Chhattisgarh spread across 52.93 acres. As of December 31, 2023, the aggregate installed capacity of company's manufacturing plants was 2,31,600 tons per annum ("TPA") (comprising of intermediate and final products). Company's manufacturing plant at Raipur also includes a captive power plant with an aggregate installed capacity of 5 MW, as of December 31, 2023.

VALUATION

Company is bringing the issue at price band of Rs 195-207 per share at p/e multiple of 12x on post issue annualized 9 months ended FY24 PAT basis.

Company has integrated and well-established manufacturing setup with 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 promoters, board and management team along with consistent track record of growth and financial performance. .

Hence ,looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	**195-207**
Opening date of the issue	**26th June '2024**
Closing Date of the issue	**28th June '2024**
No of shares pre issue	2,47,21,750 Eq Shares
Issue Size	Rs 171 Cr
Fresh issue	Rs 171 Cr
Face Value (Rs/ share)	Rs 10/share
Bid Lot	72
BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 41,30,435 Eq Shares)
Non-Institutional	15% of the offer (Approx 12,39,130 Eq Shares)
Retail	35% of the offer (Approx 2891304 Eq Shares)
Lead managers	Aryaman Financial Services Ltd
Registrar to the issue	Bigshare Services Pvt. Ltd

WHAT WE LIKE

Integrated and well-established manufacturing setup

Company currently operate 2 (two) integrated steel manufacturing plants, in Bilaspur and Raipur, Chhattisgarh. Company primarily focus on manufacturing three main products, sponge iron, MS Billets and TMT Bars. Company have a total capacity of 1,20,000 TPA for the production of Sponge Iron, where its backward integration begins. Company uses induction furnaces for production of steel. Induction furnaces convert steel scrap and sponge iron into liquid steel by induction heating. This further gets processed into billets, blooms, ingots, etc. Company currently have a production capacity of 57,600 TPA of MS Billets, which can be used by company's rolling mills to manufacture TMT Bars, having a production capacity of 54,000 TPA.

Diversified product mix with strong focus on value added products

Company's 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. Company's TMT Bar is sold under the brand 'Vraj' TMT Bars . Company's diversified product range has resulted in a diversified product mix, which has reduced its dependency on a particular product and de-risked company's revenue streams.

Consistent track record of growth and financial performance

Company's 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.

COMPANY BACKGROUND

Company is in the process of increasing the capacities of company's existing manufacturing plants and captive power plant, which is expected to increase its 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.

Company's product offerings such as Sponge Iron, TMT Bar, MS Billets and by-products Dolochar, Pellet and Pig Iron cater to a mix of customers that consist of industrial customers and end-users. Company sell its products directly as well as through brokers / dealers. As part of its initiatives towards continual improvement, company have obtained the Environment Management System Certification under the new standard of ISO 14001: 2015 for Raipur Plant. As of December 31, 2023, company had a workforce of 531 employees & workers, comprising of 296 permanent employees including 3 Directors, 9 employees at the Registered Office, 193 employees at Raipur Plant and 91 employees at Bilaspur Plant and 235 contract workers.

The Company had chosen Bilaspur Plant to do the capacity expansion mainly due to (a) lack of manufacturing facility for MS Billets &lack of Power Plant to reduce the cost and (b) availability on existing land in the Bilaspur plant & thereby no additional cost is to be incurred for the Land & Site Development for this Expansion. By doing the expansion at Bilaspur Plant, the Company will be able to reduce the cost of the project and improve the margin. While company increased its total income from has grown at a CAGR of 33.4% between Fiscal 2021 and Fiscal 2023, as company have been successful at capturing market share and increasing its presence in its established markets. Company have been able to grow the quantity sold, between Fiscal 2021 and Fiscal 2023, of TMT Bars at a CAGR of 78% and Sponge Iron at a CAGR of 8%. Furthermore, such integration practices in company's production process have allowed company to be flexible with its production, and be able to alter company's products as per the customer's specific requirements as well as change company's product mix to cater to the continuously evolving market conditions while insulating company from price of raw materials which has resulted in optimization of company's operating margins. Company have the ability to convert the sponge iron company manufacture into billets or sell the sponge iron or billets independently in the market. Billets can further be used to manufacture TMT Bars or structural products or can be sold independently in the market. Company has a captive power plant with installed capacity of 5MW which helps company to reduce energy cost. Additionally operating a captive power plant will decrease company's exposure to disruptions to the electricity grid in times of power outages that can otherwise lead to costly production disruptions. Further, company use captive power plants to generate electricity from cleaner and more efficient sources such as waste-heat recovery-based power plants and captive renewable energy plants. The manufacturing plants are fully geared with latest technologies to provide competitive edge in the industry and are also compliant with the laws and licenses applicable to it. Having proximity to its key customer groups gives company a strategic advantage in ensuring cost effectiveness, quicker delivery and faster turn-around times, allowing it to maximize customer satisfaction in a timely manner. Company follow stringent quality standards along with a strong emphasis on quality for its products and have Certification for Quality Management Systems ISO 9001: 2015.

INVESTMENT RATIONALE

Manufacturing plants are strategically located, supported by robust architecture, leading to cost efficiencies and a stable supply chain	Company's two manufacturing plants are strategically located at Bilaspur and Raipur within the mineral rich State of Chhattisgarh and in close proximity to the mineral belt in eastern India. Company's presence in these locations allows it to have easy access to raw materials and end users both which helps company overcome significant entry barriers in comparison with its competitors. This lowers company's transportation costs and provides company with logistics management and cost benefits, thereby improving its operating margins. Moreover, Chhattisgarh accounted for the 2nd highest share (18.1%) in the domestic iron ore production in FY21 and highest share (22.1%) in domestic coal production in FY21 Furthermore, Odisha accounted for the highest share (51.2%) in the domestic iron ore production in FY21, 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 reduces its freight and fuel costs. Company's plants are tactically located near to different mediums of transport that are constantly used by its business for inward and outward freight, further reducing company's costs and improving its margins. Company has entered into agreements for purchase of iron ore lump with NMDC Limited and a fuel-supply agreements for purchase of coal with South Eastern Coalfields Limited enabling smooth flow in production plants. The main advantages of buying raw materials from its existing suppliers are their enormous capacity, which allows them to meet company's requirements of raw materials under any circumstance, their reduced lead times and seamless material flow, on-time deliveries and direct line of communication. These advantages translate into higher efficiency for company and lower prices of raw materials,
Experienced Promoter, Board and management team	Company is led by experienced and diverse board and management team, who have multifold experience in the iron and steel industry, and have been instrumental in the growth of Company and have the expertise and vision to scale up its business. Vijay Anand Jhanwar is the Promoter and the Chairman and Managing Director of Company and has been well-established in the industry for more than two decades. He was the General Secretary, President and also the Co-Chairman of Chhattisgarh Sponge Iron Manufacturers Association. He was also an expert member of Steel Consumer Council of India under the Ministry of Steel, Government of India, during the period commencing from the year 2016 to 2019. Company's Board comprises of 6 Directors, including 3 Independent Directors of which 1 (one) is a Woman Director. Sumit Deb is a Non-Executive Independent Director of Company. He has worked as a Chairman and Managing Director at NMDC Limited, as a Managing Director at NMDC Steel Limited, as a Director at Federation of India Mineral Limited, Indian Iron and Steel Sector Skill Council, NMDC CSR Foundation, and as a Nominee Director at Krishnapatnam Railway Company Limited.

OBJECTS OF OFFER

Company proposes to utilise the Net Proceeds in the following manner (collectively referred to as the "Objects"):
1) Funding for Capital Expenditure towards the "Expansion Project" at Bilaspur Plant:
a) Repayment or prepayment of borrowings from HDFC Bank obtained by Company for the capital expenditure towards the "Expansion Project" at Bilaspur Plant; and
b) Capital expenditure towards the "Expansion Project" at Bilaspur Plant.
2) General Corporate Purposes

RISKS

100% of company's revenue is from sale of its steel products such as TMT Bars, MS Billets, Sponge Iron & others related items. Volatility in the demand and pricing in the iron and steel industry is common and is cyclical in nature. A decrease in steel prices may have a material adverse effect on company's business, results of operations, prospects and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Key Industry Trends

1.**Decarbonising the Steel Industry**

In India, about 46% of the steel is produced through the BF-BOF route and the balance 54% is produced through the electric route - EAF and induction furnace. While the BF-BOF process requires a higher quantity of coking coal, even the EAF/EIF-based producers have been consuming large quantities of Direct Reduced Iron (DRI) due to limited availability of steel scrap, which has resulted in higher coal consumption and CO2 emission intensity. The Ministry of Steel has made a commitment to achieve the Net Zero target by 2070 and has taken a mediumterm target to reduce the emission intensity of the steel sector to 2.4 T/TCS by 2030.
Various measures as listed below, have been taken towards this target.
• Steel Scrap Recycling Policy, 2019 has been introduced to enhance the availability of domestically generated scrap to reduce the consumption of coal in steel making.
• The steel sector has also been made a stakeholder in the National Green Hydrogen Mission for green hydrogen production and usage as announced by the Ministry of New and Renewable Energy (MNRE).
• Motor Vehicles (Registration and Functions of Vehicles Scrapping Facility) Rules September 2021, shall increase the availability of scrap in the steel sector.
• The National Solar Mission launched by MNRE in January 2010 promotes the use of solar energy and also helps reduce the steel industry emissions.
The Perform, Achieve and Trade (PAT) scheme, under the National Mission for Enhanced Energy Efficiency, incentivizes the steel industry to reduce energy consumption.
• The steel sector has adopted the Best Available Technologies (BAT) available globally, in the modernization and expansion projects.
• Japan's New Energy and Industrial Technology Development Organization (NEDO) model projects for energy efficiency improvement have been implemented in steel plants.

Since the average age of a majority of the large plants is low, it is not cost-effective for the industry to immediately move to more climate-friendly technologies. Accordingly, the steel industry is exploring multiple avenues to reduce CO2 emissions from the existing manufacturing processes. Further, research and development is being undertaken globally on the following technologies:

▪ Green Steel
Green steel refers to the production of steel without the use of fossil fuels such as coal. Green hydrogen is one of the viable elements that can be used instead of coal as a reducing agent in green steel production through the BFBOF route. Whereas in the EAF route, green steel can be produced using steel scrap and renewable energy or by using DRI produced using renewable energy. The concept of green steel is at a nascent stage in India with some of the large players having set up pilot plants to determine commercial viability. For instance, Kalyani Group, under its subsidiary Saarloha Advanced Materials, launched India's first green steel in December 2022, which is being produced at its electric arc furnace located at its plant in Pune using renewable energy. In April 2023, Tata Steel initiated trials of injecting large quantities of hydrogen gas in the blast furnace located at its Jamshedpur plant to assess the viability of hydrogen in the production process and its impact on the reduction of carbon emissions. Currently, India does not have a significant production capacity of green hydrogen. The National Green Hydrogen Mission was approved by the Union Cabinet in January 2023 with an objective of developing a green hydrogen development capacity of 5 MT by 2030 at an estimated capital expenditure of Rs 8 lakh crore. Further, the price of green hydrogen, currently around Rs 300 per kg, is proposed to be brought down to USD 1-2 per kg (Rs 80- 160 per kg) to make it commercially viable for various end-user industries. Some of the key factors that will encourage domestic steel players to invest in the large-scale production of green steel are the development of cost-effective scalable technology, the ramp-up in renewable energy capacity and production, the availability of the requisite quantity of green hydrogen at viable prices, and the availability of iron ore of suitable grade.

Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	9months ended FY24
Total Revenue (A)	2907.06	4140.43	5156.71	3013.21
Total Expenditure (B)	2632.76	3660.64	4389.93	2427.7
EBIDTA	274.30	479.79	766.78	585.51
EBIDTA Margin	9.44	11.59	14.87	19.43
Other Income	2.26	3.40	17.50	34.87
Depreciation	72.66	71.82	64.42	43.79
EBIT	203.90	411.37	719.86	576.59
Interest	59.83	39.49	29.88	19.44
PBT	144.07	371.88	689.98	557.15
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	144.07	371.88	689.98	557.15
Exceptional	0.00	0.00	0.00	0.00
PBT	144.07	371.88	689.98	557.15
Tax	48.66	98.26	178.87	142.02
PAT	95.41	273.62	511.11	415.13
NPM	3.28	6.61	9.91	13.78
ROE%	19.01	32.94	38.32	23.78
EPS	4.44	11.61	21.84	18.03
Eq Cap	49.44	49.44	49.44	247.22
Net Worth	577.94	871.38	1,409.15	1,874.99

(Source: RHP)

Peer Comparison

Company Name	EBIDTA Margin	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
Vraj Iron & Steel Limited	***15.77***	***5156.71***	***21.84***	***285***	***38.32***
Peers					
Sarda Energy and Minerals Limited	17.71	42119	169.94	967.72	17.71
Godawari Power and Ispat Limited	21.50	57530.40	61.16	277.09	20.31
Shyam Metalics and Energy Limited	11.78	126101.8	33.26	280.79	11.85

(Source: RHP)

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