SHYAM METALLICS & ENERGY LTD

IPO Report

SUBSCRIBE

09th June 21

Snapshot

SMEL is one of the leading integrated steel and Ferro alloys producer in Eastern region of India in terms of long steel products as of Fiscal 2020. It is present across the steel sector's value chain- pellets, sponge iron, billets, long steel (structural / TMT), pipe, Ferro alloys, railway siding and captive power plant. SMEL has 3 manufacturing units with aggregate operating capacity of 5.70 million TPA with 227 MW of Captive Power Plant. Its 2 integrated units are located at Sambalpur, Odisha and Jamuria, West Bengal respectively. One other unit is located at Mangalpur, West Bengal.

VALUATION

SMEL is bringing the issue at price band of Rs 303-306 per share at p/e multiple 13 on post issue annualized FY21 eps basis. We like the financial performance posted by company with healthy balance sheet status. Efficiency improvements, improved productivity and cost rationalization has enabled company to deliver consistent and strong financial and operational performance. Also company's plans to strengthen its leading market position in India and achieve better economies of scale by expanding existing manufacturing capacities and setting up additional manufacturing plants is indicating the bright future prospects of company.
Hence looking after all above , we recommend "Subscribe" on issue for short & long term basis.

Price Band (Rs./Share)	303-306
Opening date of the issue	14th June , 2021
Closing Date of the issue	16th June, 2021
No of shares pre issue	23.36 Cr
Fresh Issue (Rs)	657 Cr
Offer For Sale (Rs)	252 Cr
Issue size (Rs. Cr)	909 Cr.
Face Value (Rs/ share)	10
Bid Lot	45
Employee Discount	Rs 15 /Share
Book Building	
QIBs (Including Anchor)	Rs 450 Cr (50.00%)
Non-Institutional	Rs 135 Cr (15.00%)
Retail	Rs 315 Cr (35.00%)
Employee Reservation	Rs 9 Cr / 3,00,000 Eq Shares
Lead managers	ICICI Securities Ltd.
	Axis Capital Ltd
	IIFL Securities Ltd
	JM Financial Ltd
	SBI Capital Markets Ltd
Registrar to the issue	KFIN Technologies Private Ltd.

WHAT WE LIKE

Strong clientele and robust distribution network

Company's domestic customers include Jindal Stainless Limited, Jindal Stainless (Hisar) Limited, and Rimjhim Ispat Limited while international customers include names like Norecom DMCC, Norecom Limited, POSCO International Corporation, World Metals & Alloys (FZC), Traxys North America LLC, JM Global Resources Limited, Goenka Steels Private Limited and Vijayshri Steel Private Limited. As of December 31, 2020, company had partnerships with 42 distributors, who stock and sell its finished products across 13 states and one union territory.

Healthy financial performance and credit ratings

Since the commencement of its operations in Fiscal 2005, Shyam Metallics have delivered a positive EBITDA in each of the Fiscals. As of March 31, 2020, company's gearing ratio was one of the lowest amongst its competitors. In Fiscal 2020, company's interest coverage ratio was one of the highest amongst its competitors. As of . 31, 2018, 2019 and 2020 and as of December 31, 2020, company's Gross Debt to Equity ratio was 0.30, 0.29, 0.47 and 0.27, respectively. Company's RoCE for Fiscals 2018, 2019 and 2020 and for the nine months ended December 31, 2020 was 19.58%, 24.69%, 9.49% and 13.30%, respectively. Company have also obtained strong credit ratings. In particular, company and its Subsidiary, Shyam SEL and Power Limited, has received CRISIL A1+, CRISIL AA-/ Stable, and CRISIL A1+ rating from CRISIL for their short-term (bank facilities) rating, long-term (bank facilities) rating and commercial paper, respectively.

Outperformed Peers

SMEL has consistently outperformed its peers in terms of profitability. Majority of the power costs is being met through captive sources, which results in low power costs and thereby improving operating performance vis-à-vis its peer, SMEL also enjoys low freight costs following captive railway siding. SMEL's interest coverage has declined in last 3 years but still is higher as compared to peers throughout last five year SMEL's reported interest coverage ratio of 7.6 times as in Fiscal 2020 as against 3.7 times in Fiscal 2015. SMEL's interest coverage is one of the highest among its competitors.

COMPANY BACKGROUND

MANUFACTURING PLANTS

Company currently operate three manufacturing plants that are located at Sambalpur in Odisha, and Jamuria and Mangalpur in West Bengal. As of December 31, 2020, the aggregate installed metal capacity of company's manufacturing plants was 5.71 million tonne per annum ("MTPA"). Company's manufacturing plants also include captive power plants with an aggregate installed capacity of 227 MW, as of December 31, 2020. Company is also in the process of increasing the capacities of existing manufacturing plants and captive power plants, which is expected to increase aggregate installed metal capacity from 5.71 MTPA, as of December 31, 2020, to 11.60 MTPA and captive power plants aggregate installed capacity from 227 MW, as of December 31, 2020, to 357 MW. These proposed expansions are expected to become operational between Fiscal 2022 and Fiscal 2025. In addition, company is in the process of commissioning an aluminium foil rolling mill at Pakuria in West Bengal with a proposed installed capacity of 0.04 MTPA, which is expected to become operational in Fiscal 2022.

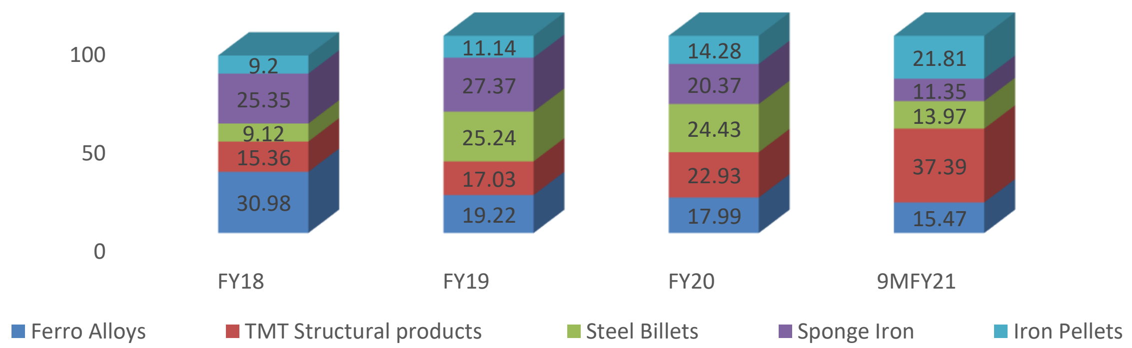
CAPTIVE POWER PLANT

Company have eight captive power plants that utilise non-fossil fuels, such as, waste, rejects, heat and gas, generated from operations to produce electricity, and thereby enable company to operate at lower power costs. In Fiscals 2018, 2019 and 2020, and the nine months ended December 31, 2020, power units produced from company's captive power plants accounted for 90.06%, 87.32%, 85.19% and 79.58%, respectively, of its total power units consumed.

PRODUCTS

Company primarily produce intermediate and long steel products, such as, iron pellets, sponge iron, steel billets, TMT, structural products, wire rods, and ferro alloys products with a specific focus on high margin products, such as, customised billets and specialised ferro alloys for special steel applications. Company is also currently in the process of further diversifying its product portfolio by entering into the segments, such as, pig iron, ductile iron pipes and aluminium foil.

Contribution in Revenue From Various Products (In %)



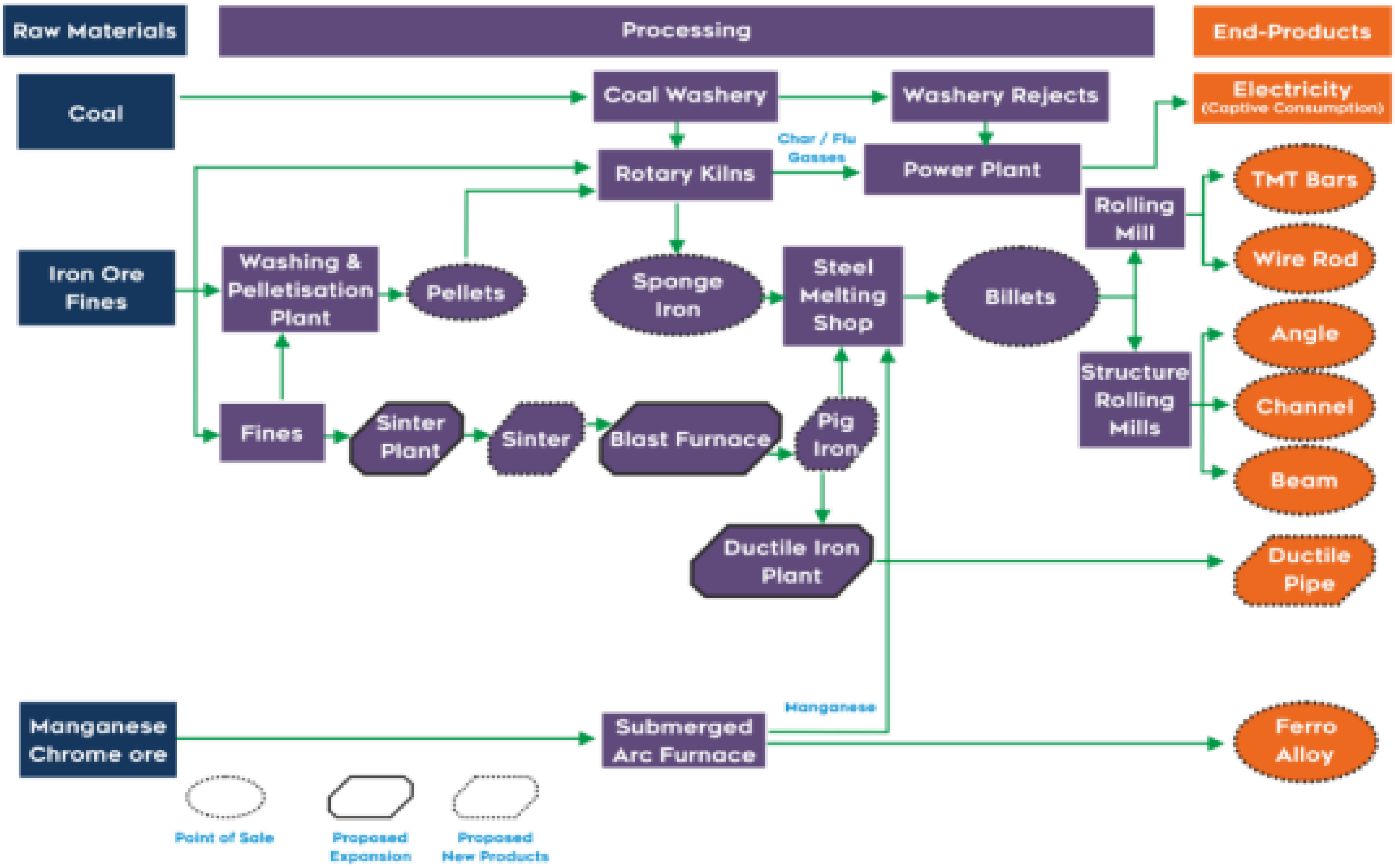
Aggregate Installed Capacity & Capacity Utilization

Product	Unit	As of & for the FY						For 9 m FY21	
		2018		2019		2020			
		Installed Capacity (TPA/ MW)	Utilisation (%)	Installed Capacity (TPA/ MW)	Utilisation (%)	Installed Capacity (TPA/ MW)	Utilisation (%)	Installed Capacity (TPA/ MW)	Utilisation (%)
Iron Pellet	TPA	900000	104.24 %	900000	**110.27%**	**2,400,000**	**103.23%**	**24.00.000**	**99.34%**
Sponge Iron	TPA	1012800	99.78 %	1012800	**102.45%**	**1,274,400**	**98.87%**	**1.389.900**	**86.90%**
Billet	TPA	539520	80.52 %	**628320**	**97.17%**	**797280**	**97.06%**	**892,320**	**100.28%**
TMT Structural products, Wire Rods & Pipes	TPA	253008	73.55 %	**253008**	**80.18%**	**820000**	**79.68%**	**82000**	**70.52%**
Ferro Alloys Products	TPA	192320	89.19 %	**205920**	**91.92%**	**205920**	**85.43%**	**205920**	**67.80%**
Captive Power Plant	TPA	164	82.46 %	**164**	**85.56%**	**227**	**92.57%**	**227**	**84.58%**

INVESTMENT RATIONALE

Strategically located manufacturing plants	Company's manufacturing plants are strategically located in close proximity to its raw material sources, which lowers transportation costs and provides significant logistics management and cost benefits thereby improving company's operating margins. Company's manufacturing plants are located within 250 kilometres of the mineral belt in eastern India, including, iron ore, iron ore fines, manganese ore, chrome ore and coal mines, company's primary raw materials. Strategic location of company's manufacturing plants has helped in creating synergies as well as achieving economies of scale and operational efficiencies.
Diversified product mix	SEL's products primarily comprise of (i) long steel products, which range from intermediate products, such as, iron pellets, sponge ironand billets and final products, such as, TMT, customised billets, structural products and wire rods; and (ii) ferro alloys with a specific focus on high margin products, such as, specialised ferro alloys for special steel applications. Company's TMT and structural products are sold under the brand 'SEL' and logo . Company also undertake conversion of hot rolled coils to pipes, chrome ore to ferro chrome and manganese ore to silico manganese for an Indian steel conglomerate. The forward and backward integration of company's manufacturing plants has resulted in multiple points of sale across the steel value chain and provided SMEL with flexibility to sell intermediate products as well as use them for captive consumption, depending on the demand. This has resulted in a diversified product mix, which has reduced company's dependency on a particular product and de-risked its revenue streams.
Captive railway siding	SMEL is one of the few integrated metal producing companies in India with captive railway sidings as of Fiscal 2020. SMEL has captive railway siding at 2 of its integrated manufacturing units which ensures a more optimised freight cost given that nearly three times of raw material is to be transported for every tonne of steel produced. Further railway freight is more cost effective than road for long distances (e.g. for distances above 500 kms railway is 20% to 30% cheaper than road).Though, limited rail transport owing to siding congestion and non-availability of rakes and locomotives partially offset the impact.
Backward and forward integration	SMEL is one of the leading integrated steel and ferro alloy producer in Eastern Region of India, as of Fiscal 2020 having presence across the steel sector's entire value chain thereby ensuring better operational and financial performance. SMEL's backward integration includes pellets, sponge iron, and billets. Forward integration is into TMT, Bars, ERW Pipes, and Ferro Alloys.. Integration ensures better synergies, economies of scale and more effective control of operations. Its manufacturing capacity also allows cross selling of intermediate products apart from captive consumption.

Flowchart of Company' Operations



Source : RHP

OBJECTS OF ISSUE

Fresh Issue

Company proposes to utilize the funds which are being raised through the Fresh Issue, towards funding the following objects
1. Repayment and/or pre-payment, in full or part, of debt of company and SSPL, one of company's Subsidiaries; and
2. General corporate purpose.

RISKS

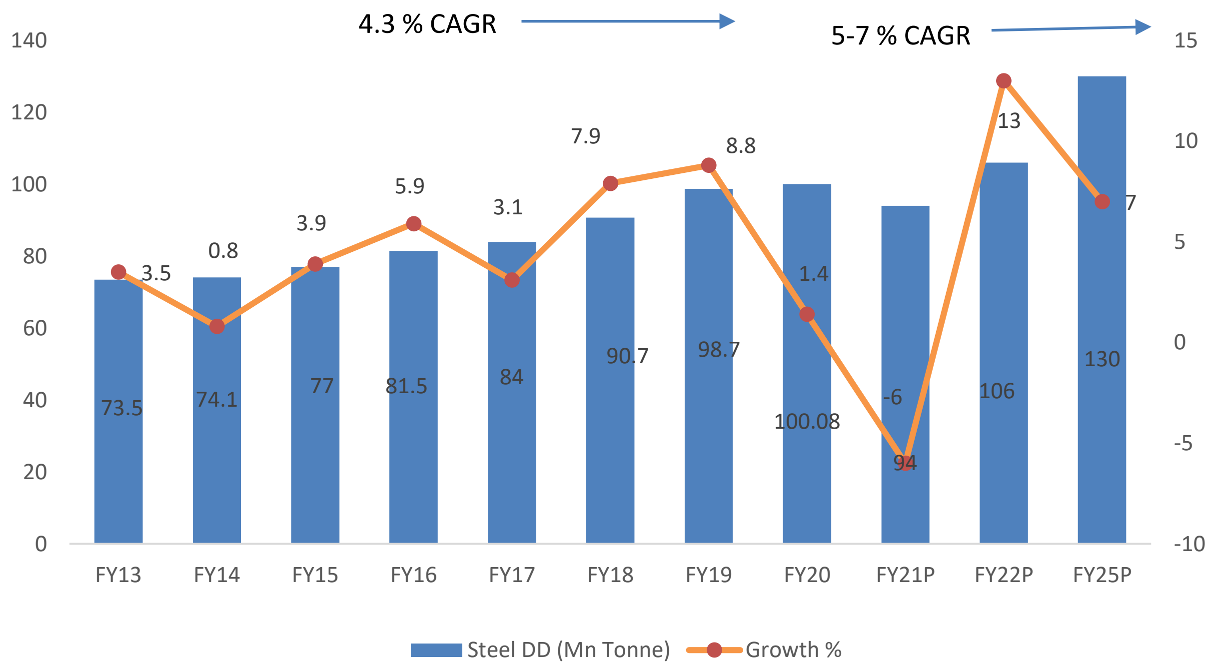
Regional Concentration

Company own and operate three manufacturing plants located in the states of West Bengal and Odisha and procure raw materials such as iron ore, iron ore fines, coal, pig iron, manganese ore, chrome ore and coke from these states. SMEL is also in the process of commissioning an aluminium foil rolling mill at Pakuria in West Bengal. Also, a portion of company's revenue from sale of manufactured products is also derived from the eastern region of India. In Fiscals 2018, 2019 and 2020, and the nine months ended December 31, 2020, revenue from sale of manufactured products from the eastern region of India accounted for 29.12%, 49.75%, 35.04% and 34.47%, respectively, of company's total revenue from sale of manufactured products. Hence , any adverse developments affecting this region could have an adverse effect on company's business, results of operations and financial condition.

INDUSTRY OVERVIEW

Indian Steel Demand

India steel demand has risen at a modest 5.4% CAGR during past five years (Fiscal 2015 to Fiscal 2020). Alloy steel has witnessed a decline in demand on account of automobile production Fiscal 2019 onwards. As a result, the share of alloy in overall steel demand has fallen from 8.8% in 2014 to 2015 to 6.0% in 2019 to 2020. On the other hand, non-alloy steel has been growing at a CAGR of 6.0%.Further, long steel demand has grown at 3% CAGR over past five years (Fiscal 2015 to Fiscal 2020) period primarily led by healthy growth in infra and modest growth in housing segment. Flat steel on the other hand rose at around 8.6% CAGR during the same period. This has led to share of long steel in overall finished steel demand to fall from 58% in Fiscal 2015 to 52% in Fiscal 2020. Post moderate growth cycles since 2012, India's steel demand exhibited swift comeback with vigorous growth of 8% to 9% in Fiscals 2018 and 2019. Pent-up demand from low base of last year (demonetization), pick up in infra projects, robust growth in Auto (14% increase in automobile production) provided thrust to the sector's growth. However, steel sector witnessed a slump in demand to 1.4% in 2020 due to COVID-19 outbreak. Going ahead, steel demand is expected to recover and continue its strong growth at 5.0% to 6.0% through Fiscal 2025 supported by the government led initiatives especially affordable housing and infrastructure projects in metro, road, and urban infra space (which are more steel intensive). However, steel demand is expected to decline further by 5.5% to 6.5% in Fiscal 2021 before recovering in Fiscal 2022.



Source: RHP

INDUSTRY OVERVIEW

Key growth drivers of steel demand:

• Building and Constructions:

Steel demand from building and construction ("B&C") accounts for approximately 35% to 40% of aggregate finished steel demand. While in near term B&C demand is expected to be weak with affordable housing being the only saviour, however, in medium term housing market shall witness some soft revival led by rural housing, affordable housing, and commercialization of Tier III/IV cities. On the other hand, realty markets are expected to be continue to stay weak amidst the COVID-19 outbreak. Growth in the industrial segment is also expected to remain muted. Overall, steel demand from building and construction segment is expected to grow at a CAGR of 4% to 5% during Fiscal 2020 to Fiscal 2025 period, driven by government's focus on affordable housing, robust rural housing demand, commercialization of tier III and IV cities along with rising steel intensity.

• Infrastructure:

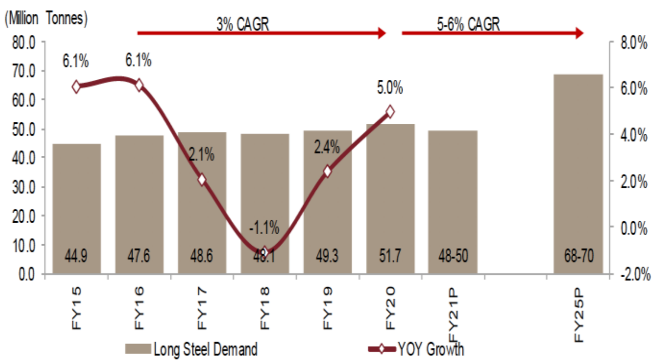
Infrastructure segment is currently the second largest segment in terms of steel consumption comprising of 25% to 30% share in overall steel demand end use mix. Demand from the sector is expected to be healthy with increasing activities and swift pace of execution in steel intensive segments such as railways and particularly metros. Further, in the Fiscal 2022 budget the government has laid special focus on infrastructure development that can be seen in the following announcements made:

- ₹ 64,180 crore investment in developing 17,000 rural and 11,000 urban wellness centers. Additionally plans to set up integrated public health labs in each district in next 6 years.
- ₹ 1.41 lakh crore spend over next five years towards urban clean India.
- Out of the planned investment of ₹ 1.51 lakh crore in Railways, ₹ 1.07 lakh crore is towards construction capital expenditure.
- 100 more districts to be added for next 3 years for City Gas Distribution.
- Increase in provision for Rural infrastructure by ₹ 10,000 crore.
- Investment of ₹ 4,000 crore for Deep Ocean Mission.

• Automotive:

Steel demand Automotive accounts for 8% to 10% of aggregate finished steel demand. The automobile industry has begun to recover post the de-growth caused by COVID-18 outbreak. The sector is expected to eventually recover by Fiscal 2022 with cars and utility vehicles expected to grow at 17%, commercial vehicles at 29% and two-wheelers at 10% post witnessing a drop in growth in Fiscal 2021.

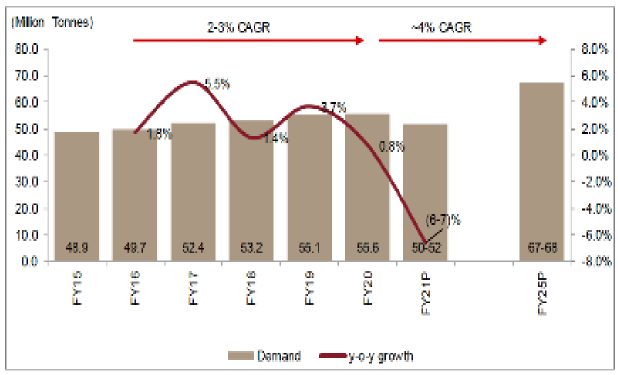
Long steel demand review and forecast



P: Projections

Source: Joint Plant Committee (JPC), CRISIL Research

Demand review and outlook for Billets

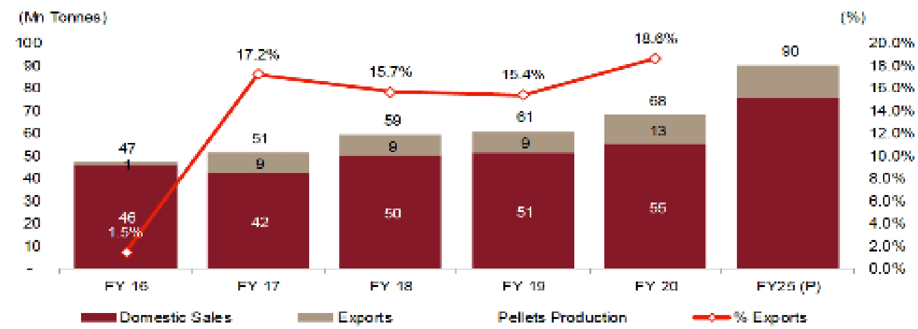


P: Projections

Note: Billet consumption includes captive and merchant. It has been estimated based on input-output norms for long steel making

Source: JPC, CRISIL Research

Production and Export Trends for Pellet



P: Projections

Source: Industry, DGFT, CRISIL Research

Source:RHP

Financials (RESTATED)

(Rs. In Mn)

Balance Sheet	9MFY21	FY20	FY19	FY18
EQUITYANDLIABILITIES				
Shareholders' Funds				
Share Capital	2336.10	2336.10	2336.10	467.22
Reserves & Surplus	30516.66	25923.65	22560.50	18072.67
Total (A)	**32852.76**	**28259.75**	**24896.60**	**18539.89**
Non-Current Liabilities				
Long Term Borrowings	1826.33	3513.12	2132.78	2017.24
Deferred Tax Liabilities (Net)	--	---	726.90	1101.03
Other Non Current Liabilities	2454.03	3157.07	2405.97	936.55
Total (B)	**4280.26**	**6670.19**	**5265.65**	**4054.82**
Current Liabilities				
Short Term Borrowings	6823.04	9211.28	4427.68	2786.55
Trade Payables				
Other Current Liabilities	6778.88	7849.57	5885.17	7225.27
Short Term Provisions	275.04	5.58	4.90	4.34
Total (C)	**13876.96**	**17066.43**	**10317.75**	**10016.16**
Total (A+B+C)	**51051.47**	**52037.88**	**40524.34**	**34706.28**
ASSETS				
Non-Current Assets				
Property, Plant & Equipment	18378.52	19685.07	17297.84	17230.28
Rights of use assets	419.64	427.23	434.73	233.79
Capital WIP	3509.54	2354.49	3576.99	906.27
Intangible Assets	6.26	7.88	8.36	4.47
Intangible Assets under development				7.48
Non-Current Investments	703.10	724.30	684.22	622.13
Other financial assets	448.21	407.67	74.96	38.32
Deferred Tax Assets (Net)	678.56	290.12	---	---
Other Non-Current Assets	3777.80	2292.45	579.79	714.85
Total (A)	**27921.63**	**26189.21**	**22656.89**	**19757.59**
Current Assets				
Trade Receivables	2436.86	2590.18	2129.06	3687.15
Cash and Cash equivalents	153.58	296.96	98.95	81.25
Current Investments	976.36	715.54	2054.31	1331.75
Short-Term Loans and Advances	157.87	41.83	474.06	60.24
Inventories	11499.78	14867.11	7321.33	5584.93
Other Current Assets	7905.39	7337.05	5789.74	4203.37
Total (B)	**23129.84**	**25848.67**	**17867.45**	**14948.69**
Total (A+B)	**51051.47**	**52037.88**	**40524.34**	**34706.28**

(Rs in Mn)

P&L	9MFY21	FY20	FY19	FY18
Total Revenue (A)	39330.84	43628.86	46063.95	38425.66
Total Expenditure (B)	32137.08	37173.3	36616.85	31415.54
EBIDTA	7193.76	6455.56	9447.1	7010.12
EBIDTA Margin	625.48	324.16	781.65	778.33
Other Income	2199.7	2966.49	1945.76	2150.47
Depreciation	5619.54	3813.23	8282.99	5637.98
EBIT	558.44	858.84	644.34	488.58
Interest	5061.1	2954.39	7638.65	5149.4
PBT	625.48	324.16	781.65	778.33
Sh of Profit in Associate	1.51	0.24	0.32	24.46
PBT	5062.61	2954.63	7638.97	5173.86
Tax	499.4	-448.66	1271.14	-106.53
PAT	4563.21	3403.29	6367.83	5280.39
NPM	11.60	7.80	13.82	13.74
ROE %	13.89	12.04	25.58	28.48
EPS	19.53	14.57	27.26	113.02
BV	140.63	120.97	106.57	396.81

PEERS ANALYSIS

Following is peer group analysis:

Company Name	Total Revenue (Mn)	EPS	NAV	RONW %
Tata Steel	1416601	11.86	640.52	1.54
JSW Steel	738720	16.78	150.41	10.87
SAIL	625700	5.13	100.58	5.11
Jindal Steel & Power Ltd	369437	(1.08)	310.62	(1.28)
Tata Steel Long Products Ltd	35713	(142.81)	452.16	(25.59)
Shyam Metallics	***43628.86***	***14.57***	***120.97***	***12.04***

(*Source RHP)*

(Rs in Mn)

Cash Flow Statement	9MFY21	FY20	FY19	FY18
(A) Cash Flow from operating Activities:				
Net profit before tax	5062.61	2954.63	7638.97	5173.86
Adjustment for:	2360.72	3790.34	2244.88	2448.77
Operating profit before working capital changes	**7423.33**	**6744.97**	**9883.85**	**7622.63**
Changes in working capital				
Decrease/(Increase) in trade Receivables	153.32	354.03	1526.83	(996.92)
Decrease/(Increase) in inventories	3367.33	(3554.12)	(1736.40)	(1665.05)
Decrease/ (Increase) in financial loans, other financial assets & other assets	(2401.45)	(1912.11)	(2063.60)	(3582.80)
Increase/ (Decrease) in trade payables,provisions & other liabilities	(1374.45)	(236.22)	(1365.10)	2232.97
Cash Generated from operations	**7168.08**	**(617.37)**	**6245.46**	**3610.83**
Less: Income taxes paid	(600.00)	(454.00)	(1680.00)	(1141.34)
Net Cash Flow from operating activities	**6568.08**	**851.55**	**4565.56**	**2469.49**
B) Cash Flow From Investing activities:				
Purchase of property,plant & equipment	(2038.99)	(3081.64)	(4880.91)	(1027.58)
Increase/(Decrease) in Investment (Net)	(172.76)	40.98	(688.06)	(743.63)
Dividend Received	0.74	6.63	205.58	24.60
Loans Refunded/(Given)	(116.04)	179.88	(413.82)	272.63
Interest income received	15.93	80.16	107.59	53.45
Net Cash Flow from investing activities	**(2311.12)**	**(2773.99)**	**(5669.62)**	**(1420.53)**
C) Cash Flow From Financing Activities:				
Proceeds/(Repayment) from /(of) current borrowings (net)	(4019.77)	2998.78	1756.67	(1129.16)
Finance cost paid	(538.96)	(878.33)	(634.91)	(492.53)
Net Cash flow from Financing activities	(4558.73)	2120.45	1121.76	(1621.69)
D) Effect of Foreign Exchange Fluctuation	158.39	--	---	244.72
Net increase/(Decrease) in cash & cash equivalents(A+B+C)	(143.38)	198.01	17.70	(328.01)
Cash equivalents at the beginning of the year	296.96	98.95	81.25	409.26
Cash equivalents at the end of the year	**153.58**	**296.96**	**98.95**	**81.25**

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