

Shyam Metals and Energy Ltd.



Shyam Metalics And Energy Limited

Issue Opens On
June 14, 2021

Issue Closes On
June 16, 2021

Price Band (INR)
303-306

Issue Size (INR Cr.)
909

Rating
SUBSCRIBE

Shyam Metalics And Energy Limited (erstwhile Shyam DRI Power Limited) is an integrated metal company based out of Kolkata, West Bengal. It produces long steel (finished steel) and ferro alloys (raw material for finished steel), which include products such as pellets, TMT bars, structured products, wire rods and pipes, since 2005. The company is promoted by Mahabir Prasad Agarwal, Brij Bhushan Agarwal, Sanjay Kumar Agarwal, Shubham Capital Private Limited, Subham Buildwell Private Limited, Narantak Dealcomm Limited, Kalpataru Housefin & Trading Private Limited, Dorite Tracton Private Limited, and Toplight Mercantiles Private Limited. The company owns and operates 3 manufacturing plants at Sambalpur in Odisha, and Jamuria and Mangalpur in West Bengal with an aggregate installed capacity to produce 5.71 MTPA of metal. The company also has a captive power plant with an aggregate capacity to produce 227 MW of power. The company exports to Nepal, Bhutan, Bangladesh, China, Japan and Dubai. The company generated 11% of revenue from exports in 9MFY21.

OFFER STRUCTURE

Particulars	IPO Details
Fresh offer (# shares Cr)	2.15
Offer for Sale in Cr	0.82
Price band (INR)	303-306
Post issue MCAP (INR Cr.)	7,732 – 7,809

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	June 16, 2021
Finalization of Basis of Allotment with Stock Exchange	June 21, 2021
Initiation of Refunds	June 22, 2021
Credit of Equity Shares to Demat accounts	June 23, 2021
Commencement of Trading of Eq.shares on NSE	June 24, 2021

Source: IPO Prospectus

Issue break-up	No. of shares (#)
QIB	Up to 50% of the Net Offer
Non-Institutional	15% of the Net Offer
Retail	35% of the Net Offer

Source: IPO Prospectus

Shareholding Pattern		
Name of the Shareholder	Prior Holding (%)	Post IPO Holding (%)
Promoters and members of Promoter Group	100.0%	88.4%
Others	0.0%	11.6%

Source: IPO Prospectus

Particulars (In INR Mn)*	FY18	FY19	FY20	9MFY21
Revenue*	39,204	46,846	43,953	39,956
EBITDA	7,149	9,568	6,341	7,173
EBITDA Margin	18.23%	20.42%	14.43%	17.95%
PAT	5280	6368	3403	4563
PAT Margin	13.47%	13.59%	7.74%	11.42%
ROE	22.89%	24.27%	12.04%	13.89%
ROCE	22.83%	27.42%	10.90%	15.12%

Source: IPO Presentation, * Restated Consolidated, # Ind AS * including other income

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INVESTMENT RATIONALE

One of the leading domestic market players in Sponge Iron and Iron Ore Pellets manufacturing with diversified revenue base:

The company has ~ 5.71 MTPA of aggregate finished long steel and intermediate products manufacturing capacity as of FY21. As per CRISIL, the company is one of the leading players in Iron ore Pellets, and fourth largest player in the sponge iron industry, in terms of manufacturing capacity. The company sells its products to institutional customers and end consumers through its distribution network of 42 distributors. It also customizes and sells its products. The customers include Jindal Stainless Steel Limited, Jindal Stainless (Hisar) Limited, and Rimjhim Ispat Limited. The international customers include Norecom DMCC, Norecom Limited, POSCO International Corporation, World Markets and Alloys (FZC), Traxys North America LLC, JM Global Resources Limited, Goenka Steels Private Limited, and Vijayshree Steel Private Limited.

Revenue segments:

INR in mn	FY2018	% of sales	FY2019	% of sales	FY2020	% of sales	9M 2021	% of sales
Ferro Alloys	11,136	31%	8,517	19%	7,526	18%	5,996	15%
TMT, structural products, wire rods, and pipes	5,521	15%	7,546	17%	9,595	23%	14,496	37%
Steel billets	6,875	19%	11,187	25%	10,222	24%	5,418	14%
Sponge iron	9,114	25%	12,133	27%	8,524	20%	4,402	11%
Iron pellets	3,306	9%	4,938	11%	5,973	14%	8,457	22%
Total product sales	35,951	100%	44,320	100%	41,839	100%	38,768	100%

Source: IPO Prospectus

Backward integrated leading to control over profitability to sustain market fluctuations:

The company has a fully integrated ore to mills operations. Out of the three of its plants, two are fully backward and forward integrated plants. Those plants are Sambalpur, Odisha and Jamuria, West Bengal. The company has backward integration with iron ore pellets and sponge iron capacity. Pellets are converted to Sponge Iron and are used in making of finished products as well as sold separately. The Sponge Iron is used to further produce billets which can directly be used in rolling mills to produce value added products such as TMT bars, structural products, and wire rods. As such the company has an ability to accrue revenue during any phases of market while maintaining margins or staying profitable.

Expanding manufacturing capacity to strengthen the market position and de-risk revenue stream:

The company is underway with the capacity expansion plans by which it can strengthen its market position further. The company plans to increase its Iron pellet manufacturing capacity from 2.4 MTPA currently to 3.6 MTPA, Sponge iron plant from 1.4 MTPA to 2.9 MTPA, Billet plant's capacity from 0.89 MTPA to 2 MTPA, finished value added products' capacity from 0.82 MTPA to 2.1 MTPA, and Ferro Alloys from 0.21 MTPA to 0.22 MTPA. Also, the company is adding anew a blast furnace with a 0.6 MTPA capacity as well a new ductile iron pipe plant with 0.20 MTPA capacity. These capacity addition plans will increase the company's manufacturing capacity from 5.71 MTPA (Dec 2020) to 11.60 MTPA over FY22-FY25. Also, the power generation capacity is slated to rise from 227 MW as of Dec 20 to 357 MW over FY22-FY25. The capacity expansion will be carried out at their existing plants at Sambalpur and Jamuria plants, with no additional land cost involved, as a result. This is expected to lower their overall capex cost over the expansion period. The company is currently in the process of commissioning 2 aluminum foil rolling mills as well with an aggregate installed capacity of 40,000 TPA at Pakuria, West Bengal. Introducing newer and value-added product lines augments its revenue diversification efforts and thereby de-risks the revenue growth prospects.

Exports to help to elevate margins:

The company generated 11% of revenue from exports in 9MFY21 vs. 10% in FY20. The company intends to increase its exports of ferro alloys and specialized billets in international markets. The infrastructure investment drive in China, and the US and global renewable energy transition through the rollout of new infrastructure for power generation, electric vehicle charging, and high-speed electric rail networks is expected to benefit iron ore and steel demand across the world.

Strong profitability and balance sheet:

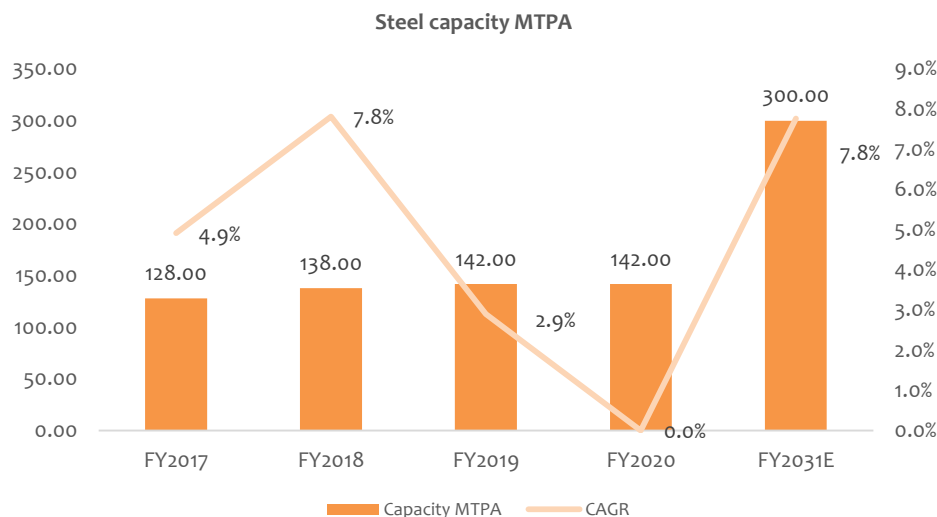
The company's revenue from operations (including other income) increased at 20.5% YoY to INR 39,956 mn in 9MFY21 (vs. 3.9% CAGR rise witnessed during FY18-FY20) due to increase in realizations in average sale price per tonne and increase in sales volumes. The iron pellets sales increased 74.7% YoY to INR 4,841.35 mn as the company recently increased the iron pellet's capacity, while realization per tonne and sales volumes increased. Also, sale of value added and finished products increased at a strong pace of 168.5% YoY to INR 14,995.56 mn due to increase in realizations and volumes. The company's EBITDA increased 60.1% YoY in 9MFY21 (vs. 3.9% CAGR decline overserved during FY18-FY20) and EBITDA margins improved 444 bps YoY to 18.0% for 9MFY21 (vs. an average 17.7% EBITDA margins experienced during FY18-FY20). The PAT grew at 75.3% YoY to INR 4,563 mn for 9MFY21 (vs. a CAGR decline of 13.6% during FY18-FY20). The company has interest coverage ratio of 18x as of 9MFY21 vs 9.7x it was in 9MFY20. The company has contingent liabilities of around 9% of shareholder's equity. The company's debt to equity is at 0.3x (vs. industry average debt to equity of 0.8x) as of 9MFY21.

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Industry Snapshot:

Steel Industry Overview:

India's crude steel production has grown at 4.8% CAGR while finished steel production has declined at 1.3% CAGR during FY16-FY20. However, the steel consumption has grown at a CAGR of 5.2% for the same period. India's steel production capacity has expanded over the last few years. It has grown at 3.9% CAGR from 122 MTPA in FY16 to 142 MTPA in FY20. It is expected to rise at an 7.8% CAGR to reach to 300 MTPA by FY2031 (Source: National Steel Policy 2017)



Source: IBEF, KR Choksey Research * for 9MFY21

The capacity growth is being driven by increase in per capita consumption of steel, which in turn, will be driven by rapid growth in industrial sector and infrastructure expenditure on railways, roads, and highways etc. Consumption of finished steel increased 7% YoY in February 2021 to 9.13 MT, indicating initial sign of improvement. The National Steel Policy 2017 envisages to boost the steel per capita consumption from 64 kgs in FY16 or 74 kgs in FY19 to 160 kgs by FY31. That is expected to be driven by increased demand for appliances and consumer electronics (ACE), automobiles, and increased expenditure on construction sector.

CRISIL estimates that the steel industry to grow at 5-6% during FY21-FY25 due to government's focus towards execution of affordable housing, robust demand for rural housing, and improving urban housing demand and rising per capita consumption of steel. Additionally, construction of roads and railways, urban infrastructure, and irrigation facilities will drive demand for the long products.

The pellets market overview: India has ~80-85 MTPA capacity for pellets manufacturing. The industry operates at 80% of utilization levels. At the same time, there have not been any significant capacity additions done in the industry during FY15-FY20. AMNS India (14 MTPA), Jindal Steel and Power Ltd. (~9 MTPA), Tata Steel (~6 MTPA), JSW Steel (~14 MTPA) and KIOCL (~3.5 MTPA) account for 50% of pellet's production in India. Shyam Metals has nearly ~2.4 MTPA of pellet's capacity in India. Domestic sales of pellets grew at 9% CAGR while exports increased at 13% CAGR during FY17-FY20 (CRISIL). Due to subdued domestic demand owing to pandemic in H1FY21, the pellets exports increased to 10 MT in April-Dec 20 period compared to 13 MT in FY20 and 9MT in FY19. It is estimated that pellets sales will grow at 6.0% CAGR during FY21-FY25 driven by revival in steel production, high preference for usage of pellets led by better efficiency in blast furnace units, ease of operations and increase in pellet production capacities.

Outlook: The steel and iron industry's demand is likely to improve with the infrastructure investment drive in China, and the US and global renewable energy transition through the rollout of new infrastructure for power generation, electric vehicle charging, and high-speed electric rail networks across the world. The Chinese steel industry aims to reach peak carbon emission by 2025 and achieve a 30% reduction from the peak by 2030. The decarbonization push is expected to boost demand for direct feed iron ore products such as pellets and lumps. Also, the fact that Australia is the only source of iron ore supply to China, may help India to act as an alternative source of supply. The recent run up in prices of iron and steel may not sustain for long but underlying demand conditions look strong over medium term.

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VALUATION & VIEW:

At the upper band of issue price, Shyam Metals and Energy is priced at a TTM PE of 11.8x on implied TTM EPS of INR 26.04 as of Dec 20, which is at a 27% discount to its peers. The implied TTM PE of 11.8x is fair as the peer generate on an average ROE of 14.6% while Shyam Metals generated ROE of 12.0% as of FY20. The company is issuing IPO at a time, when the metal price recovery is expected to be over, which began at the beginning of FY21. Nevertheless, the buoyant state of underlying demand with recovery in market prices of iron and steel post pandemic related restrictions, will continue to support the price stability over short – medium term. This is expected to help iron ore pellets, sponge iron and long products manufacturers like Shyam Metals and Energy Ltd. Shyam Metals is one of the prominent players in iron ore pellets and sponge iron manufacturing in India. However, as far as the finished long products are concerned it faces tough competition from large players like Steel Authority of India Ltd. (SAIL), Jindal Steel and Power Ltd., and Rashtriya Ispat Nigam Ltd. Nevertheless, Shyam Metals has been able to stay profitable and maintain balance sheet strength. Also, it has been in the process of introducing additional streams of revenue such as aluminum foil rolling mill and ductile iron pipes, thereby, it has been forward integrating incrementally, as well. We believe the company can benefit from secular positive trend for recovery in demand for iron and steel sector post lessening of severity of pandemic. Hence, we recommend “SUBSCRIBE” to the IPO.

Peer Comparison

Company	Revenue (Mn)	Revenue 3yr CAGR	EBITDA (Mn)	PAT (Mn)	PAT (%)	EPS
Shyam Metals and Energy Limited	43,953	3.9%	6,341	3,403	7.74%	14.57
Tata Steel Limited	1,489,720	9.9%	174,860	15,570	1.05%	13.82
JSW Steel Limited	733,260	9.7%	118,080	40,300	5.50%	16.67
Steel Authority of India Limited	616,640	11.7%	102,650	21,210	3.44%	5.13
Jindal Steel & Power Limited	443,760	27.1%	78720	-1,090	-0.25%	-1.07
Tata Steel Long Products Limited	34,900	84.4%	1,530	-5,160	-14.79%	-114.46

Company	MCap (Mn)	PE (x)	ROE (%)
Shyam Metals and Energy Limited	78,090	11.8	12.04%
Tata Steel Limited	1,262,510	16.01	10.13%
JSW Steel Limited	1,721,420	21.64	18.98%
Steel Authority of India Limited	540,890	25.59	5.23%
Jindal Steel & Power Limited	416,880	5.69	16.49%
Tata Steel Long Products Limited	42,440	NA	24.81%

Source: Bloomberg, KR Choksey Research

KEY RISKS & CONCERNS

- The company's business is cyclical in nature as demand and pricing in the steel industry remains volatile and sensitive to the cyclical nature of the industries it serves. The industry went through difficult phases during FY98, FY03, FY09 and FY15. Nevertheless, lately the demand has been growing at 5.4% during FY15-FY20.
- The volatility in its final product prices reflect in its raw materials also. However, the company is backward integrated with captive power plant, pellet, sponge iron and biller plants. It is dependent on mine owners located nearby its manufacturing plants to ensure iron ore supplies. Also, it has long term linkages with Odisha Mining Corporation Limited and other mine owners and imports for iron ore.

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Company Overview

Shyam Metals is an integrated metal producing company based in India. It has focus on long steel products and ferro alloys. The company is one of the largest producers of ferro alloys in terms of installed capacity in India as of February 21. As of Q4FY21, the company was one of the leading players in terms of pellet capacity and the fourth largest in sponge iron industry in terms of sponge iron capacity in India.

The company currently operates three manufacturing plants that are located at Sambalpur in Odisha, and Jamuria and Mangalpur in West Bengal. As of December 2020, the company has had aggregate capacity of 5.71 MTPA comprising of all its intermediate and final products.

Sambalpur and Jamuria plants operate as ore to metal integrated steel manufacturing plants and has captive railway sidings, captive power plants, iron pellet, sponge iron, billet, thermo mechanically treated (TMT), wire rod, and structural mills and ferro alloy plants. The Mangalpur plant comprises of sponge iron and ferro alloy plants and a captive power plant. Captive power plants use non fossil fuels such as waste, rejects, heat and gas, generated from its operations to produce electricity, enabling it to operate at lower costs. As of FY18, FY19, FY20, and 9MFY21, the company's captive power accounted for 90.06%, 87.32%, 85.19%, and 79.58% of total power consumed, respectively.

The company produces long steel products such as iron pellets, sponge iron, steel billets, TMT, structural products, wire rods, and ferro alloys with specific focus on high margin products such as customized billets, and specialized ferro alloys for special steel applications. The company's TMT and structural products are sold under the brand "SEL" and logo "Shyam Metals". The company also undertakes conversion of hot rolled coils to pipes, chrome ore to ferro chrome and manganese ore to silico manganese for an Indian steel conglomerate. The company also is in the process of diversifying additionally into pig iron, ductile iron pipes and aluminum foil.

Table: Manufacturing capacity

Particulars	Unit of Measurement	Sambalpur manufacturing plant		Jamuria manufacturing plant		Mangalpur manufacturing plant		Total		Grand Total
		Existing capacity	Proposed	Existing capacity	Proposed	Existing capacity	Proposed	Existing capacity	Proposed	
Captive power plant	MW	118.00	40.00	94.00	90.00	15.00	0.00	227.00	130.00	357.00
Iron pellet plant	MTPA	1.20	0.60	1.20	0.60	0.00	0.00	2.40	1.20	3.60
Sponge iron plant	MTPA	0.79	0.56	0.54	0.95	0.06	0.00	1.39	1.51	2.90
Billet plant	MTPA	0.40	0.46	0.49	0.65	0.00	0.00	0.89	1.11	2.01
TMT, Structured products, wire rods, and pipes	MTPA	0.41	0.51	0.41	0.74	0.00	0.00	0.82	1.25	2.07
Ferro alloy plant	MTPA	0.10	0.01	0.07	0.00	0.04	0.00	0.21	0.01	0.22
Blast furnace	MTPA	0.00	0.00	0.00	0.60	0.00	0.00	0.00	0.60	0.60
Ductile pipe plant	MTPA	0.00	0.00	0.00	0.20	0.00	0.00	0.00	0.20	0.20
Total	MTPA	2.90	2.15	2.71	3.74	0.10	0.00	5.71	5.89	11.60

Source: IPO Prospectus, KR Choksey Research

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Financials:

Ratio Analysis (%)	FY18	FY19	FY20	9MFY21
EBITDA Margin	18.23%	20.42%	14.43%	17.95%
PAT Margin	13.47%	13.59%	7.74%	11.42%
RONW	22.89%	24.27%	12.04%	13.89%
ROCE	37.80%	47.80%	37.80%	22.30%
Diluted EPS (INR) (Adjusted Post IPO)	18.17	25.86	14.57	19.53

Source: IPO Presentation, * Restated Consolidated, # Ind AS

Income Statement (INR Mn)	FY18	FY19	FY20	9MFY21
Revenues	38,426	46,064	43,629	39,331
COGS	24,661	27,863	26,780	24,553
Gross profit	13,765	18,201	16,849	14,777
Employee cost	1064.46	1450.25	1683.55	1247.35
Other expenses	5,690	7,304	8,710	6336.32
EBITDA	7,010	9,447	6,456	7,194
EBITDA Margin	18.24%	20.51%	14.80%	18.29%
Depreciation & amortization	2,150	1,946	2,966	2,200
EBIT	4,860	7,501	3,489	4,994
Interest expense	489	644	859	558
Other income	778	782	324	625
Share in profits / (loss) of associates	24.46	0.32	0.24	1.51
PBT	5,174	7,639	2,955	5,063
Tax	-106.53	1271.14	-448.66	499.4
PAT	5,280	6,368	3,403	4,563
Restated Basic EPS (INR)	18.17	25.86	14.57	19.53

Source: RHP

Cashflow Statement (INR Mn)	FY18	FY19	FY20	9MFY21
Net cash flow from operating activities	2,469	4,566	852	6,568
Net cash flow used in investing activities	-1,421	-5,670	-2,774	-2,311
Net cash flow generated from / (used in) in financing activities	-1,622	1,122	2,120	-4,559
Net increase / (decrease) in cash and cash equivalents (A+B+C)	-328	18	198	-143
Opening Cash and cash equivalents	409	81	99	297
Closing Cash and cash equivalents	81	99	297	154

Source: RHP

Shyam Metals And Energy Limited

Financials:

Balance Sheet (INR Mn)	FY18	FY19	FY20	9MFY21
Property, plant and equipment	17,464	17,733	20,112	18,798
Capital work-in-progress	906	3,577	2,354	3,510
Intangible assets	12	8	8	6
Other financial assets	660	759	1,132	1,151
Deferred tax assets (Net)	0	0	290	679
Other non-current assets	715	580	2,292	3,778
Total non-current assets	19,758	22,657	26,189	27,922
Current assets				
Inventories	5,585	7,321	14,867	11,500
Investments	1,332	2,054	716	976
Trade receivables	3,687	2,129	2,590	2,437
Cash and cash equivalents	81	99	297	154
Other Bank Balances	452	879	915	1,628
Loans	60	474	42	158
Other financial assets	810	729	710	742
Other current assets	2,941	4,182	5,712	5,536
Total current assets	14,949	17,867	25,849	23,130
TOTAL ASSETS	34,706	40,524	52,038	51,052
EQUITY AND LIABILITIES				
Equity				
Equity share capital	467	2,336	2,336	2,336
Other equity	18,073	22,561	25,924	30,517
Equity attributable to the equity shareholders	0	0	0	0
Total equity	18,540	24,897	28,260	32,853
Non-controlling interests	2,095	44	42	41
Liabilities				
Non-current liabilities				
Financial liabilities				
Borrowings	2,017	2,133	3,513	1,826
Provisions	58	60	272	98
Deferred tax liabilities (Net)	1,101	727	0	0
Other non-current liabilities	879	2,346	2,885	2,356
Total non-current liabilities	4,055	5,266	6,670	4,280
Current liabilities				
Financial liabilities				
Borrowings	2,787	4,428	9,211	6,823
Trade payables	4,471	3,106	5,024	3,538
Other financial liabilities	1,076	1,010	1,545	771
Provisions	4	5	6	275
Current tax liabilities (Net)	325	0	0	245
Other current liabilities	1,354	1,769	1,280	2,225
Total current liabilities	10,016	10,318	17,066	13,877
Total liabilities	14,071	15,583	23,737	18,157
TOTAL EQUITY AND LIABILITIES	34,706	40,524	52,038	51,052

Source: RHP

Shyam Metals And Energy Limited

ANALYST CERTIFICATION:

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