

ICICI Securities Limited
is the author and
distributor of this report

Company update

Metals and
mining

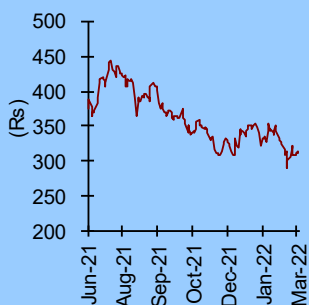
Target price Rs400

Shareholding pattern

	Jun '21	Sep '21	Dec '21
Promoters	88.4	88.4	88.4
Institutional investors	4.6	4.3	3.7
MFs and others	1.6	2.3	2.5
FI/Banks	0.0	0.1	0.0
FII	3.0	1.9	1.2
Others	7.0	7.3	7.9

Source: NSE

Price chart



Research Analysts:

Abhijit Mitra

abhijit.mitra@icicisecurities.com
+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com
+91 22 6807 7510

Pritish Urumkar

prish.urumkar@icicisecurities.com
+91 22 6807 7289

INDIA

Shyam Metals and Energy

BUY
Maintain
Rs324

Prudent capital allocation to help RoE

Shyam Metals and Energy Ltd (SMEL) has announced additional capex of ~Rs9.9bn over and above the existing committed capex of ~Rs30bn to be incurred over 3-4 years. The additional capex would be incurred to i) increase its pellet plant capacity by ~2.4mtpa (~1.2mtpa each at Jamuria and Sambalpur plant), ii) set up a coke oven plant with a capacity of ~0.45mtpa and iii) double captive railway siding capacities. The breakup of the capex is i) Rs3.6bn for pellet plant, ii) Rs4.5bn into coke oven plant and iii) Rs1.8bn for railway sidings. The capex will be funded through internal accruals. Further, the aluminium foil plant of ~40,000tpa capacity has also been commissioned in Mar'22. The pellet plant and coke oven plant are expected to be operational by Sep'23, while the rail sidings are expected to commission by Mar'23. We maintain BUY with a target price of Rs400/share.

- ▶ **Pellet plant:** At present, SMEL has pellet capacity of ~3.6mtpa which shall increase to ~6mtpa post the expansion. Capacity of ~1.2mtpa will be added at both Sambalpur and Jamuria plant with aggregate capex of ~Rs3.6bn (Rs1.8bn at each plant). The capacities are expected to be operational by Sep'23. The expansion is to ensure continuity of merchant pellet sales as existing pellet capacity will be largely consumed by increase in sponge iron capacity under commissioning (from 2.1mtpa to 2.9mtpa).
- ▶ **Coke oven plant:** SMEL is setting up a coke oven plant of ~0.45mtpa capacity with an estimated capex of ~Rs4.5bn. The plant will be set up at the existing land in Jamuria Plant – horizontal design, non-recovery type to help reduce cost of energy and improve BF yield; it would also offer better flexibility in choice of coal. The plant is expected to be commissioned by Sep'23.
- ▶ **Captive railway sidings:** The company will be adding two more railway lines at both Sambalpur and Jamuria plant. The railway lines will be added with a capex of ~Rs1.8bn (~Rs0.9bn for each plant). The proposed capex is expected to be completed by Mar'23. This will increase raw material handling capacity of the company.
- ▶ **Expects to maintain margin trajectory.** Management expects to maintain margins on the back of the significant increase in steel prices observed, which will likely more than offset the rise in raw material prices. Steel demand in the country has offered some resistance to sharp increases in long and flat products. Management is looking at creating adequate inventory (of thermal coal and iron ore) at all price points to navigate this period of inflation. Sharp increase in scrap prices and constrained availability are further expected to help long product prices in India.
- ▶ **Maintain BUY:** We maintain our BUY rating with a target price of Rs400/share based on 1.17x FY24E P/B. Current capital allocation announcement is supportive of a conservative capital structure and also the RoE profile.

Market Cap	Rs83bn/US\$1.1bn	Year to Mar	FY21	FY22E	FY23E	FY24E
Bloomberg	SHYAMMET IN	Revenue (Rs bn)	63.0	98.2	110.4	118.6
Shares Outstanding (mn)	255.1	Rec. Net Income (Rs bn)	8.4	15.2	13.0	16.0
52-week Range (Rs)	445/291	EPS (Rs)	36.1	59.5	50.8	62.7
Free Float (%)	11.6	% Chg YoY	148%	65%	-15%	24%
FII (%)	1.2	P/E (x)	9.8	5.4	6.4	5.2
Daily Volume (US\$/'000)	2,139	CEPS (Rs)	44.8	78.6	75.2	85.7
Absolute Return 3m (%)	1.9	EV/E (x)	6.3	3.2	3.0	2.0
Absolute Return 12m (%)	NA	Dividend Yield (%)	2.7	-	-	-
Sensex Return 3m (%)	(1.7)	RoCE (%)	21.7	29.1	23.2	28.1
Sensex Return 12m (%)	14.0	RoE (%)	23.2	26.1	18.2	18.4

Please refer to important disclosures at the end of this report

Valuation

We maintain our **BUY** rating and target price of Rs400/share. We value it at 1.17x FY24E P/B, with an implied EV/EBIDTA (FY24E) of ~2x. Our 1.17x P/B is adequately discounting the RoE scenario of 18% that we forecast for FY23/24E.

Table 1: Global valuation comparison

Name	Current Market Cap (US\$ mn)	PE-1y	PE-2y	EV/EBITDA-1y	EV/EBITDA-2y	ROE 1y	ROE 2y	PB-1y	PB-2y
United States Steel	8,039	3.0	10.2	2.1	4.6	27.1	6.8	0.7	0.6
Steel Dynamics	14,747	5.9	12.6	4.1	8.0	35.2	12.1	1.7	1.4
Nucor Corp	37,013	6.9	20.3	4.9	10.4	33.6	9.2	2.0	1.8
Arcelor Mittal	28,852	3.3	5.5	2.5	3.8	16.5	8.4	0.5	0.5
Salzgitter AG	2,507	3.6	4.9	2.6	3.3	18.2	11.6	0.6	0.6
Tata Steel	20,453	4.2	6.8	3.7	5.1	38.5	18.9	1.4	1.2
Steel Authority of India Ltd	5,303	3.1	4.9	2.9	4.2	24.9	12.7	0.7	0.6
Jindal Steel & Power Ltd	5,839	5.1	6.6	3.4	4.3	24.6	15.6	1.1	1.0
JSW Steel Ltd	20,036	6.8	8.4	5.3	5.8	36.6	24.4	2.3	1.8
Evrz	1,226	0.6	1.0	1.2	1.7	81.5	48.6	0.4	0.4
Severstal PAO	50	0.0	0.0	0.4	0.4	57.6	45.6	0.0	0.0
Angang Steel Co	5,709	3.6	4.0	3.0	3.2	14.7	11.9	0.5	0.5
Maanshan Iron & Steel Co	5,059	2.7	3.2	4.0	4.6	24.5	17.1	0.6	0.6
Gerdau SA	9,033	5.2	7.5	3.3	4.4	20.6	12.7	1.0	0.9
Cia Siderurgica Nacional SA	7,855	2.9	5.0	2.4	3.4	77.8	29.4	1.8	1.4
Usinas Siderurgicas de Minas G	3,761	4.9	6.8	2.7	3.9	17.3	10.8	0.8	0.8
Nippon Steel	17,674	3.9	6.3	4.2	5.8	18.1	9.3	0.6	0.6
JFE Holdings	9,335	3.8	5.9	5.2	6.5	15.3	8.7	0.5	0.5
POSCO	20,914	4.9	5.1	3.1	3.2	9.6	8.6	0.4	0.4
Kobe Steel	2,123	4.4	5.4	5.6	5.9	7.1	5.1	0.3	0.3

Source: I-Sec research, Bloomberg

Key Risks

Commodity price risk. SMEL is exposed to fluctuations in the price of raw materials, intermediate and final products. The market prices of these commodities fluctuate due to the level of demand and supply in the domestic and global market. Therefore, fluctuations in the prices of raw materials and intermediate and final products have a significant effect on SMEL's business, results of operations and financial condition.

SSPL is the recipient of various subsidies and incentives for Jamuria and Mangalpur manufacturing plants under the West Bengal Incentive Scheme, 2004.

These subsidies and incentives include state capital investment subsidy, industrial promotion assistance, employment generation subsidy and waiver of electricity duty by the West Bengal Industrial Development Corporation Limited. These subsidies and incentives are for a defined time period and can be withdrawn by the WBIDC at any time.

Related party transactions may potentially involve conflicts of interest with the equity shareholders. According to DRHP, SMEL has in the past entered into transactions with certain of its Promoters, relatives of Promoters, Directors, and Group Companies. SMEL management believes that all such transactions have been conducted on an arm's length basis. However, such related party transactions, if any, in future could potentially create conflict of interest with equity shareholders.

Financial Summary

Table 2: Profit and Loss statement

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	43,764	62,971	98,186	1,10,357	1,18,585
Total Revenue	43,764	62,971	98,186	1,10,357	1,18,585
<i>Blended realisation/te</i>	<i>36,064</i>	<i>45,231</i>	<i>51,633</i>	<i>35,515</i>	<i>34,892</i>
Operating Expenses	37,103	49,033	73,283	87,580	92,930
<i>Blended raw material cost/te</i>	<i>22,400</i>	<i>26,697</i>	<i>37,500</i>	<i>25,650</i>	<i>25,650</i>
EBITDA	6,661	13,938	24,903	22,777	25,654
<i>% margins</i>	<i>15.2</i>	<i>22.1</i>	<i>25.4</i>	<i>20.6</i>	<i>21.6</i>
<i>Blended EBITDA/te</i>	<i>5,489</i>	<i>10,012</i>	<i>13,096</i>	<i>7,330</i>	<i>7,548</i>
Depreciation & Amortisation	2,967	3,004	4,874	6,233	5,853
Gross Interest	859	625	574	49	-
Other Income	118	237	800	800	1,567
Recurring PBT	2,953	10,547	20,254	17,295	21,368
Less: Taxes	(449)	2,114	5,084	4,341	5,363
Minority Int. & Asso. Profit	0	5	-	-	-
Net Income (Reported)	3,403	8,434	15,170	12,954	16,005

Source: I-Sec research

Table 3: Balance Sheet

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Assets					
Total Current Assets	24,703	26,583	47,927	57,447	75,692
of which cash & cash eqv.	1,212	3,238	9,445	13,565	28,633
Total Current Liabilities & Provisions	6,836	6,287	16,129	17,971	19,608
Net Current Assets	17,867	20,296	31,798	39,476	56,084
Investments	724	666	666	666	666
Net fixed assets (including CWIP)	22,048	22,659	29,898	28,174	27,571
Deferred Tax Asset	290	68	68	68	68
Other non-current assets	2,242	3,349	3,349	3,349	3,349
Total Assets	43,172	47,038	65,779	71,732	87,737
Liabilities					
Borrowings	14,870	10,654	7,654	654	654
Deferred Tax Liability	-	-	-	-	-
Other long term liabilities	-	-	-	-	-
Minority Interest	42	44	44	44	44
Equity Share Capital	2,336	2,336	2,551	2,551	2,551
Reserves & Surplus	25,924	34,004	55,530	68,484	84,489
Net Worth	28,260	36,341	58,081	71,035	87,040
Total Liabilities	43,172	47,038	65,779	71,732	87,737

Source: I-Sec research

Table 4: Cash Flow Statement

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Profit before tax	2,954	10,550	20,254	17,295	21,368
Depreciation	2,966	3,004	4,874	6,233	5,853
Working Capital Changes	(7,019)	(1,344)	(5,295)	(3,558)	(1,540)
Taxes Paid	(545)	(1,886)	(5,084)	(4,341)	(5,363)
Cash flow from Operating Activities	(910)	10,498	14,524	14,879	18,751
Capital Commitments	(5,637)	(3,611)	(12,113)	(4,509)	(5,250)
Free Cash Flow	(6,547)	6,887	2,411	10,370	13,501
Other investing cashflow	1,438	(1,312)	800	800	1,567
Cash flow from Investing Activities	(4,199)	(4,923)	(11,313)	(3,709)	(3,683)
Inc (Dec) in Borrowings	6,169	(3,179)	(3,000)	(7,000)	-
Other financing activities	(862)	(1,055)	5,996	(49)	-
Cash flow from Financing Activities	5,307	(4,234)	2,996	(7,049)	-
Chg. in Cash & Bank balance	198	1,341	6,207	4,121	15,068

Source: I-Sec research
9811069066

Table 5: Key Ratios

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Per Share Data (Rs)					
Basic EPS	14.6	36.1	59.5	50.8	62.7
Diluted EPS	13.3	33.1	59.5	50.8	62.7
Cash EPS (Fully Diluted)	25.0	44.8	78.6	75.2	85.7
OCF per share (Fully Diluted)	(3.6)	41.2	56.9	58.3	73.5
Book Value per share (Fully Diluted)	110.8	142.5	227.7	278.5	341.2
Dividend		2.7	-	-	-
Growth YoY (%)					
Net Sales	(5.0)	43.9	55.9	12.4	7.5
EBITDA	(29.5)	109.3	78.7	(8.5)	12.6
PAT	(43.7)	147.9	79.9	(14.6)	23.6
PE	24.3	9.8	5.4	6.4	5.2
EV/EBITDA	14.4	6.3	3.2	3.0	2.0
PB	2.9	2.3	1.4	1.2	0.9
Return/Profitability Ratios (%)					
EBITDA Margins	15.3	22.2	25.4	20.6	21.6
Net Income Margins	7.8	13.4	15.5	11.7	13.5
RoCE	10.3	21.7	29.1	23.2	28.1
RoE	12.0	23.2	26.1	18.2	18.4
Operating Ratios (%)					
Raw Material/Sales	61.2	60.9	73.1	72.6	73.9
Employee/Sales	3.85	2.99	2.48	3.09	2.96
Other Income / PBT	4.0	2.2	3.9	4.6	7.3
Effective Tax Rate (On Current Tax only)	19.5	20.0	25.1	25.1	25.1
NWC / Total Assets (Ex cash and current investments)	38.6	35.8	37.3	42.4	44.4
Inventory Turnover (days)	168.1	84.4	110.0	110.0	110.0
Receivables (days)	13.3	30.9	18.0	18.0	18.0
Payables (days)	89.4	56.1	80.0	80.0	80.0
Net D/E Ratio (x)	0.5	0.1	(0.1)	(0.2)	(0.3)
Net D/EBITDA Ratio (x)	1.9	0.4	(0.2)	(0.7)	(1.2)

Source: I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION

I/We, Abhijit Mitra, MBA (Finance), BE; Mohit Lohia, CA; Pritish Urumkar: MBA Tech (Finance) authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.