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Company update

Metals and
mining

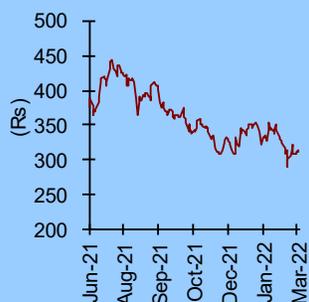
Target price Rs400

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



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

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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
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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

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