

07 December 2023

India | Equity Research | Company Update

Shyam Metalics and Energy

Metals

Steady operating performance

Shyam Metalics and Energy's (SMEL) operating performance in Nov'23 remained steady. Key points: 1) Stainless revenue added post consolidation of Mittal Corp; 2) metalics volume rose YoY as newly-commissioned capacities ramp up; 3) rolled products volume was stable MoM, but down YoY owing to delayed festive season; and 4) implied revenue reported 9.3% YoY growth aided by stainless steel. Going ahead, we expect SMEL's performance to be aided by higher volume owing to demand uptick in infrastructure segment. Besides, aluminium foils and stainless steel (10% of overall revenue in Nov'23) are likely to diversify its earnings profile. We maintain **BUY** on SMEL with an unchanged TP of INR 690 on 6x FY25E EBITDA.

Capacity ramp up offsets the impact of subdued realisation

SMEL's Nov'23 operating performance was buoyed by higher sponge iron volume and continued ramp up of stainless steel rolling volume at Mittal Corp. Key points: 1) Sponge iron sales volume rose almost 3x YoY (3.4% MoM) at 87.8kt due to contribution from 198ktpa capacity, commissioned in Nov'23; 2) sales volume of billets declined 48% YoY while that of rebars declined 6% YoY owing to delayed festive season; 3) realisation across categories of steel products declined MoM due to demand slowdown during festive month of Nov'23; 4) higher realisation of ferroalloys and aluminium foils MoM; and 5) stainless steel contributed 5% of revenue. We expect this proportion to rise as Mittal Corp's capacity ramps up. Going ahead, we expect higher realisation in DRI-IF value chain, following the uptick in global iron ore prices and infrastructure demand.

Expect H2FY24E to be better

During the first two months of H2FY24E, SMEL reported revenue in excess of INR 10bn during each of the months mainly due to additional earnings from stainless steel. We expect higher revenue trajectory in H2FY24E as stainless capacity ramps up and sales volume of rebar improves. Besides, better linkage materialisation is likely to result in better margins. We may also keep a close tab on the ongoing INR 39bn expansion plan. During Q2FY24 earning release, management indicated capex spend for blast furnace and coke oven is 56% and 41% complete, respectively.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,03,940	1,26,102	1,73,263	2,52,966
EBITDA	25,998	14,859	20,987	30,943
EBITDA Margin (%)	25.0	11.8	12.1	12.2
Net Profit	17,240	8,483	11,191	18,369
EPS (Rs)	67.6	33.3	43.9	72.0
EPS % Chg YoY	87.2	(50.8)	31.9	64.1
P/E (x)	7.6	15.5	11.7	7.1
EV/EBITDA (x)	4.8	8.6	6.2	4.3
RoCE (%)	34.6	12.8	13.3	18.3
RoE (%)	42.0	14.9	15.3	20.9

Amit Dixit

amit.dixit@icicisecurities.com
+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Prithish Urumkar

Prithish.urumkar@icicisecurities.com

Market Data

Market Cap (INR)	131bn
Market Cap (USD)	1,575mn
Bloomberg Code	SHYAMMET IN
Reuters Code	SHYE BO
52-week Range (INR)	523 /253
Free Float (%)	18.0
ADTV-3M (mn) (USD)	6.1

Price Performance (%)	3m	6m	12m
Absolute	6.5	65.3	77.5
Relative to Sensex	5.9	11.7	12.7

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue		
EBITDA		
EPS		

Previous Reports

11-11-2023: [Q2FY24 result review](#)

09-11-2023: [Company Update](#)

Outlook: Fending off realisation blues; maintain BUY

We expect SMEL to gain from volume ramp up as now DRI-IF-based capacity is complete. We expect additional revenue from stainless steel to improve earnings trajectory in the near term. We maintain **BUY** on SMEL with an unchanged TP of INR 690 on 6x FY25E EBITDA.

Exhibit 1: Nov'24 volume across product categories

Volume (Kte)	Nov FY24	Nov FY23	(%) Chg.YoY	Oct FY24	(%) Chg.MoM
Pellet	85.7	69.3	23.6	92.5	(7.4)
Sponge Iron	87.8	30.5	187.9	84.9	3.4
Billets	8.7	16.8	(48.3)	6.6	32.5
Rebars	105.6	112.3	(5.9)	102.1	3.5
Ferroalloys	11.4	14.7	(22.9)	9.1	24.4
Aluminium foil	1.5	1.3	15.1	1.3	18.0
Stainless Steel	4.0	-		5.4	

Source: Company data, I-Sec research

Exhibit 2: Nov'24 realisation across categories

Realisation (INR/te)	Nov FY24	Nov FY23	(%) Chg.YoY	Oct FY24	(%) Chg.MoM
Pellet	8,843	7,526	17.5	9,028	(2.0)
Sponge Iron	26,425	28,909	(8.6)	28,071	(5.9)
Billets	40,635	43,960	(7.6)	42,202	(3.7)
Rebars	46,625	49,941	(6.6)	48,343	(3.6)
Ferroalloys	97,349	89,102	9.3	93,472	4.1
Aluminium foil	3,16,476	3,54,596	(10.8)	3,07,369	3.0
Stainless Steel	1,18,071	0		1,14,273	
Implied Revenue	10,426	9,539	9.3	10,303	1.2

Source: Company data, I-Sec research

Key risks:

- Sharp fall in pellet and rebar prices
- Delay in commissioning of capacities
- Squeeze in spreads owing to high thermal coal prices

Exhibit 3: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	88.4	88.4	81.6
Institutional investors	3.8	3.8	6.2
MFs and others	2.7	2.7	2.5
FIs/Banks, Insurance	0.4	0.4	1.7
FIIIs	0.7	0.7	2.0
Others	7.8	7.8	12.2

Source: Bloomberg, I-Sec research

Exhibit 4: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	1,03,940	1,26,102	1,73,263	2,52,966
Operating Expenses	77,942	1,11,243	1,52,275	2,22,023
EBITDA	25,998	14,859	20,987	30,943
EBITDA Margin (%)	25.0	11.8	12.1	12.2
Depreciation & Amortization	2,724	4,631	5,404	5,114
EBIT	23,274	10,228	15,583	25,829
Interest expenditure	232	931	884	1,069
Other Non-operating Income	600	1,120	1,288	1,481
Recurring PBT	23,642	10,417	15,987	26,242
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	6,402	1,934	4,796	7,872
PAT	17,240	8,483	11,191	18,369
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	17,240	8,483	11,191	18,369
Net Income (Adjusted)	17,240	8,483	11,191	18,369

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	39,880	37,696	38,900	50,327
of which cash & cash eqv.	919	748	(1,248)	(271)
Total Current Liabilities & Provisions	17,198	21,346	26,768	37,698
Net Current Assets	22,683	16,350	12,132	12,629
Investments	10,359	14,631	11,631	10,631
Net Fixed Assets	24,546	29,461	51,746	67,632
ROU Assets	-	-	-	-
Capital Work-in-Progress	7,683	27,689	21,000	23,000
Total Intangible Assets	-	-	-	-
Other assets	1,782	2,410	2,410	2,410
Deferred Tax assests	-	-	-	-
Total Assets	67,052	90,541	98,919	1,16,302
Liabilities				
Borrowings	5,619	11,793	10,061	10,873
Deferred Tax Liability	1,073	712	712	712
provisions	140	202	202	202
other Liabilities	1,834	2,353	2,353	2,353
Equity Share Capital	2,551	2,551	2,551	2,551
Reserves & Surplus	55,796	69,074	79,146	95,678
Total Net Worth	58,347	71,625	81,696	98,229
Minority Interest	40	3,856	3,895	3,934
Total Liabilities	67,052	90,541	98,919	1,16,302

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	29,217	33,801	33,330	29,407
% growth (YOY)	13.3	18.3	3.4	(4.7)
EBITDA	2,223	4,135	4,139	3,071
Margin %	7.6	12.2	12.4	10.4
Other Income	376	309	298	382
Extraordinaries	-	-	-	-
Adjusted Net Profit	673	2,612	2,041	4,841

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	16,896	15,069	22,701	26,032
Working Capital Changes	(3,244)	2,770	5,222	1,480
Capital Commitments	(10,714)	(15,789)	(21,000)	(23,000)
Free Cashflow	6,182	(721)	1,701	3,032
Other investing cashflow	(8,551)	(3,760)	-	-
Cashflow from Investing Activities	(19,265)	(19,550)	(21,000)	(23,000)
Issue of Share Capital	(4)	-	-	-
Interest Cost	(232)	(717)	(884)	(1,069)
Inc (Dec) in Borrowings	(2,533)	7,174	(1,732)	812
Dividend paid	(1,837)	(1,148)	(1,119)	(1,837)
Others	6,256	(1,000)	39	39
Cash flow from Financing Activities	1,651	4,310	(3,697)	(2,055)
Chg. in Cash & Bank balance	(719)	(171)	(1,996)	977
Closing cash & balance	919	748	(1,248)	(271)

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	67.6	33.3	43.9	72.0
Adjusted EPS (Diluted)	67.6	33.3	43.9	72.0
Cash EPS	78.3	51.4	65.1	92.1
Dividend per share (DPS)	7.2	4.5	4.4	7.2
Book Value per share (BV)	228.7	280.8	320.3	385.1
Dividend Payout (%)	10.7	13.5	10.0	10.0
Growth (%)				
Net Sales	65.1	21.3	37.4	46.0
EBITDA	86.5	(42.8)	41.2	47.4
EPS (INR)	87.2	(50.8)	31.9	64.1
Valuation Ratios (x)				
P/E	7.6	15.5	11.7	7.1
P/CEPS	6.6	10.0	7.9	5.6
P/BV	2.2	1.8	1.6	1.3
EV / EBITDA	4.8	8.6	6.2	4.3
Dividend Yield (%)	1.4	0.9	0.9	1.4
Operating Ratios				
Gross Profit Margins (%)	35.1	24.2	25.7	22.3
EBITDA Margins (%)	25.0	11.8	12.1	12.2
Effective Tax Rate (%)	27.1	18.6	30.0	30.0
Net Profit Margins (%)	16.6	6.7	6.5	7.3
Net Debt / Equity (x)	(0.1)	0.0	0.0	0.0
Net Debt / EBITDA (x)	(0.2)	(0.2)	0.0	0.0
Fixed Asset Turnover (x)	3.0	3.0	3.0	3.3
Inventory Turnover Days	107	82	68	70
Receivables Days	27	30	23	24
Payables Days	64	58	57	63
Profitability Ratios				
RoCE (%)	34.6	12.8	13.3	18.3
RoE (%)	42.0	14.9	15.3	20.9
RoIC (%)	39.3	15.2	15.6	20.9

Source Company data, 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, Amit Dixit, PGDM, B.Tech; Mohit Lohia, CA; Pritish Urumkar, MBATech (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. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. 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 AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 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 are generally prohibited 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 an 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.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address :** complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Ayadhoot](mailto:Mr.Prabodh.Ayadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
