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India | Equity Research | Company Update

Shyam Metalics and Energy

Metals

Gathering steam!

Shyam Metalics and Energy's (SMEL) Dec'23 volume stayed robust on finished steel front with revenue rate picking up. Key points: 1) Rebar shipments at 130kt rose to their highest-ever level for any month; 2) pellet sales declined YoY and MoM, possibly due to lower spreads; 3) Mittal Corp stainless steel plants continue to ramp up; and 4) implied revenue rate is in excess of INR 12.2bn per month now. Going ahead, we believe revenue may be boosted by higher rebar sales (likely to stabilise at 1.8-2mtpa rate), ramp-up of stainless steel operations at Mittal Corp and (recently commissioned) sponge iron capacity. That said, we trim our FY24E/FY25E EBITDA by 20%/18%, taking cognisance of adverse price-cost spread. Rolling over to FY26E earnings, we raise our TP to INR 780 (earlier INR 690). Maintain **BUY**.

Highest-ever monthly rebar sales

SMEL's Dec'23 operating performance was robust. Key points: 1) Rebar sales volume was up 18.8% YoY (23.6% MoM) post festive season. For Q3FY24, SMEL's sales volume growth of 7% YoY (14% QoQ) is likely to better compared to peers; 2) pellet sales volume was down 39% YoY owing to higher finished steel sales and lower profitability led by adverse price-cost spread; 3) sales volume of sponge iron was up 3x YoY (22% MoM) on ramp-up of the recently commissioned 198ktpa capacity in Nov'23; and 4) realisation across all categories (except pellets) witnessed a decline of 1-2% MoM. It is noteworthy that implied revenue for Dec'23 was up 24% YoY (16.7% MoM) due to ramp-up of production capacities without any support from underlying prices.

Profitability may go up in ensuing quarter

Taking cognisance of SMEL's Dec'23 performance, we believe rebar sales volume is likely to increase to annual rate of 1.8-2mtpa by end-FY24, implying an exit rate of 150-155kt/month by Mar'24. Besides, ramp-up of stainless steel capacity at Mittal Corp is likely to diversify the earnings further. Besides, pellet prices have moved up in recent weeks; therefore, external pellet sales may go up. On cost front, we believe lower global coal prices and e-auction prices in domestic market compared to Oct'23 are likely to improve margins to 12-13%. While high iron ore prices remain a concern, we believe there could be a rub-off effect on steel prices as well.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	1,26,102	1,38,258	2,20,688	2,66,063
EBITDA	14,859	16,682	25,297	33,575
EBITDA Margin (%)	11.8	12.1	11.5	12.6
Net Profit	8,483	12,016	16,025	22,461
EPS (Rs)	33.3	43.0	57.4	80.5
EPS % Chg YoY	(50.8)	29.5	33.4	40.2
P/E (x)	20.2	15.6	11.7	8.3
EV/EBITDA (x)	12.4	8.4	5.3	3.9
RoCE (%)	12.8	12.9	14.0	16.9
RoE (%)	14.9	15.4	16.5	19.2

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Market Data

Market Cap (INR)	187bn
Market Cap (USD)	2,254mn
Bloomberg Code	SHYAMMET IN
Reuters Code	SHYE BO
52-week Range (INR)	683 /253
Free Float (%)	18.0
ADTV-3M (mn) (USD)	9.3

Price Performance (%)	3m	6m	12m
Absolute	54.6	90.8	123.5
Relative to Sensex	46.7	81.5	104.1

Earnings Revisions (%)	FY24E	FY25E
Revenue	(20.2)	(12.8)
EBITDA	(20.5)	(18.2)
EPS	7.4	(12.8)

Previous Reports

07-12-2023: [Company Update](#)

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

We trim our FY24E/FY25E earnings

Taking cognisance of the prevailing raw material and finished products prices, we have trimmed our earnings estimates for FY24/FY25 by 18-20%. That said, SMEL is likely to be the only steel company under our coverage (except JSW Steel) to show earnings growth YoY in FY24. We introduce FY26 estimates at this juncture when we expect contribution from additional revenue streams such as colour coated steel, pig iron and downstream steel products to lift EBITDA to INR 33.5bn. Besides, the QIP proceeds worth INR 13.8bn may sustain the net cash position of the company.

Exhibit 1: Earnings Revision

(INR mn)	FY24E			FY25E		
	New	Old	% Chg	New	Old	% Chg
Sales	1,38,258	1,73,263	(20.2)	2,20,688	2,52,966	(12.8)
EBITDA	16,682	20,987	(20.5)	25,297	30,943	(18.2)
PAT	12,016	11,191	7.4	16,025	18,369	(12.8)

Source: I-Sec research

We value SMEL at INR 780/share

SMEL has almost achieved our existing target price; however, we believe there is a further upside left in the stock driven by higher earnings base and commissioning of value-added capacities. We roll over the valuation to FY26E earnings. Our revised TP works out to INR 780 (earlier INR 690) with an unchanged 6x EBITDA. Better earnings growth compared to peers and net cash position remain key differentiators for SMEL, in our view. Key risks include: Higher-than-expected thermal coal prices, adverse pellet-iron ore price spread and delay in commissioning of capacities.

Exhibit 2: Sales volume snapshot

Volume (Kte)	Dec FY24	Dec FY23	(%)Chg.YoY	Nov FY24	(%)Chg.MoM	Q3FY24	Q3FY23	(%)Chg.YoY	Q2FY24	(%)Chg. QoQ
Pellet	61.2	100.6	(39.1)	85.7	(28.5)	239.5	231.9	3.3	241.1	(0.7)
Sponge Iron	107.2	35.7	200.1	87.8	22.1	279.9	120.4	132.4	177.4	57.8
Billets	11.8	19.6	(39.7)	8.7	36.0	27.0	52.7	(48.7)	35.0	(22.6)
Rebars	130.5	109.9	18.8	105.6	23.6	338.2	315.7	7.1	296.4	14.1
Ferroalloys	13.5	14.1	(4.2)	11.4	19.0	34.0	44.6	(23.7)	43.6	(21.9)
Aluminium foil	1.5	1.2	23.2	1.5	(6.2)	4.3	3.5	24.5	3.6	19.6
Stainless Steel	5.0	-		4.0		14.4	-		9.8	

Source: I-Sec research, Company data

Exhibit 3: Realisation snapshot

Realisation (INR/te)	Dec FY24	Dec FY23	(%)Chg.YoY	Nov FY24	(%)Chg.MoM	Q3FY24	Q3FY23	(%)Chg.YoY	Q2FY24	(%)Chg. QoQ
Pellet	9,165	8,060	13.7	8,843	3.6	8,997	7,725	16.5	8,542	5.3
Sponge Iron	25,993	28,781	(9.7)	26,425	(1.6)	26,759	29,647	(9.7)	27,788	(3.7)
Billets	39,938	43,231	(7.6)	40,635	(1.7)	40,710	44,791	(9.1)	42,070	(3.2)
Rebars	45,622	49,234	(7.3)	46,625	(2.2)	46,756	50,459	(7.3)	47,490	(1.5)
Ferroalloys	95,021	90,515	5.0	97,349	(2.4)	95,383	89,884	6.1	94,437	1.0
Aluminium foil	3,20,628	3,52,465	(9.0)	3,16,476	1.3	3,15,103	3,55,415	(11.3)	3,28,731	(4.1)
Stainless Steel	1,30,535	0		1,18,071		1,20,940			1,02,827	17.6
Implied Revenue	12,172	9,786	24.4	10,426	16.7					

Source: I-Sec research, Company data

Exhibit 1: 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 2: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	1,26,102	1,38,258	2,20,688	2,66,063
Operating Expenses	1,11,243	1,21,576	1,95,390	2,32,488
EBITDA	14,859	16,682	25,297	33,575
EBITDA Margin (%)	11.8	12.1	11.5	12.6
Depreciation & Amortization	4,631	5,404	5,114	4,878
EBIT	10,228	11,278	20,183	28,698
Interest expenditure	931	550	491	474
Other Non-operating Income	1,120	1,288	1,675	1,725
Recurring PBT	10,417	12,016	21,367	29,949
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	1,934	-	5,342	7,487
PAT	8,483	12,016	16,025	22,461
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	8,483	12,016	16,025	22,461
Net Income (Adjusted)	8,483	12,016	16,025	22,461

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	37,696	55,199	61,942	73,591
of which cash & cash eqv.	748	18,612	24,746	30,220
Total Current Liabilities & Provisions	21,346	28,770	36,805	43,061
Net Current Assets	16,350	26,429	25,137	30,530
Investments	14,631	11,631	10,631	10,631
Net Fixed Assets	29,461	51,746	67,632	85,754
ROU Assets	-	-	-	-
Capital Work-in-Progress	27,689	21,000	23,000	20,000
Total Intangible Assets	-	-	-	-
Other assets	2,410	2,410	2,410	2,410
Deferred Tax assests	-	-	-	-
Total Assets	90,541	1,13,215	1,28,809	1,49,325
Liabilities				
Borrowings	11,793	10,061	10,873	10,685
Deferred Tax Liability	712	412	412	412
provisions	202	202	202	202
other Liabilities	2,353	2,353	2,353	2,353
Equity Share Capital	2,551	2,791	2,791	2,791
Reserves & Surplus	69,074	93,501	1,08,245	1,28,909
Total Net Worth	71,625	96,293	1,11,036	1,31,700
Minority Interest	3,856	3,895	3,934	3,973
Total Liabilities	90,541	1,13,215	1,28,809	1,49,325

Source Company data, I-Sec research

Exhibit 5: 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 6: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	15,069	28,755	30,057	27,893
Working Capital Changes	2,770	10,785	8,427	80
Capital Commitments	(15,789)	(21,000)	(23,000)	(20,000)
Free Cashflow	(721)	7,755	7,057	7,893
Other investing cashflow	(3,760)	-	-	-
Cashflow from Investing Activities	(19,550)	(21,000)	(23,000)	(20,000)
Issue of Share Capital	-	13,853	-	-
Interest Cost	(717)	(550)	(491)	(474)
Inc (Dec) in Borrowings	7,174	(1,732)	812	(188)
Dividend paid	(1,148)	(1,202)	(1,282)	(1,797)
Others	(1,000)	(261)	39	39
Cash flow from Financing Activities	4,310	10,109	(922)	(2,420)
Chg. in Cash & Bank balance	(171)	17,864	6,135	5,473
Closing cash & balance	748	18,612	24,746	30,220

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	33.3	43.0	57.4	80.5
Adjusted EPS (Diluted)	33.3	43.0	57.4	80.5
Cash EPS	51.4	62.4	75.7	97.9
Dividend per share (DPS)	4.5	4.3	4.6	6.4
Book Value per share (BV)	280.8	345.0	397.8	471.8
Dividend Payout (%)	13.5	10.0	8.0	8.0
Growth (%)				
Net Sales	21.3	9.6	59.6	20.6
EBITDA	(42.8)	12.3	51.6	32.7
EPS (INR)	(50.8)	29.5	33.4	40.2
Valuation Ratios (x)				
P/E	20.2	15.6	11.7	8.3
P/CEPS	13.0	10.7	8.9	6.8
P/BV	2.4	1.9	1.7	1.4
EV / EBITDA	12.4	8.4	5.3	3.9
Dividend Yield (%)	0.7	0.6	0.7	1.0
Operating Ratios				
Gross Profit Margins (%)	24.2	24.6	22.2	22.6
EBITDA Margins (%)	11.8	12.1	11.5	12.6
Effective Tax Rate (%)	18.6	-	25.0	25.0
Net Profit Margins (%)	6.7	8.7	7.3	8.4
Net Debt / Equity (x)	0.0	(0.2)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(0.2)	(1.2)	(1.0)	(0.9)
Fixed Asset Turnover (x)	3.0	2.4	2.9	2.7
Inventory Turnover Days	82	60	54	51
Receivables Days	30	16	14	13
Payables Days	58	69	70	65
Profitability Ratios				
RoCE (%)	12.8	12.9	14.0	16.9
RoE (%)	14.9	15.4	16.5	19.2
RoIC (%)	15.2	16.5	18.7	23.4

Source Company data, I-Sec research

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