

## Shyam Metals and Energy Limited

Shyam Metals and Energy Limited (SMEL) is a leading integrated metal producing company based in India with a focus on long steel products and is one of the largest ferro alloys producer in terms of installed capacity. It has geographical advantages, is present across the value chain and has ability to alter its product mix. SMEL's installed capacity stands at 5.71 MTPA and has captive power plants with installed capacity of 227 MW which the company intends to expand to 11.6 MTPA and 357 MW, respectively over FY21E-25E.

**Positives:** (a) Integrated operations across the steel value chain (b) Strategically located manufacturing plants supported by robust infrastructure resulting in cost and time efficiencies (c) Diversified product mix with strong focus on value added products, such as, ferro alloys, association with reputed customers and robust distribution network (d) Strong financial performance and credit

**Investment concerns:** (a) Loss of any of suppliers or a failure by suppliers to deliver some of primary raw materials may impact business adversely. (b) Business depends on stable and reliable logistics and transportation infrastructure. (c) The demand and pricing in the steel industry is volatile and are sensitive to the cyclical nature of the industries it serves. (d) The COVID-19 pandemic and resulting deterioration of general economic conditions has impacted the business and results of operations.

**Outlook & Valuation:** The steel sector is experiencing tailwinds on account of rising infrastructure spends by major economies. Domestically, prospects are looking up which is driving the capacity addition frenzy with high likelihood of demand outstripping supply. SMEL, with its operational efficiencies stands to benefit as it will be nearly doubling its capacities which are slated to come onstream FY23E onwards, if not earlier. At 9.2x TTM EV/EBITDA, valuations are optically high but volume + realization growth and improving EBITDA/tonne (higher value added contribution) are resulting in reasonable FY23E EV/EBITDA. Hence, we recommend "SUBSCRIBE" on the Issue.

### Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020	9MFY2021
<b>Net Sales</b>	3,842.6	4,606.4	4,362.9	3,933.1
% chg	-	19.9	-5.3	19.8
<b>Net Profit</b>	528.0	636.8	340.3	456.3
% chg	-	20.6	-46.6	75.3
EBITDA (%)	18.2	20.5	14.8	18.3
<b>EPS (Rs)</b>	90.8	25.9	14.6	19.5
P/E (x)	3.4	11.8	21.0	15.7
P/BV (x)	0.8	2.9	2.5	2.2
ROE (%)	22.9	24.3	12.0	13.9
ROCE (%)	17.7	21.7	7.9	11.4
EV/EBITDA	3.0	8.3	13.0	11.1
EV/Sales	0.5	1.7	1.9	2.0

Source: Company, Angel Research

## SUBSCRIBE

Issue Open: June 14, 2021

Issue Close: June 16, 2021

### Issue Details

Face Value: Rs 10

Present Eq. Paid up Capital: Rs 233.6 cr

Offer for Sale: Rs. 252cr

Fresh issue: Rs. 657 cr.

Post Eq. Paid up Capital: Rs 237.9cr

Issue size (amount): Rs 909 cr

Price Band: Rs 303-306

Lot Size: 45 shares and in multiple thereafter

Post-issue mkt. cap: \*Rs 7735 cr - \*\*Rs 7805 cr

Promoters holding Pre-Issue: 100.0%

Promoters holding Post-Issue: 88.4%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	88.4%
Others	11.6%

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## Company background

Company commenced its operation 2005 and has delivered operation profitability since then with positive EBITDA. It primarily produces intermediate and long steel products, such as, iron pellets, sponge iron, steel billets, TMT, structural products, wire rods, and ferro alloys products with a specific focus on high margin products, such as, customised billets and specialised ferro. Its Sambalpur manufacturing plant caters to customers in the southern and western regions of India whereas Jamuria and Mangalpur manufacturing plants caters to customers in northern and eastern regions of India. Its domestic customers include Jindal Stainless Limited, Jindal Stainless (Hisar) Limited, and Rimjhim Ispat Limited. Its international customers include Norecom DMCC, Norecom Limited, POSCO International Corporation, World Metals & Alloys (FZC), Traxys North America LLC, JM Global Resources Limited, Goenka Steels Private Limited and Vijayshri Steel Private Limited.

## Issue details

The issue size is ₹ 909cr, which comprises of fresh issues of up to. ₹657 crore & offer for sale of ₹ 252cr in the price band of ₹303-₹306 per share.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	233,610,100	100.0	225,374,806	88.4
Public	0	0.0	29,705,882	11.6
<b>Total</b>	<b>233,610,100</b>	<b>100.0</b>	<b>255,080,688</b>	<b>100.0</b>

Source: Company, Angel Research & RHP.

## Objectives of the Offer

- Repayment/pre-payment, in full or part, of debt of Company and SSPL (one of the Subsidiaries).
- General corporate purposes.

## Key Management Personnel

**Mahabir Prasad Agarwal** is the Non-Executive Chairman of the Company. He has been a Director of the Company since April 6, 2018. He is the founder of, and has been a director of, its Subsidiary, SSPL, since its inception and is one of the initial shareholders of the Company. He has over three decades of experience in the steel and ferro alloys industry.

**Brij Bhushan Agarwal** is the Vice Chairman and Managing Director of the Company. He has been a Director of the Company since its inception in December, 2002. He holds a bachelor's degree in commerce from University of Calcutta. He has over three decades of experience in the steel and ferro alloys industry. He is primarily responsible for strategic planning, future expansion, business development, marketing, human resources and corporate affairs of the Company.

**Sanjay Kumar Agarwal** is the Joint Managing Director of the Company. He holds a bachelor's degree in commerce, with honours, from the University of Calcutta. He has over 17 years of experience in the steel and ferro alloys industry. He is primarily responsible for the operations of manufacturing plants at Sambalpur, Jamuria and Mangalpur, with focus on cost control, production efficiency and competitive procurement of raw material.

**Deepak Kumar Agarwal** is a Whole-Time Director of the Company. He has been a Director of the Company since July 14, 2014. He holds a bachelor's degree in commerce, with honours, from University of Calcutta. He is also an associate member of the Institute of Company Secretaries of India. He has previously been associated with Shyam SEL and Power Limited and has over a decade of experience in the steel and ferro alloys industry. He is responsible for handling the finance, risk management and corporate affairs of the Company and its Subsidiaries.

#### Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2018	FY2019	FY2020	9MFY2021
<b>Total operating income</b>	3,842.6	4,606.4	4,362.9	3,933.1
% chg	-	19.9	-5.3	19.8
<b>Total Expenditure</b>	3,141.6	3,661.7	3,717.3	3,213.7
Cost of material consumed	2,296.79	2,782.77	2,718.22	2,437.36
Purchase of stock-in-trade	128.28	28.62	63.25	4.57
Excise Duty	95.41	-	-	-
Change in inventories	-54.37	-25.12	-103.49	13.41
Employee benefits expense	106.45	145.03	168.36	124.74
Other expenses	569.00	730.39	870.99	633.63
<b>EBITDA</b>	701.0	944.7	645.6	719.4
% chg	-	34.8	-31.7	58.9
(% of Net Sales)	18.2	20.5	14.8	18.3
Depreciation & Amortization	215.0	194.6	296.6	220.0
<b>EBIT</b>	486.0	750.1	348.9	499.4
% chg	-	54.4	-53.5	100.5
(% of Net Sales)	12.6	16.3	8.0	12.7
Finance costs	48.9	64.4	85.9	55.8
Other income	77.8	78.2	32.4	62.5
(% of Sales)	2.0	1.7	0.7	1.6
<b>Recurring PBT</b>	517.4	763.9	295.5	506.3
% chg	-	47.6	-61.3	127.9
Share of profits from Associates/JVs	2.4	0.0	0.0	0.2
Tax	-10.7	127.1	-44.9	49.9
<b>PAT (reported) after Minority Int.</b>	424.4	604.1	340.3	456.3
% chg	-	42.3	-43.7	75.1
(% of Net Sales)	11.0	13.1	7.8	11.6
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	90.8	25.9	14.6	19.5

Source: Company, Angel Research

**Consolidated Balance Sheet Statement**

Y/E March (₹ cr)	FY2018	FY2019	FY2020	9MFY2021
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	46.7	233.6	233.6	233.6
Other equity (Retained Earning)	1,807.3	2,256.1	2,592.4	3,051.7
<b>Shareholders' Funds</b>	<b>1,854.0</b>	<b>2,489.7</b>	<b>2,826.0</b>	<b>3,285.3</b>
<b>Total Loans &amp; Minority Int.</b>	<b>689.9</b>	<b>660.5</b>	<b>1,276.6</b>	<b>869.1</b>
Other liabilities	203.8	313.3	315.7	245.4
<b>Total Liabilities</b>	<b>2,747.7</b>	<b>3,463.4</b>	<b>4,418.3</b>	<b>4,399.8</b>
<b>APPLICATION OF FUNDS</b>				
Property, Plant and Equipment	1,723.0	1,729.8	1,968.5	1,837.9
Right-of-use assets	23.4	43.5	42.7	42.0
Capital work-in-progress	90.6	357.7	235.4	351.0
Intangible assets	0.4	0.8	0.8	0.6
Intangible Assets under Development	0.7	-	-	-
Current Assets	1,494.9	1,786.7	2,584.9	2,313.0
Inventories	558.5	732.1	1,486.7	1,150.0
Investments	133.2	205.4	71.6	97.6
Trade receivables	368.7	212.9	259.0	243.7
Cash and Cash equivalents	8.1	9.9	29.7	15.4
Bank balances other than (iii) above	45.2	87.9	91.5	162.8
Loans	6.0	47.4	4.2	15.8
Other financial assets	81.0	68.6	66.2	74.2
c) Current Tax Assets (Net)	-	4.2	4.8	-
Other current assets	294.1	418.2	571.2	553.5
Current Liability	723.0	589.0	785.5	705.4
<b>Net Current Assets</b>	<b>771.9</b>	<b>1,197.7</b>	<b>1,799.4</b>	<b>1,607.6</b>
Other Non-Current Asset	137.5	133.9	371.5	560.8
<b>Total Assets</b>	<b>2,747.7</b>	<b>3,463.4</b>	<b>4,418.3</b>	<b>4,399.8</b>

Source: Company, Angel Research

**Consolidated Cash flow**

Y/E March (₹cr)	FY2018	FY2019	FY2020	9MFY2021
Operating profit	762.26	988.39	674.50	742.33
Net changes in working capital	-401.18	-363.83	-534.84	-25.53
Cash generated from operations	361.1	624.6	139.7	716.8
Direct taxes paid (net of refunds)	-114.13	-168.00	-45.40	-60.00
<b>Cash flow from operating activities</b>	<b>246.9</b>	<b>456.6</b>	<b>94.3</b>	<b>656.8</b>
Loans Refunded/ (Given)	27.263	-41.382	17.988	-11.604
Dividend Received	2.46	20.558	0.663	0.074
Others	(171.8)	(546.1)	(296.1)	(219.6)
<b>Cash Flow from Investing</b>	<b>(142.1)</b>	<b>(567.0)</b>	<b>(277.4)</b>	<b>(231.1)</b>
Proceeds/(Repayment)	-112.916	175.667	299.878	-401.977
Finance costs paid	-49.253	-63.491	-87.833	-53.896
Effect of Foreign Exchange Fluctuation	24.472	-	-	15.839
<b>Cash Flow from Financing</b>	<b>(137.7)</b>	<b>112.2</b>	<b>212.0</b>	<b>(440.0)</b>
Inc./ (Dec.) in Cash	(32.8)	1.8	28.9	(14.3)
<b>Opening Cash balances</b>	<b>40.9</b>	<b>8.1</b>	<b>9.9</b>	<b>29.7</b>
<b>Closing Cash balances</b>	<b>8.1</b>	<b>9.9</b>	<b>38.8</b>	<b>15.4</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY2018	FY2019	FY2020	9MFY2021
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	3.4	11.8	21.0	15.7
P/CEPS	2.2	9.0	11.2	10.6
P/BV	0.8	2.9	2.5	2.2
EV/Sales	0.5	1.7	1.9	2.0
EV/EBITDA	3.0	8.3	13.0	11.1
<b>Per Share Data (₹)</b>				
EPS (Basic)	90.8	25.9	14.6	19.5
EPS (fully diluted)	90.8	25.9	14.6	19.5
Cash EPS	136.9	34.2	27.3	28.9
Book Value	396.8	106.6	121.0	140.6
<b>Returns (%)</b>				
ROE	22.9	24.3	12.0	13.9
ROCE	17.7	21.7	7.9	11.4
<b>Turnover ratios (x)</b>				
Receivables (days)	35.0	16.9	21.7	22.6
Inventory (days)	53.1	58.0	124.4	106.7
Payables (days)	-	-	-	-
Working capital cycle (days)	88.1	74.9	146.0	129.3

Source: Company, Angel Research

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