

Issue Details

Listing	BSE & NSE
Open Date	14 June 2021
Close Date	16 June 2021
Price Band	Rs.303-306
Market Lot	45 shares
Minimum Lot	1 Lot

Shyam Metals and Energy Ltd (SMEL), incorporated in 2002, is an integrated metal producing company with a focus on long products and ferro alloys. They are the largest producers of ferro alloys (in terms of installed capacity in India) and operate three manufacturing plants

- two of which are in West Bengal catering to Northern and Eastern regions of India,
- and one in Odisha catering to the Southern and Western regions.

The current total installed capacity is 5.71 MTPA and includes captive power plants of 227 MW (serving 80% of their power requirement).

Issue Structure

Offer for sale	28%
Fresh Issue	72%
Issue Size	Rs.909 cr
Total no of shares	255,080,688
QIB share (%)	≥ 50%
Non-Inst share (%)	≤ 15%
Retail share (%)	≤ 10%

Over the period FY18-20, net revenues of the company grew at a CAGR of 7.9% to Rs 4,362.9 crores whereas EBITDA/PAT over the same period declined at 4.0%/10.4% to Rs 645.6 cr/ Rs 340.3 cr impacted by COVID-19. However, for 9MFY21 profitability has rebounded strongly with EBITDA growing to Rs 719.4 cr (+58.9% YoY) and net profit to Rs 456.3 cr (+75.1% YoY growth) given the firm global price trends amidst strong demand.

Over the period FY20-23, we expect revenue to grow at 36.5% CAGR to Rs 11,106 cr. EBITDA and net earnings over the same period are set to grow at a faster pace of 44.7% CAGR to Rs 1,956 cr and 49.8% CAGR to Rs 1,144 cr respectively. Profitability metrics EBITDA/tonne and operating margins are expected to improve to Rs 12,895/tonne (+65.7% over FY20) and 17.6% (+280bps over FY20). Net debt to Equity is expected to drop sharply to 0.1x in FY23 over 0.2x clocked in 9MFY21. Return ratios ROE and ROCE are also expected to improve to 16.8% (+480bps) and 18.4% (+990bps) over the forecast period. The strong performance is expected to be driven by

- capacity expansions to 11.6 MTPA by FY24
- strong demand trends both domestically as well as globally
- firm price trends expected to continue given the supply constraints in China and strong infra push across the developed economies of US and EU
- better product mix in favour of value-added products
- sustenance of frugal cost structure given the strategic locational advantage of its manufacturing plants

Shareholding Pattern

	Pre (%)	Post (%)
Promoters	100.0	88.35
Public	0.0	11.65

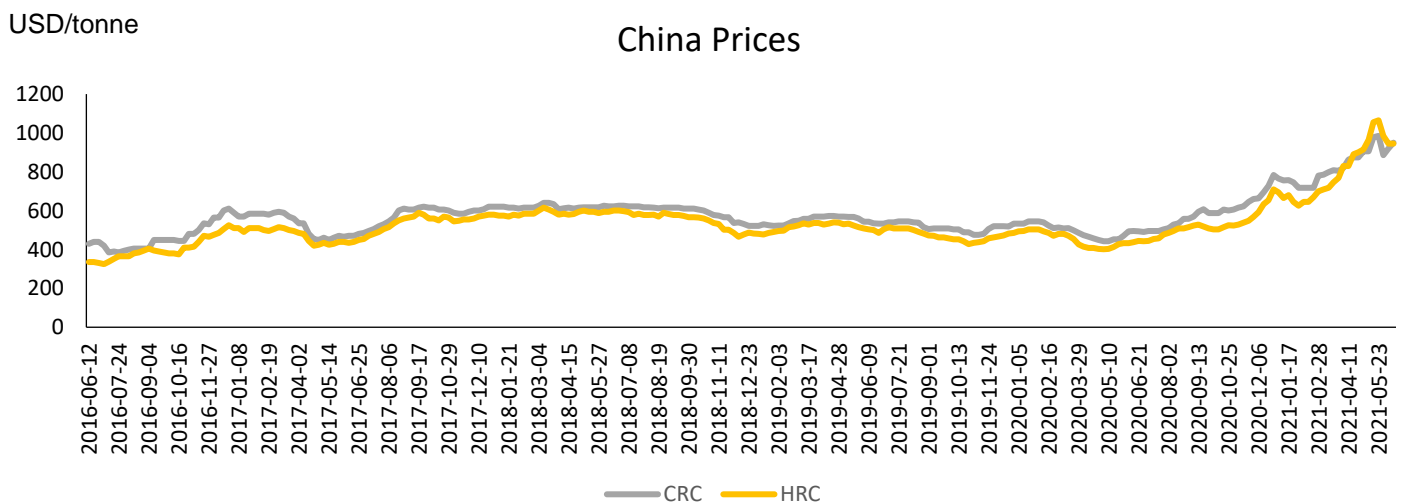
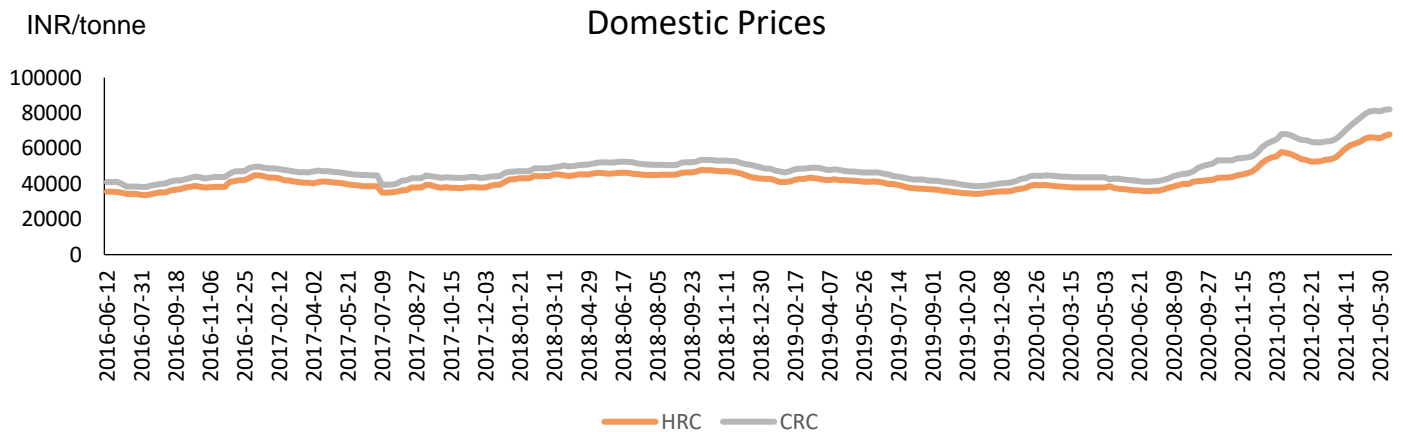
Key Financials (in ₹ crores)

	Sales	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/B (x)	EV/EBITDA (x)
FY19	4606	945	669	20.5	14.5	28.7	106.6	26.9	23.8	10.7	2.9	8.6
FY20	4363	646	340	14.8	7.8	14.6	121.0	12.0	8.5	21.0	2.5	13.8
FY21E	6022	1224	763	20.3	12.7	29.9	140.7	21.3	19.1	10.2	2.2	7.1
FY22E	9040	1984	1403	21.9	15.5	55.0	222.3	24.7	25.0	5.6	1.4	4.1
FY23E	11106	1956	1144	17.6	10.3	44.9	267.2	16.8	18.4	6.8	1.1	4.3

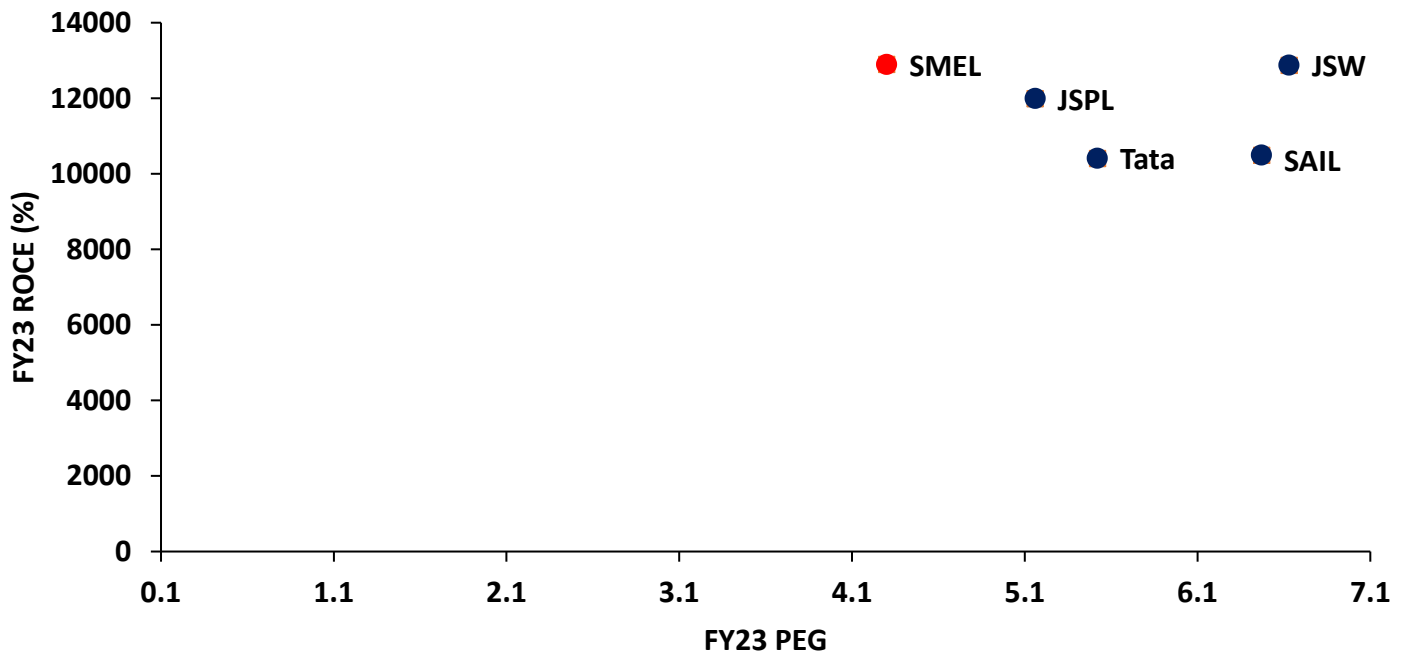
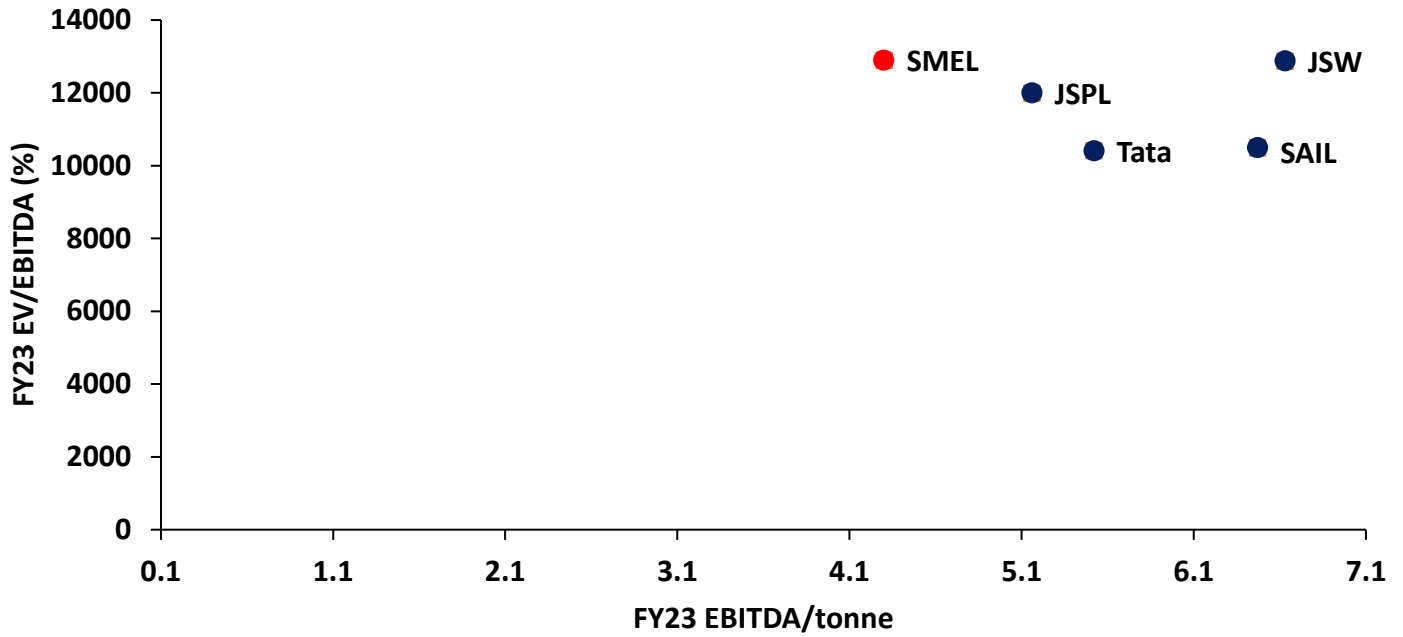
- repayment of debt to the tune of Rs 470 cr (total debt Rs 871.1 cr) from the proposed IPO proceeds and followed by continuous debt draw down from strong internal accruals.

We value the stock at Rs 436.4 (FY23 EV/EBITDA 6X) on the post issue equity and initiate coverage with a **SUBSCRIBE**. Our price target represents an upside potential of 42.6% over 18-24 months from the IPO price

Although we envisage a continuance of a super cycle in steel given the global dynamics, our forecasts are based on normalized levels of EBITDA/tonne hence, any firmness in steel prices and sustenance of the finished product spreads will lead to expansion of EBITDA/tonne given the fact that the company is focused on maximising the contribution to revenue in favour of value-added products.



Source: Steel Mint

Compelling Valuations


Source: Bloomberg & Ventura Research

Peer Comparison

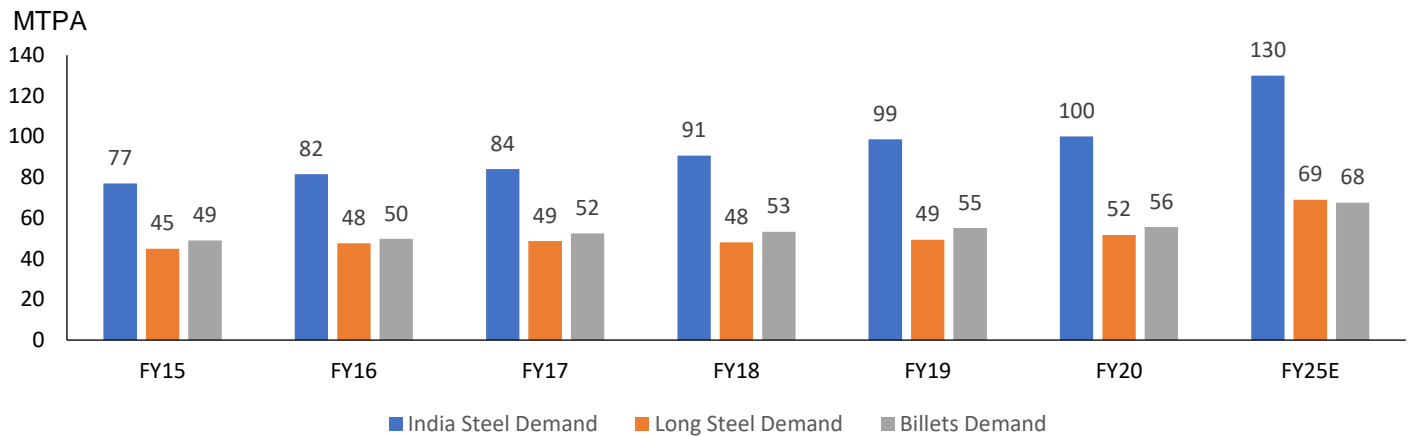
Particulars	Revenue	EBITDA	Net Profit	EBITDA (%)	Net (%)	EPS ₹	BVPS ₹	RoE (%)	RoIC (%)	P/E	P/B	EV/EBITDA
Shyam Metals & Energy Ltd. (CMP: Rs.306 Mkt Cap: Rs.7806 cr)												
FY19	4,606	945	669	20.5	14.5	28.7	106.6	26.9	26.3	10.7	2.9	8.6
FY20	4,363	646	340	14.8	7.8	14.6	121.0	12.0	8.9	21.0	2.5	13.8
FY21	6,022	1,224	763	20.3	12.7	29.9	140.7	21.3	20.0	10.2	2.2	7.1
FY22	9,040	1,984	1,403	21.9	15.5	55.0	222.3	24.7	25.9	5.6	1.4	4.1
FY23	11,106	1,956	1,144	17.6	10.3	44.9	267.2	16.8	18.9	6.8	1.1	4.3
JSW Steel Ltd. (CMP: Rs.705.9 Mkt Cap: Rs.170632 cr)												
FY19	82,499	19,506	7,680	23.6	9.3	31.8	144.9	21.9	20.3	22.2	4.9	10.9
FY20	71,116	12,702	4,056	17.9	5.7	16.8	144.9	11.6	9.8	42.1	4.9	17.3
FY21	77,734	19,181	7,450	24.7	9.6	30.8	179.9	17.1	14.9	22.9	3.9	11.7
FY22	1,12,689	33,815	17,250	30.0	15.3	71.4	255.4	27.9	24.4	9.9	2.8	6.6
FY23	1,17,994	31,848	16,606	27.0	14.1	68.7	315.4	21.8	21.0	10.3	2.2	6.8
Tata Steel Ltd. (CMP: Rs.1114.6 Mkt Cap: Rs.134205 cr)												
FY19	1,54,692	29,621	10,725	19.1	6.9	89.1	573.0	15.5	13.4	12.5	1.9	7.7
FY20	1,36,977	17,730	1,636	12.9	1.2	13.6	573.0	2.4	5.1	82.0	1.9	13.5
FY21	1,47,605	27,548	7,495	18.7	5.1	62.2	681.2	9.1	11.2	17.9	1.6	8.0
FY22	1,90,061	49,122	25,100	25.8	13.2	208.4	825.8	25.2	26.3	5.3	1.3	4.0
FY23	1,77,430	37,709	17,270	21.3	9.7	143.4	961.5	14.9	18.2	7.8	1.2	4.8
Steel Authority Of India Ltd. (CMP: Rs.128.6 Mkt Cap: Rs.53098 cr)												
FY19	66,302	9,925	2,350	15.0	3.5	5.7	96.0	5.9	8.1	22.6	1.3	9.5
FY20	61,051	10,461	2,119	17.1	3.5	5.1	96.0	5.3	7.2	25.1	1.3	10.0
FY21	68,401	12,490	4,142	18.3	6.1	10.0	108.7	9.2	8.8	12.8	1.2	7.7
FY22	80,485	17,883	8,641	22.2	10.7	20.9	127.1	16.5	13.6	6.1	1.0	5.1
FY23	81,262	15,587	6,965	19.2	8.6	16.9	143.8	11.7	14.1	7.6	0.9	5.4
Jindal Steel & Power Ltd. (CMP: Rs.405.4 Mkt Cap: Rs.41346 cr)												
FY19	38,991	8,354	-1,734	21.4	(4.4)	(17.0)	331.5	(5.1)	4.2	(23.8)	1.2	9.1
FY20	36,917	7,821	-110	21.2	(0.3)	(1.1)	331.5	(0.3)	6.3	(375.3)	1.2	9.2
FY21	39,080	13,961	5,653	35.7	14.5	55.4	339.8	16.3	17.2	7.3	1.2	4.7
FY22	46,548	15,923	7,550	34.2	16.2	74.0	395.5	18.7	21.8	5.5	1.0	3.6
FY23	44,354	12,561	5,419	28.3	12.2	53.1	449.8	11.8	15.5	7.6	0.9	4.3

Source: Bloomberg and Ventura Research

Investment Rationale

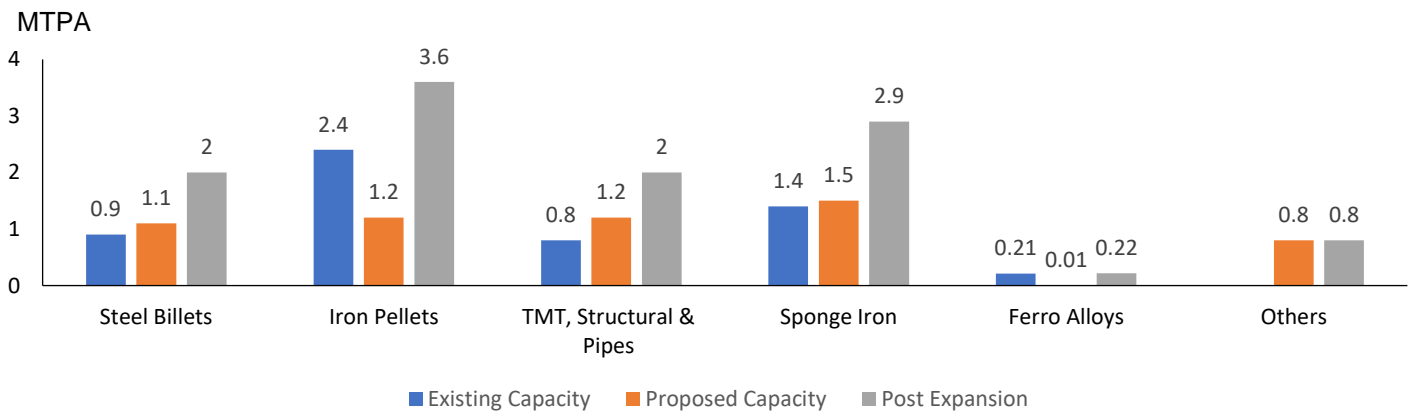
- ❖ Even during the lean period of the steel cycle the company has remained profitable. This is testimony of the resilient business model of the company.
- ❖ As per India's National Steel policy 2017, demand is expected to rise to 230 MTPA by FY30 from the current 93MTPA. Our present capacity of 142 MTPA as of FY20 is significantly lower than the projected long term demand. The challenges faced by the industry in procuring raw material is the biggest hurdle in ramping up steel production to the required level
Capacity expansions are well timed keeping in mind the strong demand projections for domestic steel consumption over the coming decade and the impending supply constraints.

India Steel Demand



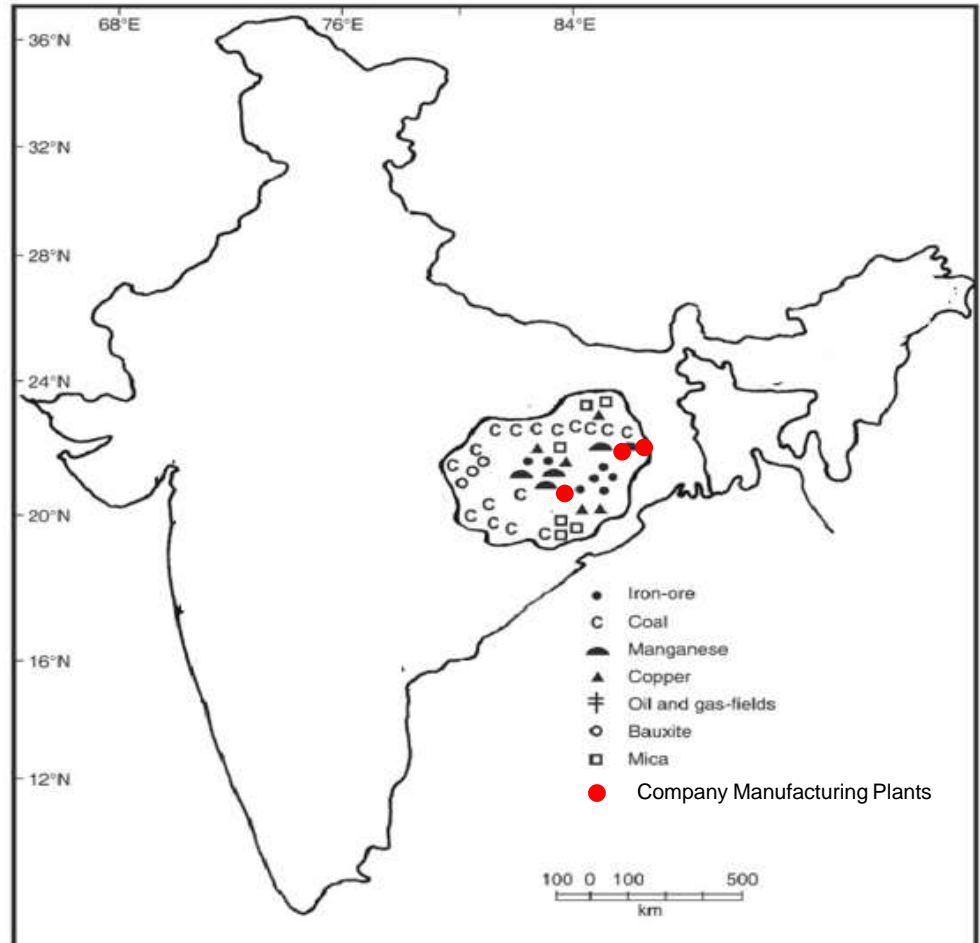
Source: JPC, CRISIL Research

SMEL Capacity Expansion



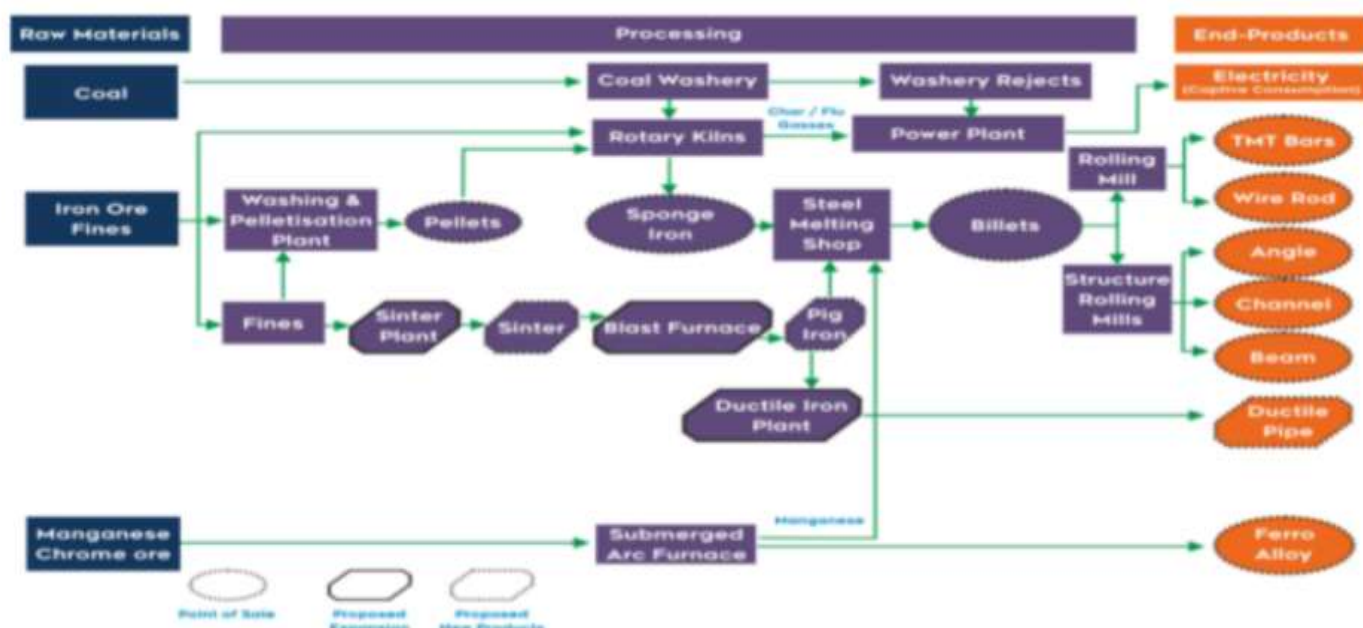
Source: Company RHP

- ❖ Despite no captive iron ore/coal mines, the company's strategic location of its manufacturing plants, in the bed of iron ore mining activity and close proximity to coal mines helps in cheap and efficient sourcing.



Further, they are within a 300km radius of four ports of Dhamra, Paradip, Kolkata and Haldia. This provides an excellent gateway to access the export markets.

- ❖ Backward and forward integrated manufacturing plants provide SMEL flexibility to optimize its product portfolio dynamically to capture maximum value and hence operating margins.



SMEL is planning on doubling its capacity from 5.7MTPA to 11.6MTPA in the manner shown below. This is to be incurred entirely through internal accruals.

In Rs Cr unless per tonne	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E
Total Capacity (MTPA)	2.9	3.0	5.5	5.7	8.2	9.5	11.6
Iron Pellet	0.9	0.9	2.4	2.4	3.6	3.6	3.6
Sponge Iron	1.0	1.0	1.3	1.4	1.9	2.4	2.9
Billets	0.5	0.6	0.8	0.9	1.3	1.6	2.0
TMT, Structural Steel, Wire Rods, & Pipes	0.3	0.3	0.8	0.8	1.2	1.6	2.1
Ferro Alloys	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Ductile Iron Pipe							0.6
Blast Furnace							0.2
Aluminium Foil							0.0
Production (MTPA)	2.7	3.0	5.3	5.9	7.7	9.7	11.3
Iron Pellet	0.9	1.0	2.5	2.7	3.0	3.8	4.1
Sponge Iron	1.0	1.0	1.3	1.4	1.9	2.4	2.9
Billets	0.4	0.6	0.8	1.0	1.6	2.0	2.5
TMT, Structural Steel, Wire Rods, & Pipes	0.2	0.2	0.7	0.7	1.0	1.3	1.6
Ferro Alloys	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Utilization	95%	101%	97%	103%	94%	102%	97%
Total Sales	3747.2	4606.4	4362.9	6022.3	9040.2	11105.9	13237.78
EBITDA	701.0	944.7	645.6	1224.2	1983.8	1956.4	2636.1
EBITDA/tonne	19,594	24,090	7,783	15,052	16,199	12,895	14,564

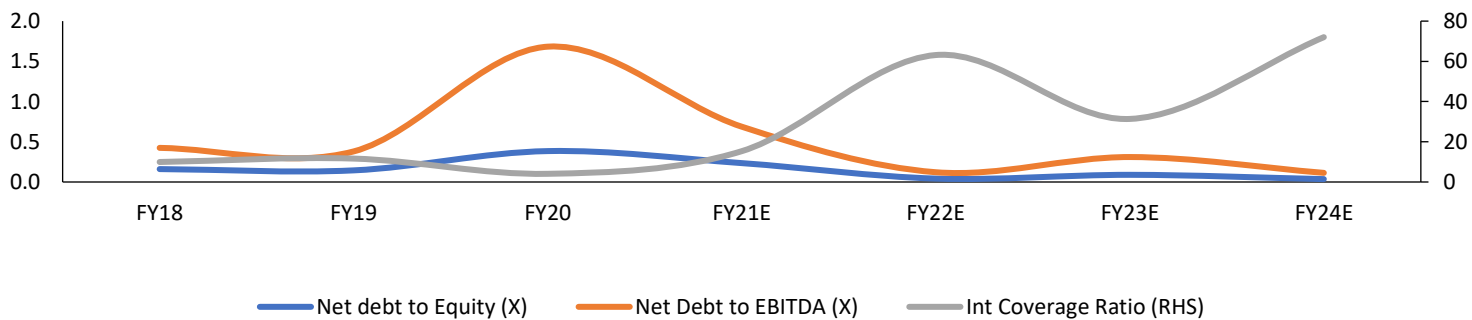
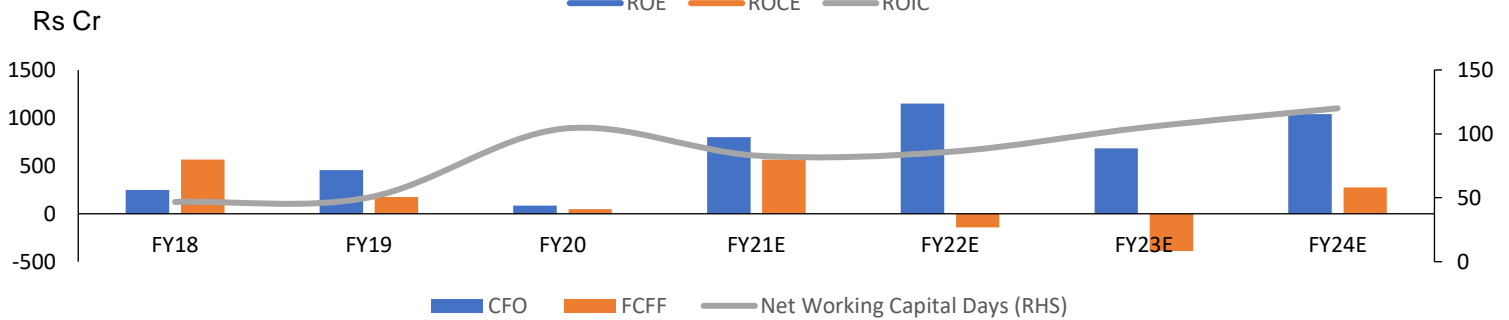
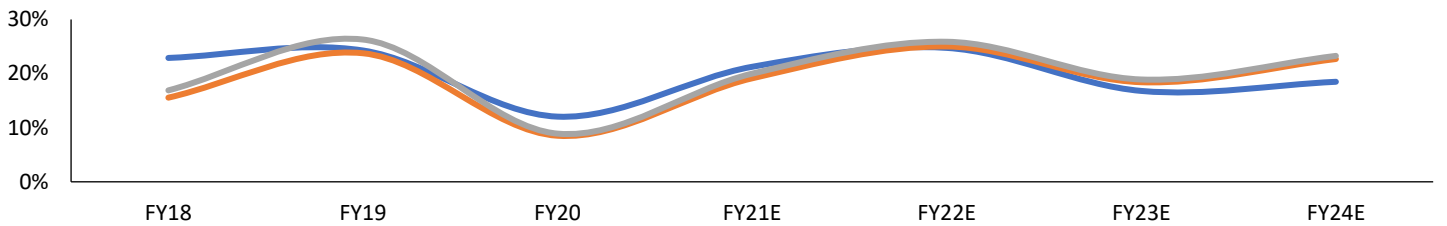
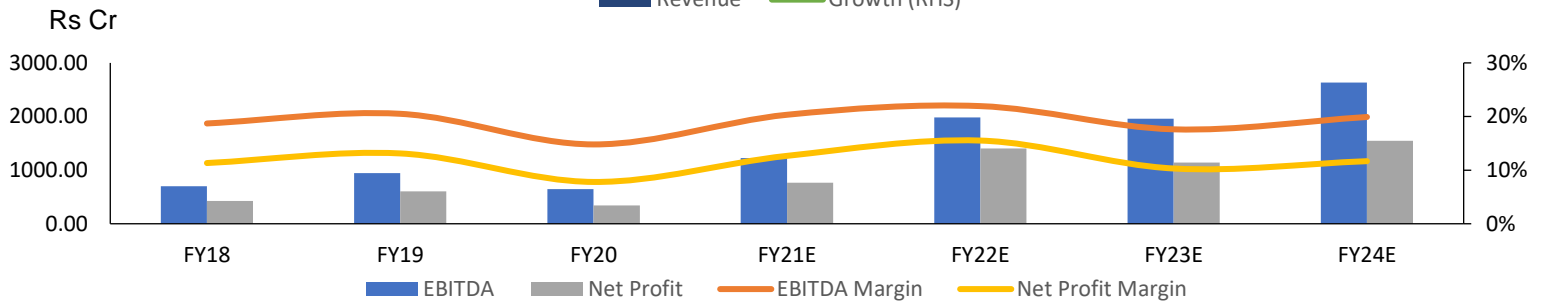
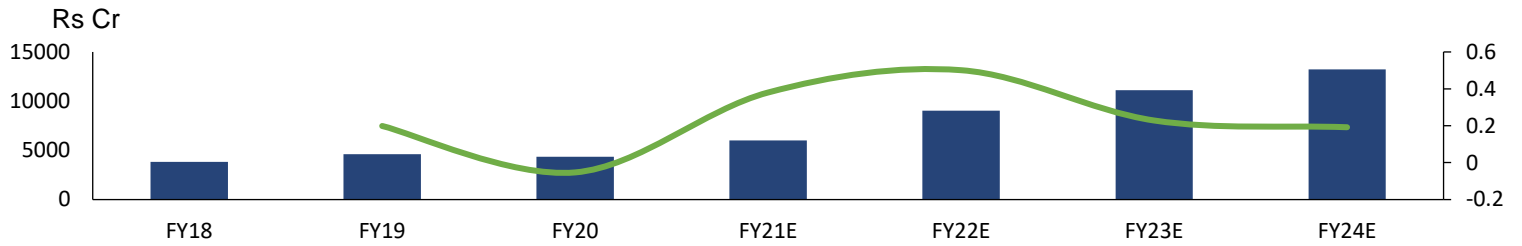
- ❖ **SMEL has an aggressive Rs 3,000 cr CAPEX plan to increase capacity to 11.6 MTPA from the current 5.71 MTPA. Despite this the debt levels are expected to drop to Rs 806 cr in FY23 from Rs 871.1 cr (as of 9MFY21).**

The company plans on repaying Rs 470 cr of short term debt from the IPO proceeds. Also in FY22, the long term loans of Rs 182.6 cr (as of 9MFY21) are expected to be repaid.

Although SMEL aspires to fund its CAPEX entirely from internal accruals, we have conservatively modelled debt requirements to partly fund the CAPEX and support working capital requirements of the expanded operations.

Accordingly net debt to equity is expected to drop to 0.1x by FY23 from 0.2x as of 9MFY21

SMEL story in charts



Source: Company reports and Ventura Research

Issue Structure and Offer Details

The proposed issue size of Shyam Metalics & Energy Ltd IPO is Rs.909 cr of which Rs 657 crores is in the form of a fresh issue and the balance is OFS. The fresh issue comprises of 2,14,70,588 shares at the upper price band of Rs.306. The offer for sale of 82,35,294 shares is by Dorite Tracon Pvt Ltd, Narantak Dealcomm Ltd, Shubham Buildwell Pvt Ltd and Kalpataru Housing & Trading Pvt Ltd. The price band for the issue is in the range of Rs.303-306 and the bid lot is 45 shares and multiples thereof.

Issue Structure

Category	No of shares offered	No of shares offered
Employee	3,00,000	
QIB	1,47,02,941	Not more than 50%
NII	44,10,882	Not less than 15%
Retail	1,02,92,059	Not less than 35%
Total	2,97,05,882	

*No of shares based on higher price band of Rs 306

Source: Company Reports & SEBI

Objects of the offer

Purpose	Amount (in Rs Cr)
Repayment or Prepayment of debt of SMEL and SSPL, one of the subsidiaries	470.0
General Corporate Purposes	187.0
Total	657.0

Source: Company Reports and SEBI

Shareholding Pattern

Purpose	Pre IPO (%)	Post IPO (%)
Promoters	100.0	88.35
Public & Institutions	0.0	11.65

Source: Company Reports and SEBI

Key Management Personnel

The company has not only survived but also performed well as compared to peers during periods of crisis. During the financial crisis in FY07-08, FY16-17 and the recent pandemic times the company has remained profitable. Going forth we expect the company to outperform peers during the course of normal times and in the impending steel super cycle.

Key Person	Designation	Description
Mahabir Prasad Agarwal	Chairman	Over 3 decades experience in steel and ferro alloys, responsible for CSR activities of company and its subsidiaries
Brij Bhushan Agarwal	Vice Chairman & Managing Director	B-Com from Calcutta University, over 3 decades experience in steel and ferro alloys, responsible for planning, development, expansion, marketing, HR and corporate affairs
Sanjay Kumar Agarwal	Joint Managing Director	B-Com honours from Calcutta University, 17 years of experience in steel and ferro alloys, responsible for operations of manufacturing plants

Source: Company Reports

Financial Projections

Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E	Figures in Rs Cr	FY19	FY20	FY21E	FY22E	FY23E
Income Statement						Per Share Data & Yields					
Net Revenue	4,606.4	4,362.9	6,022.3	9,040.2	11,105.9	Adjusted EPS	27.3	14.6	29.9	55.0	44.9
Raw Material Cost	2,786.3	2,678.0	3,672.5	5,649.4	7,557.2	Adjusted CEPS	35.6	25.0	43.1	72.8	66.5
Gross Profit	1,820.1	1,684.9	2,349.9	3,390.8	3,548.8	Adjusted BVPS	106.6	121.0	140.7	222.3	267.2
<i>YoY Growth (%)</i>	<i>32.2</i>	<i>-7.4</i>	<i>39.5</i>	<i>44.3</i>	<i>4.7</i>	CFO per share	19.5	3.6	31.3	45.1	26.7
<i>Margin (%)</i>	<i>39.5</i>	<i>38.6</i>	<i>39.0</i>	<i>37.5</i>	<i>32.0</i>	CFO Yield (%)	0.3	0.0	0.4	0.6	0.3
Operating Cost	875.4	1,039.3	1,125.7	1,407.0	1,592.4	FCF per share	7.5	2.0	22.2	-5.6	-15.3
EBITDA	944.7	645.6	1,224.2	1,983.8	1,956.4	FCF Yield (%)	0.1	0.0	0.3	-0.1	-0.2
<i>YoY Growth (%)</i>	<i>34.8</i>	<i>-31.7</i>	<i>89.6</i>	<i>62.1</i>	<i>-1.4</i>	Solvency Ratio (X)					
<i>Margin (%)</i>	<i>20.5</i>	<i>14.8</i>	<i>20.3</i>	<i>21.9</i>	<i>17.6</i>	Total Debt to Equity	0.3	0.5	0.3	0.1	0.1
Depreciation & Amortization	194.6	296.6	337.9	454.2	551.2	Net Debt to Equity	0.1	0.4	0.2	0.0	0.1
EBIT	750.1	348.9	886.3	1,529.7	1,405.2	Net Debt to EBITDA	0.4	1.7	0.7	0.1	0.3
<i>YoY Growth (%)</i>	<i>54.4</i>	<i>-53.5</i>	<i>154.0</i>	<i>72.6</i>	<i>-8.1</i>	Interest Coverage Ratio	11.6	4.1	15.3	63.1	31.4
<i>Margin (%)</i>	<i>16.3</i>	<i>8.0</i>	<i>14.7</i>	<i>16.9</i>	<i>12.7</i>	Working Capital Ratios					
Other Income	78.2	32.4	68.6	68.1	70.1	Payable Days	25	42	45	37	37
Finance Cost	64.4	85.9	57.8	24.2	44.8	Receivable Days	17	22	23	23	22
PBT	763.9	295.4	897.0	1,573.6	1,430.4	Inventory Days	58	124	105	100	120
<i>YoY Growth (%)</i>	<i>48.3</i>	<i>-61.3</i>	<i>203.6</i>	<i>75.4</i>	<i>-9.1</i>	Net Working Capital Days	50	104	83	86	105
<i>Margin (%)</i>	<i>16.6</i>	<i>6.8</i>	<i>14.9</i>	<i>17.4</i>	<i>12.9</i>	Return Ratios (%)					
Tax	127.1	-44.9	134.5	170.7	286.1	Return on Equity	26.9	12.0	21.3	24.7	16.8
<i>Tax Rate (%)</i>	<i>16.6</i>	<i>-15.2</i>	<i>15.0</i>	<i>10.8</i>	<i>20.0</i>	Return on Capital Employed	23.8	8.5	19.1	25.0	18.4
PAT	636.8	340.3	762.5	1,402.9	1,144.3	Return on Invested Capital	26.3	8.9	20.0	25.9	18.9
Add: Share of Profit in JV and Minority Int	32.69	0.01	0.14	0.14	0.14	Valuation (X)					
Net Profit	669.44	340.32	762.66	1,402.99	1,144.47	P/E	11.2	21.0	10.2	5.6	6.8
<i>YoY Growth (%)</i>	<i>6.0</i>	<i>-49.2</i>	<i>124.1</i>	<i>84.0</i>	<i>-18.4</i>	P/BV	2.9	2.5	2.2	1.4	1.1
<i>Margin (%)</i>	<i>14.5</i>	<i>7.8</i>	<i>12.7</i>	<i>15.5</i>	<i>10.3</i>	EV/EBITDA	8.6	13.8	7.1	4.1	4.3
Balance Sheet						EV/Sales	1.8	2.0	1.4	0.9	0.8
Share Capital	233.6	233.6	233.6	255.1	255.1	Cash Flow Statement					
Total Reserves	2,256.1	2,592.4	3,355.0	5,415.1	6,559.6	Profit Before Tax	763.9	295.4	897.0	1,573.6	1,430.4
Shareholders' Fund	2,489.7	2,826.0	3,588.7	5,670.1	6,814.6	Add: Depreciation	194.6	296.6	334.2	449.4	545.4
Non Controlling Interest	4.4	4.2	4.2	4.2	4.2	Add: Finance Cost	64.4	85.9	57.8	24.2	44.8
Long Term Borrowings	213.3	351.3	182.6	32.6	0.0	Change in other assets & liabilities	-240.9	-194.7	-229.9	33.9	12.5
Long Term Lease Liabilities	6.1	5.9	5.7	5.7	5.7	Change in working capital	-157.5	-343.6	-126.1	-760.6	-1,064.8
Other Financial Liabilities	42.3	19.9	27.4	41.2	50.6	Less: Tax Paid	-168.0	-54.5	-134.3	-170.6	-285.9
Other Non Current Liabilities	186.2	262.7	209.9	209.9	209.9	Cash Flow from Operations	456.6	85.2	798.6	1,149.9	682.3
Deferred tax liabilities	72.7	0.0	0.0	0.0	0.0	Net Capital Expenditure	-488.1	-308.2	-400.0	-1,200.0	-1,000.0
Long Term Provisions	6.0	27.2	9.8	10.8	11.5	Change in other investments	-78.9	30.8	-98.7	-13.1	-14.4
Total Liabilities	3,020.7	3,497.1	4,028.2	5,974.5	7,096.5	Cash Flow from Investing	-567.0	-277.4	-498.7	-1,213.1	-1,014.4
Gross Block	2,549.7	3,081.1	3,481.1	4,681.1	5,681.1	Proceeds from equity	0.0	0.0	0.0	678.5	0.0
Less: Accumulated Depreciation	819.9	1,112.6	1,446.8	1,896.2	2,441.6	Repayment/ Proceeds from Borrowings	175.7	299.9	-239.8	-600.0	367.4
Net Block	1,729.8	1,968.5	2,034.3	2,784.9	3,239.5	Change in Lease Liabilities	0.0	0.0	-0.3	0.0	0.0
Capital WIP	357.7	235.4	351.0	351.0	351.0	Less: Finance Cost	-63.5	-87.8	-57.8	-24.2	-44.8
Right-of-use assets	43.5	42.7	41.7	40.7	39.6	Cash Flow from Financing	112.2	212.0	-297.9	54.2	322.6
Intangible Assets	0.8	0.8	0.6	0.6	0.6	Effect of foreign ex fluctuations	0.0	0.0	15.8	0.0	0.0
Intangible Assets under devp	0.0	0.0	0.0	0.0	0.0	Net Cash Flow	1.8	19.8	17.8	-9.0	-9.5
Investments	68.4	72.4	70.3	74.5	79.0	Opening Balance of Cash	8.1	9.9	29.7	47.5	38.5
Other Non Current Financial Assets	7.5	40.8	44.8	67.3	82.7	Closing Balance of Cash	9.9	29.7	47.5	38.5	29.0
Deferred Tax Assets	0.0	29.0	67.9	29.0	29.0						
Other Non Current Assets	58.0	229.2	377.8	567.1	696.7						
Net Current Assets	755.0	878.2	1,039.9	2,059.4	2,578.4						
Total Assets	3,020.7	3,497.1	4,028.2	5,974.5	7,096.5						

Source: Company Reports and Ventura Research

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