

Shyam Metals & Energy Ltd.

A good growth story but listing gains expected to be limited

INDIA | MID- CAP | IPO Note

13 June 2021

Shyam Metals (SMEL), commenced operations in 2005, is an integrated metal producing company with a focus on long steel products and ferro alloys. SEML operates three manufacturing plants that are located at Sambalpur in Odisha, and Jamuria and Mangalpur in West Bengal. At present SMEL has sponge iron making capacity of 1.4mn tonnes along with 0.9mn tonnes of billet and 2.4mn tonnes of pellet plant. The manufacturing plants also include captive power plants with an aggregated installed capacity of 227 MW. The company is in process of commissioning an aluminium foil rolling mill at Pakuria in West Bengal with a proposed installed capacity of 40KT, which is expected to become operational in FY22. It is also in the process of doubling its steel making capacity in a phased manner by FY24.

IPO rationale: SEML intends to repay Rs 4.7bn debt while rest of the proceeds would be utilise for general corporate purpose (including capex).

Investment arguments

- SEML is in the process of doubling its steel making capacity through brownfield expansion costing Rs 33bn (largely through internal accruals) by FY24 which would continue to drive earnings.
- Low debt profile and flexible product mix (pellet to long products) allowed company to remain profitable even in most of difficult times and we expect the trend to continue.
- The company would likely to remain debt neutral/marginal debt despite planned capex.

Key risks

- Steel cycle turning negative before reaping the benefits of expanded capacity.
- Capex running into delays and cost overruns.

SEML is largely a converter so margin expansion will be lower than integrated peers

SEML is in the process of doubling its steel capacity with a focus to increase value added products which will help it to further improve EBITDA, However; the capacities will come in phases and will take two-three years to commission. Steel being cyclical, it is a possible that cycle may become unfavourable by the time SEML completes its expansion, In that scenario, SEML's higher volumes may act as trade off for lower profitability and thus will maintain the absolute earnings to a large extent. SEML indicated that 3QFY21 EBITDA/t for Pellet/Sponge/Billet/TMT/Ferro Alloys stood at Rs 1,500/4,200/6,200/7,600/10,000. SEML buys raw material from open market and operates in long product segment, therefore we do not expect EBITDA/t for steel to have improved more than Rs 2,000-2,500 in 4QFY21 which forms the base for our FY22 estimates.

Expect listing gains of 20-25%

Assuming pellet/steel EBITDA/t of Rs 2,000/9,500 with FY22 volumes of 1.5mn/1.6mn tonnes, SEML would likely to post EBITDA of Rs 18.2bn. After capex of c.Rs 9bn, net cash balance would be around Rs 3bn, implying an EV of Rs 94bn (5.0x multiple) against implied MCap of Rs 78bn. Similar exercise for FY23 with 1.5mn tonne pellet and 2.0mn tonne steel at Rs 1,500/t and Rs 8,500/t would provide and EV of 95bn (4.5x multiple), **therefore, in both circumstances, we expected listing gains to be in the range of 20-25%.**

Larger players offers higher/similar return but timeframe may be different

We expect largers peers like Tata Steel and SAIL to also provide 20-25% return as both of them will continue to enjoy higher spread improvement qoq vs non integrated players. However; our target return timeframe is 6-8 months while in case of SEML we expect listing gains to be in same range.

Not Rated

COMPANY DATA

ISSUE OPENS	14/June/2021
ISSUE CLOSES	16/June/2021
Price Band	Rs 303-306
- LOWER BAND	Rs 303
- UPPER BAND	Rs 306
PRE- ISSUE EQUITY SHARES	233.6.mn
- FRESH ISSUE	21.5mn
- OFS	8.2mn
POST- ISSUE EQUITY SHARES	255.1mn
EMPLOYEE DISCOUNT (RS)	Rs 15
ISSUE SIZE	Rs 9.09bn
Lot Size	45 shares
MKT CAP	Rs 77.3-78.1bn

Financials

Y/E Mar, Rs mn	FY19	FY20	9MFY21
Net Sales	46,064	43,629	39,331
EBIDTA	9,447	6,456	7,194
Net Profit	6,041	3,403	4,563
EPS, Rs	25.9	14.6	26.0
PER, x	11.8	21.0	11.7
EV/EBIDTA, x	8.4	13.4	8.4
P/BV, x	2.9	2.5	2.2
ROE, %	24.3	12.0	18.5
Debt/Equity (%)	36.5	58.4	33.4

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About the IPO

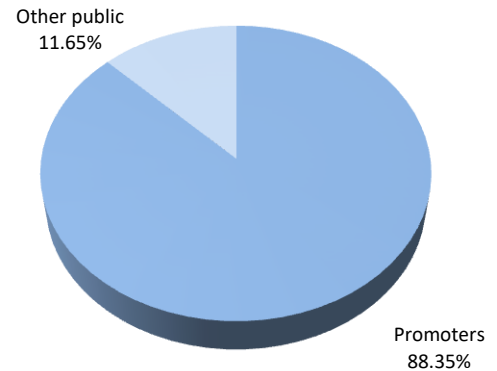
- Issue size: Rs 9.09bn.
- About 30mn shares will be offered at price band of Rs Rs 303-306 per share; c.8.5mn shares offered for sale by promoters and management.
- Implied Market capitalisation: Rs 77.4 - 78.1bn.
- The objects of the offer are: (1) to repay Rs 4.7bn debt to become almost debt free and (2) general corporate purpose.

Shareholding Pattern – Pre Issue

Name of shareholder	Pre-Offer	
	No. of Equity shares	% of Eq. ShareCapital
Brij Bhushan Agarwal	23,284,820	9.97%
Sanjay Kumar Agarwal	31,580	0.01%
Mahabir Prasad Agarwal	2,525	0%
Subham Buildwell Private Limited	72,597,250	31.08%
Narantak Dealcomm Limited	54,063,340	23.14%
Subham Capital Private Limited	41,994,770	17.98%
Kalpataru Housefin & Trading Pvt Ltd	22,219,150	9.51%
Dorite Tracon Private Limited	15,196,665	6.51%
Toplight Mercantiles Private Limited	698,750	0.3%
Others	3,521,250	1.51%
Total	233,610,100	100.00%

Source: DHRP, Phillip Research

Shareholding pattern post-issue



Issue Details

ISSUE OPENS	14-Jun-21
ISSUE CLOSES	16-Jun-21
PRE- ISSUE EQUITY SHARES	233.6mn
PRICE BAND	Rs 303 – 306
- FRESH ISSUE	6,570mn
- OFS	2,520mn
NO OF SHARES TO BE ISSUED	21.47 - 21.68 mn
EMPLOYEE DISCOUNT (RS)	Rs 15
ISSUE SIZE	Rs 9.09bn
POST- ISSUE EQUITY SHARES	255.1 mn
MKT CAP	Rs 77.4 - 78.1bn

Issue allocation

	No. of shares (Mn)		Amount (Rs mn)	% of issue
	Lower band	Upper band		
QIB*	14.7	14.8	4,500	49.5%
NIB	4.4	4.5	1,350	14.9%
Retail	10.3	10.4	3,150	34.7%
Employee^	0.3	0.3	90	1.0%
Total	29.7	30.0	9,090	100%

Source: RHP, PhillipCapital India Research

Company Profile

Shyam Metalics, commenced operations in 2005, is an integrated metal producing company based in India with a focus on long steel products and ferro alloys. The company operated three manufacturing plants that are located at Sambalpur in Odisha, and Jamuria and Mangalpur in West Bengal. The aggregated installed metal capacity of the plants is 1.4 mn tpa. The manufacturing plants also include captive power plants with an aggregated installed capacity of 227 MW. The company is in process of commissioning an aluminium foil rolling mill at Pakuria in West Bengal with a proposed installed capacity of 40KT by FY22. As of December 31, 2020, the company had partnerships with 42 distributors, who stock and sell their finished products across 13 states and one union territory

Plants & Capacities

SEML operated through 3 plants. Sambalpur (Odisha) and Jamuria (West Bengal) plants operate as ‘ore to metal’ integrated steel manufacturing plants and comprise captive railway sidings, captive power plants, iron pellet, sponge iron, billet, TMT, wire rod and structural mills, and ferro alloy plants. Mangalpur (West Bengal) plant comprises sponge iron and ferro alloy plants, and a captive power plant (utilises non-fossil fuels). The Sambalpur manufacturing plant caters to customers in the southern and western regions of India whereas the Jamuria and the Mangalpur manufacturing plants caters to customers in northern and eastern regions of India.

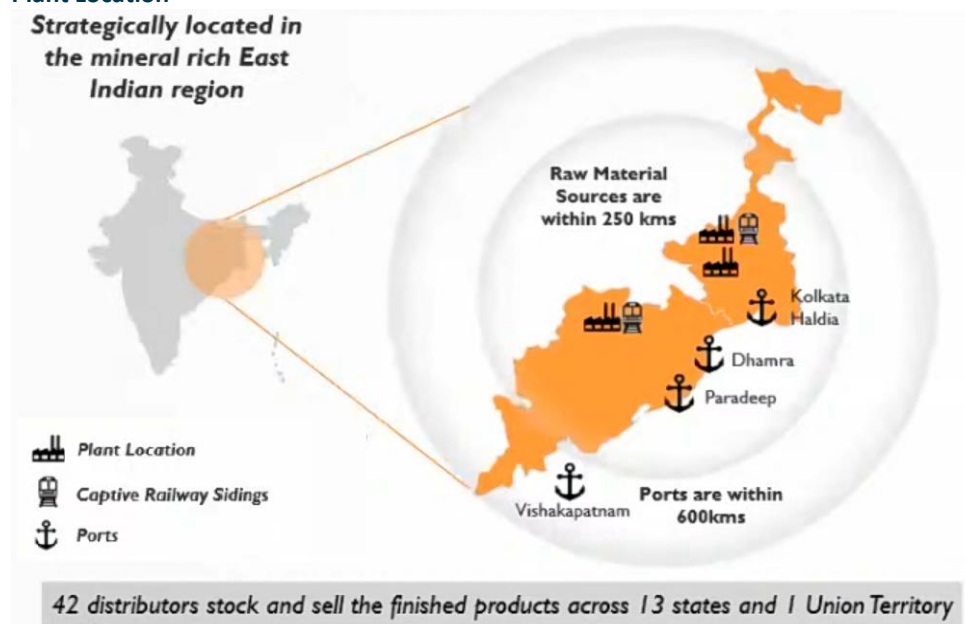
Current capacities and expansion

Shyam Metalics	Sambalpur Plant		Jamuria Plant		Mangalpur Plant		Total		Grand Total
	Installed	Expansion	Installed	Expansion	Installed	Expansion	Installed	Expansion	
Captive Power (MW)	118	40	94	90	15		227	130	357
Iron Pellet (TPA)	1,200,000	600,000	1,200,000	600,000			2,400,000	1,200,000	3,600,000
Sponge Iron (TPA)	792,000	561,000	537,900	947,100	60,000		1,389,900	1,508,100	2,898,000
Billet (TPA)	401,280	461,200	491,040	653,440			892,320	1,114,640	2,006,960
TMT (TPA)	410,000	510,000	410,000	744,000			820,000	1,254,000	2,074,000
Ferro Alloy (TPA)	98,000	14,000	70,000		37,920		205,920	14,000	219,920
Blast Furnace (TPA)				600,000				600,000	600,000
Ductile Pipe (TPA)				200,000				200,000	200,000
Total (TPA)	2,901,280	2,146,200	2,708,940	3,744,540	97,920		5,708,140	5,890,740	11,598,880



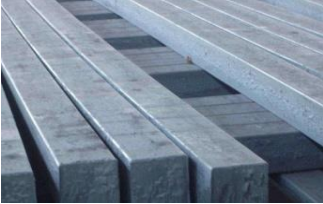


Source: RHP, PhillipCapital India Research

Plant Location

Strategically located in the mineral rich East Indian region

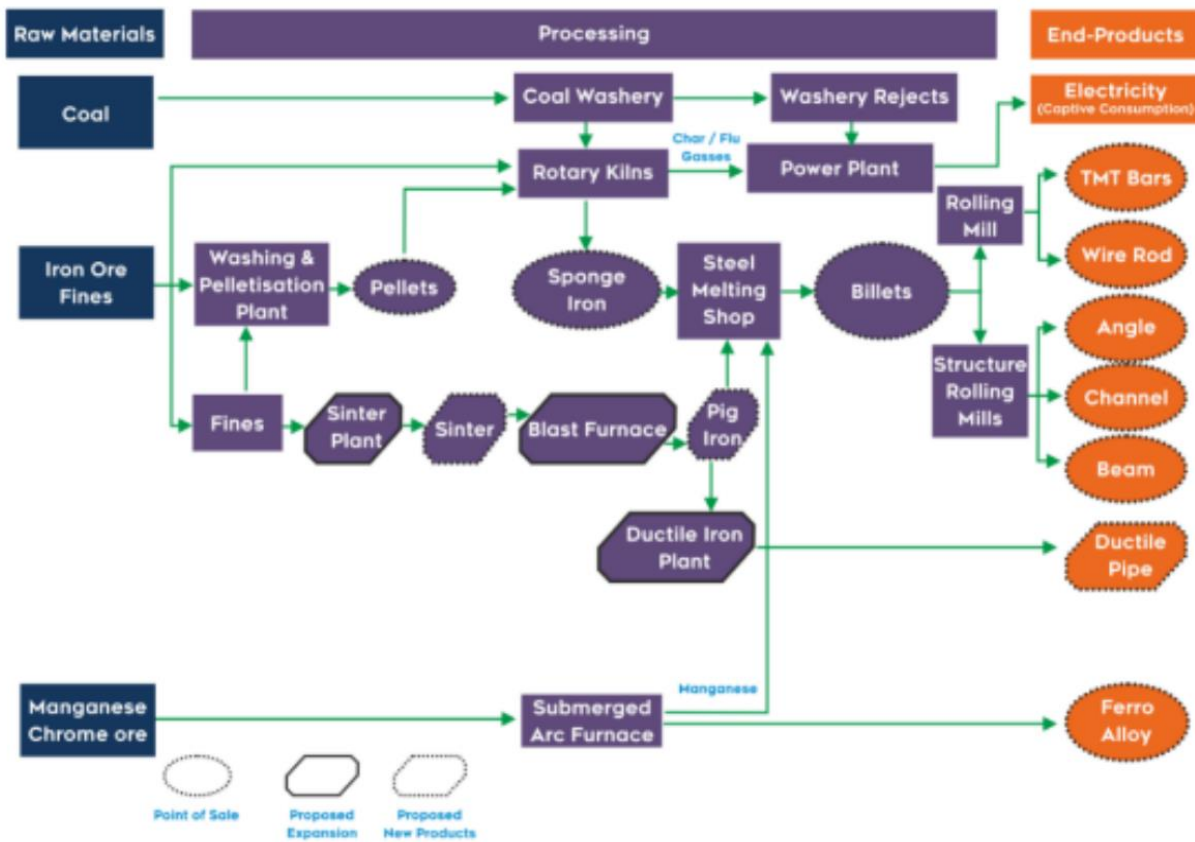


Product Portfolio

Products	Existing Capacity TPA	Principal End Usage
<p>Pellets</p> 	2,400,000	Iron pellets are used as raw material for sponge iron and blast furnace. Company sells iron pellets, an intermediate product, primarily in the states of West Bengal, Odisha, Chhattisgarh, Maharashtra and Jharkhand. And also exports pellet to countries, such as, China
<p>Sponge Iron</p> 	1,389,900	Sponge iron is used as raw material for billets and is a substitute of scrap. Company sells sponge iron, an intermediate product, primarily in the states of West Bengal, Chhattisgarh, Jharkhand, Bihar, Assam, Meghalaya, Madhya Pradesh Uttarakhand, Rajasthan, Maharashtra and Gujarat.
<p>Billets</p> 	892,320	Billets are used as raw material for the manufacture of TMT and structural products. Apart from using items as input for finished products, company also sells billets including customized billets, an intermediate product, primarily in the states of Chhattisgarh, Uttar Pradesh, Punjab, Rajasthan and Maharashtra. And exports billets to Nepal and Bangladesh.
<p>TMT, Structural Products, Wire Rods and Pipes</p> 	820,000	TMT, structural products, wire rods are used for the construction of buildings, transmission towers, industrial sheds, structures, road, dam and in other various infrastructures. Company sells TMT, structural products, wire rods and pipes, a finished product, primarily in the states of WB, Odisha, Bihar, Jharkhand, Tripura, Sikkim, Assam, Arunachal Pradesh, Manipur, Meghalaya, Uttarakhand, UP, Punjab and Haryana. Company also undertakes conversion of hot rolled coils to pipes exclusively for an Indian steel conglomerate.
<p>Ferro Alloy</p> 	205,920	Ferro alloys are used as raw materials for the manufacturing of stainless steel products. Company also sells specialized ferro alloys - low and medium carbon - for special steel applications. Sells ferro alloys of various grades, a finished product, to steel companies primarily in the states of Odisha, Jharkhand, Karnataka, Uttar Pradesh, Haryana and Rajasthan. Exports ferro alloys to South Korea, Indonesia, Thailand, Taiwan, Japan, New Zealand, United Kingdom. Company also undertake conversion of manganese ore and chrome ore to silico manganese and ferro chrome respectively for an Indian steel conglomerate on a non-exclusive basis.

Source: RHP, PhillipCapital India Research

Production process



Key Management Personnel

Name	Designation	Details
Mr. Mahabir Prasad Agarwal	Non-Executive Chairman	Mr. Agarwal is the founder of, and has been a director of the company's 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
Mr. Brij Bhushan Agarwal	Vice Chairman and Managing Director	Mr. B Agarwal has been a Director of the company since its inception in December, 2002. 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.
Mr. Sanjay Kumar Agarwal	Joint Managing Direct	Mr. S Agarwal has over 17 years of experience in the steel and ferro alloys industry. He is primarily responsible for the operations of the manufacturing plants at Sambalpur, Jamuria and Mangalpur, with focus on cost control, production efficiency and competitive procurement of raw material
Mr. Deepak Kumar Agarwal	Whole-Time Director	Mr. D Agarwal 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.
Mr. Bhagwan Shaw	Whole-Time Director	Prior to his appointment as Director, he was manager (store) in the company. He has 12 years of experience in the steel and ferro alloys industry. He is responsible for management and inventory control of stores and spares at the Sambalpur manufacturing plant
Mr. Dev Kumar Tiwari	Whole-Time Director	Mr. Tiwari has been a Director of the company since April 10, 2009. Prior to his appointment as Director, he was a mechanical engineer in the company's subsidiary, SSPL for 7 years. He has over 23 years of experience in the steel and ferro alloys industry. He is responsible for project implementation and operations of the Sambalpur manufacturing plant.
Shree Kumar Dujari	Chief Financial Officer	Mr. Dujari has over two decades of experience in accounts, finance and secretarial departments. Prior to joining, he was associated with Hindustan Development Corporation Limited and with Shyam Metaliks as general manager of finance.

Source: RHP, PhillipCapital India Research

Milestones

Date	Particulars
2013	Started commercial production of iron pellets plant with capacity of 300KT at Sambalpur and 480KT at Jamuria plant Jamuria Plant also added 79KT of billet and 36KT of sponge iron capacity billets with capacity of 79KT. Expanded sponge iron capacity by 36KT.
2014	Expanded Ferro Alloy/sponge iron capacity by 51KT/33KT. Established captive railway siding.
2015	Commissioned captive power plant of 43 MW. Expanded sponge iron/billet/ferro alloy capacity by 194KT/50KT/14KT.
2016	Expanded billets capacity by 85KT at Sambalpur plant Increased iron pellets/billet capacity by 120KT/72KT at Jamuria Plant
2017	Added sponge iron/billet capacity by 330KT/63KT
2019	Further enhanced sponge iron/billet/TMT capacity by 165KT/63KT 60KT. Also added wire rod capacity of 200KT. Jamuria Plant - Expanded sponge iron/billet/TMT-wire rod capacity by 99KT/169KT/107KT. 30MW of CPP added
2020	Sambalpur Plant - Expanded pellets capacity by 900KT and captive power capacity by 33 MW. Jamuria Plant - Pellet/sponge/billet capacity by 600KT/116KT/95KT. Long products (TMT and wire rod) capacity increased by 200KT.

Source: RHP, PhillipCapital India Research

SEML has great balance sheet strength but still lags behind in profitability

In terms of business model closest peers for SEML are Jindal Steel, Godawari Power, Sarda Energy and Prakash Industries. Among the four companies given below, Godawari power is the most profitable at present due to its backward integration into iron ore. Though Sarda looks expensive, its debt is largely pertains to newly commissioned Sikkim Hydro power project which has potential to add Rs 1.7-1.9bn of EBITDA in FY22. **However; SEML enjoys one of the best balance sheet among peers as it would be debt neutral post IPO.**

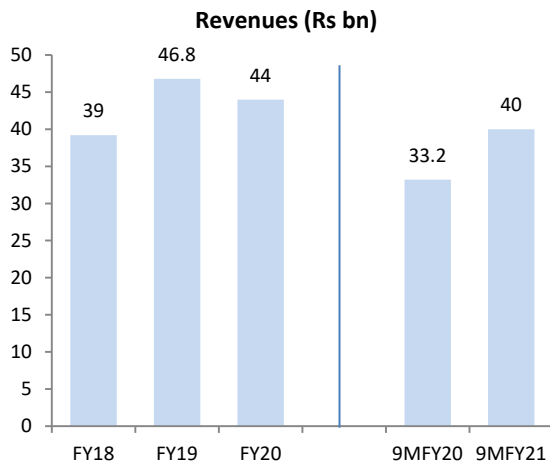
Peer comparison

	Shyam Metaliks	Godawari Power	Sarda Energy	Prakash Industries
Location	West Bengal/ Odisha	Chhattisgarh	Chhattisgarh	Chhattisgarh
Capacity (Tonnes)				
Iron Ore	-	2,100,000	500,000	1,500,000
Pellets	2,400,000	2,100,000	600,000	-
Sponge Iron	1,389,900	480,000	360,000	1,200,000
Billets/Blooms	892,320	400,000	200,000	1,250,000
Rolled Steel Products	820,000	400,000	180,000	1,100,000
HB Wire	-	150,000	30,000	300,000
Ferro Alloys	205,920	16,500	140,000	136,000
Power (MW)				
Captive	227	73	162	245
MCAP	78,051	44,292	22,617	14,819
Net Debt	0	7,922	14,150	4,464
Present EV	78,051	52,214	36,767	19,283
EBITDA (FY21)	12,500	12289	5560	3226
EPS (Rs/share)	35	174.3	104.4	5.55
RoE (%)	18.7	34.8	17.6	4.3
RoCE (%)	17.9	34.6	12.4	3.3
Debt/Equity (x)	0.3	0.4	0.7	0.2
		Valuations		
EV/EBITDA	6.2	4.2	6.6	6.0
PBV	2.9	2.1	1.0	0.5
PER	8.7	7.3	6.0	14.8

Note: Shyam Metaliks FY21 EBITDA is PC best case estimates

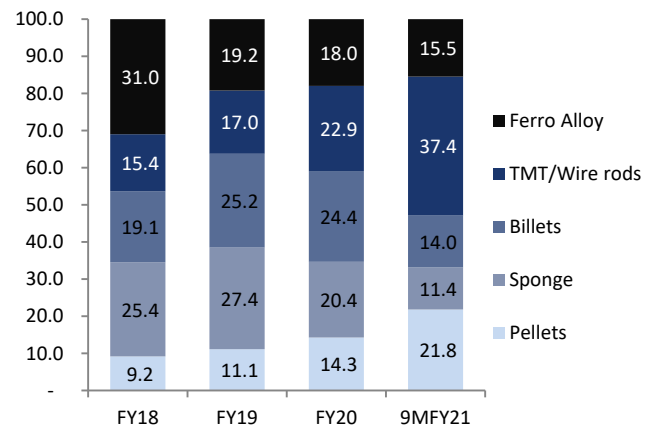
Financial highlights

Turnover – Rs bn



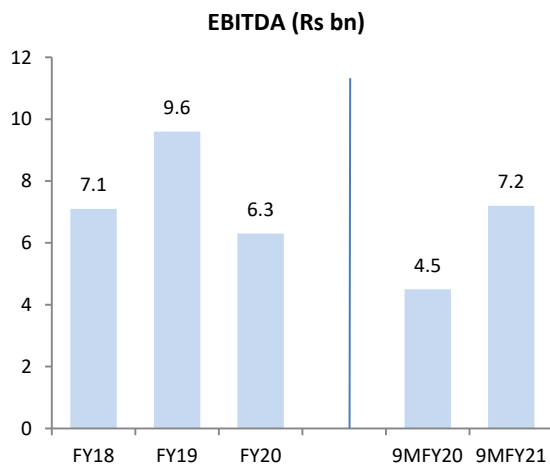
9MFY21 revenues grew by 20% yoy largely driven by realisations

Revenue Mix - %



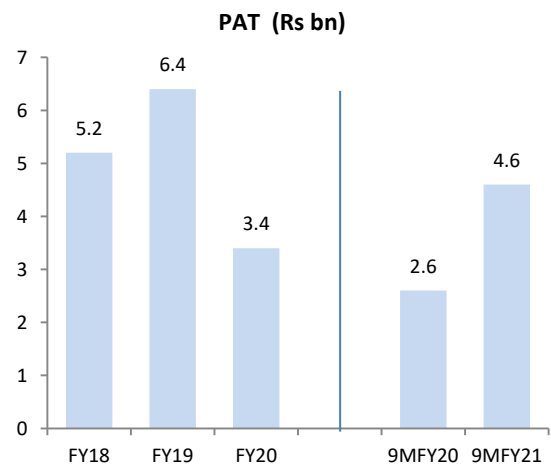
Value added steel and pellet contribution increased in 9MFY21..

EBITDA – Rs bn



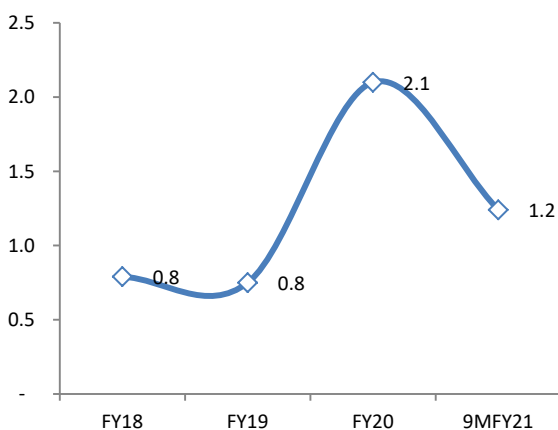
9MFY21 EBITDA jumped an impressive 60% yoy.

PAT – Rs bn



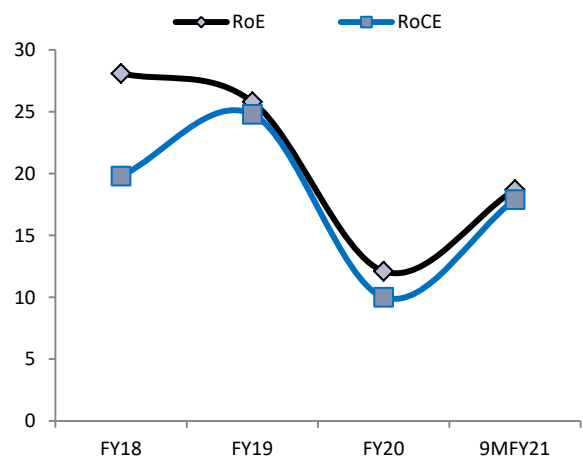
Operating performance reflected in net profits which jumped 77% yoy in 9MFY21

Gross Debt/EBITDA (x)



Significant improvement over last 9M indicating low financial risk.

RoE and RoCE (%)



9MFY21 RoE and RoCE bounced back to 18.7% and 17.9%

Financials

Income Statement

Y/E Mar, Rs mn	FY18	FY19	FY20	9MFY21
Net sales	37,472	46,064	43,629	39,331
Growth, %	71	23	-5	20
Other income	-23,707	-27,863	-26,780	-24,553
Total income	-1,064	-1,450	-1,684	-1,247
Raw material expenses	-5,690	-7,304	-8,710	-6,336
Employee expenses	7,010	9,447	6,456	7,194
Other Operating expenses	139.3	34.8	(31.7)	48.6
EBITDA (Core)	18.7	20.5	14.8	18.3
Growth, %	-2,150	-1,946	-2,966	-2,200
Margin, %	4,860	7,501	3,489	4,994
Depreciation	504.4	54.4	(53.5)	90.8
EBIT	13.0	16.3	8.0	12.7
Growth, %	-489	-644	-859	-558
Margin, %	778	782	324	625
Interest paid	0	0	0	0
Other Non-Operating Income	5,149	7,639	2,954	5,061
Pre-tax profit	107	-1,271	449	-499
Tax provided	5,256	6,368	3,403	4,562
Profit after tax	-1,012	-326	0	1
Net Profit	4,244	6,041	3,403	4,563
Growth, %	491.2	42.4	(43.7)	34.1
Net Profit (adjusted)	4,244	6,041	3,403	4,563
Unadj. shares (m)	234	234	234	234
Wtd avg shares (m)	234	234	234	234

Balance Sheet

Y/E Mar, Rs mn	FY18	FY19	FY20	9MFY21
Cash & bank	533	978	1,212	1,782
Debtors	3,687	2,129	2,590	2,437
Inventory	5,585	7,321	14,867	11,500
Loans & advances	3,812	5,384	6,464	6,435
Other current assets	13,617	15,813	25,133	22,153
Total current assets	1,954	2,739	1,440	1,679
Investments	23,504	25,515	30,832	31,716
Gross fixed assets	-6,270	-8,209	-11,139	-13,331
Less: Depreciation	914	3,577	2,354	3,510
Add: Capital WIP	18,148	20,883	22,047	21,894
Net fixed assets	987	1,089	3,417	5,324
Non-current assets	34,706	40,524	52,038	51,051
Total assets	10,011	10,309	17,056	13,597
Current liabilities	62	65	277	373
Provisions	10,073	10,374	17,333	13,970
Total current liabilities	3,998	5,210	6,403	4,187
Non-current liabilities	14,071	15,583	23,737	18,157
Total liabilities	467	2,336	2,336	2,336
Paid-up capital	18,073	22,561	25,924	30,517
Reserves & surplus	2,095	44	42	41
Shareholders' equity	20,635	24,941	28,301	32,894
Total equity & liabilities	34,706	40,524	52,038	51,051

Source: Company, PhillipCapital India Research Estimates

Cash Flow

Y/E Mar, Rs mn	FY18	FY19	FY20	9MFY21
Pre-tax profit	5,149	7,639	2,954	5,061
Depreciation	2,150	1,946	2,966	2,200
Chg in working capital	-2,559	-1,195	-4,602	-1,430
Total tax paid	-1,186	-1,645	-568	-888
Other operating activities	0	0	0	0
Cash flow from operating activities	3,555	6,745	750	4,943
Capital expenditure	-668	-4,680	-4,131	-2,047
Chg in investments	-841	-785	1,299	-240
Cash flow from investing activities	0	0	0	0
Free cash flow	0	0	0	0
Equity raised/(repaid)	-1,510	-5,465	-2,832	-2,286
Debt raised/(repaid)	2,045	1,280	-2,082	2,657
Cash flow from financing activities	4,649	6,357	3,363	4,593
Net chg in cash	209	1,225	2,146	-2,215

Valuation Ratios

	FY18	FY19	FY20	9MFY21
Per Share data				
EPS (INR)	18.2	25.9	14.6	19.5
Growth, %	18.2	42.4	(43.7)	77.2
Book NAV/share (INR)	79.4	106.6	121.0	140.6
FDEPS (INR)	18.2	25.9	14.6	26.0
CEPS (INR)	27.4	34.2	27.3	38.6
CFPS (INR)	19.7	19.7	(12.0)	52.2
DPS (INR)	-	-	-	-
Return ratios				
Return on assets (%)	17.2	18.6	9.2	13.2
Return on equity (%)	22.9	24.3	12.0	18.5
Return on capital employed (%)	23.7	25.6	13.1	19.0
Turnover ratios				
Asset turnover (x)	1.5	1.7	1.3	1.4
Sales/Total assets (x)	1.1	1.2	0.9	1.0
Sales/Net FA (x)	2.0	2.4	2.0	2.4
Working capital/Sales (x)	0.1	0.1	0.2	0.1
Fixed capital/Sales (x)	-	-	-	-
Receivable days	35.9	16.9	21.7	17.0
Inventory days	54.4	58.0	124.4	80.0
Payable days	-	-	-	-
Working capital days	29.3	35.3	55.1	44.6
Liquidity ratios				
Current ratio (x)	1.4	1.5	1.4	1.6
Quick ratio (x)	0.8	0.8	0.6	0.8
Interest cover (x)	9.9	11.6	4.1	8.9
Total debt/Equity (%)	34.5	36.5	58.4	33.4
Net debt/Equity (%)	31.6	32.6	54.1	27.9
Valuation				
PER (x)	16.8	11.8	21.0	11.7
PEG (x) - y-o-y growth	0.9	0.3	(0.5)	0.1
Price/Book (x)	3.9	2.9	2.5	2.2
EV/Net sales (x)	2.1	1.7	2.0	1.5
EV/EBITDA (x)	11.0	8.4	13.4	8.4
EV/EBIT (x)	15.9	10.6	24.9	12.1

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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