

Company Overview

Incorporated in 2002, Shyam Metalics and Energy Limited (SMEL) is India's leading integrated metal producer company. The company is primarily engaged in the production of long steel products such as iron pellets, sponge iron, steel billets, TMT, structural products, wire rods, and ferro alloys. As of February 2021, it is among India's largest producers of ferro alloys in terms of installed capacity and the fourth-largest player in the sponge iron industry. The company serves institutional customers and end-users. Jindal Stainless Limited, Rimjhim Ispat Limit are some of its domestic clients whereas Norecom DMCC, Norecom Limited, POSCO International Corporation, World Metals & Alloys, Traxys North America LLC, JM GLocal Resources, Vijayshri Steel Pvt Ltd, etc. are the international clients. The company has a partnership with 42 distributors to offer its products across 13 states and 1 union territory. Currently, the firm has 3 manufacturing plants located in Sambalpur in Odisha, and Jamuria and Mangalpur in West Bengal. As of Dec 31, 2020, its manufacturing units have an aggregated installed metal capacity of 5.71 million tonnes per annum. The company is looking to expand its capacity from 5.71 MTPA to 11.60 NTPA by 2025.

Objects of the issue

The IPO proceed will be used towards the following purposes;

1. Repayment and/or pre-payment of company and its subsidiary (SSPL)'s debt fully or partially.
2. General corporate purposes.

Investment Rationale

Strategically located manufacturing plants with a robust infrastructure

SMEL's manufacturing plants are strategically positioned in near proximity to its raw material sources, which lowers its transportation costs and provides extensive logistics control and price advantages thereby enhancing operating margins. Its manufacturing plants are positioned within 250 kilometres of the mineral belt in eastern India, including, iron ore, iron ore fines, manganese ore, chrome ore and coal mines, its primary raw materials. The strategic location of its manufacturing plants has helped in creating synergies in addition to achieving economies of scale and operational efficiencies. Further, it is well connected by roads, railways and ports and are located close to its raw material sources and are supported by strong logistics infrastructure, such as private railway siding, which enables to reduce the logistical costs.

Strategically located manufacturing plants with a robust infrastructure

SMEL's products primarily comprise of (i) long steel products, which range from intermediate products, such as, iron pellets, sponge iron and billets and final products, such as, TMT, customised billets, structural products and wire rods; and (ii) ferro alloys with a specific focus on high margin products, such as, specialised ferro alloys for special steel applications. SMEL sells its products to institutional customers and end consumers through its distribution network. It also customise and sell its products as per the customer's specifications. 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. In addition, it sells its intermediate products through brokers.

Valuation and Outlook

Shyam Metalics and Energy Limited (SMEL) is India's leading integrated metal producer company. Moreover, the company's strategic location of its manufacturing plants, robust infrastructure, strong financial performance and distribution network and diversified product portfolio are suitable for further growth of the company. On the valuation front, at the upper price band, the company is valued at 12.83x P/E considering the diluted equity shares which is at a discount compared to its listed industry peers (i.e, Tata Steel- 11.62x, JSW Steel- 19.75x and SAIL - 14.37x). Considering the factors such as the company's plans to introduce new products and increasing manufacturing capacities, strong financial performance and integrated nature of operations we give a "SUBSCRIBE" rating on this issue for the long term.

Issue Details

Offer Period	14 June - 16th June, 2021
Price Band	INR.303 to INR.306
Bid Lot	45
Listing	BSE&NSE
Issue Size (no. of shares in mn)	29.7
Issue Size (INR. in bn)	9.09
Face Value	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%
BRLM	ICICI Securities Ltd, IIFL Securities Ltd, Axis Capital Ltd., JM Financial Ltd., SBI Capital Markets.
Registrar	KFIN Technologies Pvt. Ltd.

Particulars Pre Issue % Post Issue %

Promoter	100	88.35
Public	47.61	11.65
Total	100	100

(Assuming issue subscribed at higher band)

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Income Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Revenue				
Revenue from operations	38,426	46,064	43,629	39,331
Total revenue	38,426	46,064	43,629	39,331
Expenses				
Raw Materials Consumed	22,968	27,828	27,182	24,374
Changes in inventories of finished goods and work in progress	(544)	(251)	(1,035)	134
Purchase of Stock in Trade	1,283	286	633	46
Excise Duty	954	-	-	-
Employee benefit expenses	1,064	1,450	1,684	1,247
Other expenses	5,690	7,304	8,710	6,336
Total Operating expenses	31,416	36,617	37,173	32,137
EBITDA	7,010	9,447	6,456	7,194
Depreciation and amortisation expense	2,150	1,946	2,966	2,200
Other income	778	782	324	625
EBIT	5,638	8,283	3,813	5,620
Finance costs	489	644	859	558
Share in Profit/(Loss) of Joint Ventures	24	0	0	2
PBT	5,174	7,639	2,955	5,063
Current tax	1,395	1,663	574	917
Deferred Tax charge	(1,502)	(392)	(1,023)	(418)
Total tax	(107)	1,271	(449)	499
Other comprehensive income for the year	(62)	50	4	39
PAT	5,219	6,418	3,408	4,602
Diluted EPS	111.0	136.5	72.5	97.9

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Cash Flow from operating activities	2,469	4,566	852	6,568
Cash flow from investing activities	(1,421)	(5,670)	(2,734)	(2,311)
Cash flow from financing activities	(1,622)	1122	2,120	(4,559)
Net increase/(decrease) in cash and cash equivalents	(328)	18	198	(143)
Cash and cash equivalents at the beginning of the period	409	81	99	297
Cash and cash equivalents at the end of the period	81	99	297	154

Source: RHP, BP Equities Research

Balance Sheet (In mn)

Particulars	FY18	FY19	FY20	9MFY21
Liabilities				
Share Capital	467	2,336	2,336	2,336
Other Equity	18,073	22,561	25,924	30,517
Non-Controlling Interest	2,095	44	42	41
Net worth	20,635	24,941	28,301	32,894
Long-Term Borrowings	2,017	2,133	3,513	1,826
Long-Term Provisions	152	483	471	298
Other Non Current Liabilities	785	1,923	2,686	2,156
Total Non Current Liabilities	2,954	4,539	6,670	4,280
Trade payables	4,471	3,106	5,024	3,538
current tax liability	325	-	-	245
Deferred Tax Liabilities	1,101	727	-	-
Borrowings	2,787	4,428	9,211	6,823
Other Financial Liabilities	1,076	1,010	1,545	771
Lease Liabilities	1	4	5	5
Other current liabilities	1,353	1,765	1,275	2,220
Short Term Provisions	4	5	6	275
Total Current Liabilities	11,117	11,045	17,066	13,877
Total liabilities	34,706	40,524	52,038	51,051
Assets				
Tangible Assets	17,230	17,298	19,685	18,379
Right of Use Assets	234	435	427	420
Capital work in Progress	906	3,577	2,354	3,510
Good will	4	8	8	6
Intangible Assets	7	-	-	-
Equity Accounted Investment	622	684	724	703
Other Financial Assets	38	75	408	448
Income tax assets (net)	-	-	290	679
Other non-current assets	715	580	2,292	3,778
Total Non current assets	19,758	22,657	26,189	27,922
Investment	1,332	2,054	716	976.36
Trade Receivables	3,687	2,129	2,590	2,437
Cash and Bank Balances	81	99	297	154
Other current assets	2,941	4,182	5,712	5,535
Bank Balances	452	879	915	1,628
Other Financial Assets	871	1,203	751	900
Inventories	5,585	7,321	14,867	11,500
Total Current Asset	14,949	17,867	25,849	23,130
Net Current Assets	3,832	6,823	8,782	9,253
Total Assets	34,706	40,524	52,038	51,051

Key Risks

- ⇒ Loss of supplies or failure of suppliers to deliver some primary raw materials may have adverse impact on SMEL's manufacturing operations.
- ⇒ Steel industry characterised by volatility in prices of raw materials, energy which may adversely affect profitability
- ⇒ Demand, pricing in steel industry is volatile, sensitive to cyclical nature of the industries

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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