Equity Research

May 9, 2023

BSE Sensex: 61761

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Company update

Metals & mining

Target price: Rs570

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	88.4	88.4	88.4
Institutional investors	3.8	4.0	3.8
MFs and others	2.9	2.8	2.7
FI/Banks	0.0	0.4	0.4
FIIs	0.9	0.8	0.7
Others	7.8	7.6	7.8

Source: NSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	**NA**	**NA**	**NA**
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA

ICICI Securities

Shyam Metalics and Energy

BUY
Maintain

Multi-fold and multi-faceted growth

Rs296

The volume/realisation data of Shyam Metalics and Energy (SMEL) for Apr23' reveals that the company has made a good start in FY24 despite price/demand headwinds, particularly in long products. Key points: 1) Volume of metalics and semis rose as newly-commissioned facilities in Dec22'/Jan23' ramped-up production; 2) rebar volume declined 15% MoM to 103.4kte owing to seasonally lower demand; and 3) aluminium (Al) foils sales volume was down 9% MoM though there is an impressive ramp up YoY. Going ahead, we expect volume growth YoY to sustain as capacities ramp up. Additionally, new rebar facility of 330kte by Jun23' end may further boost the share of rolled products.

On profitability front, we expect an improvement in Apr23' compared to even Mar23' mainly driven by lower thermal coal cost- both domestic and imported and steadily declining iron ore prices. Going ahead, while we expect realisation to decline, lower cost is likely to result in EBITDA rate of Rs6-6.5bn per quarter. Hence, we do not envisage a risk to our FY24E EBITDA of Rs29bn (up 93% YoY). We maintain BUY on SMEL stock with an unchanged TP of Rs570/share on 4.5x FY25E EBITDA.

- **Steady operating performance in April23':** SMEL's operating performance in Apr23' stayed stable with the newly-commissioned upstream and semi-finished steel capacities ramping up. Key points: 1) Despite sharp decline in realisation YoY, we expect revenue to stay steady owing to sales volume uptick; 2) higher sales volume of semis and metallics is likely to partially mitigate the impact of lower steel sales volume owing to seasonal factors. Besides, offtake in induction furnace (IF) segment has been impacted by need-based buying by the dealers ahead of monsoons; and 3) realisation was broadly stable MoM. Going ahead, we believe sales volume is likely to get a further boost as additional capacities in pellet, sponge iron and steel are commissioned by end-Jun23'. Besides, stainless steel sales volume from Mittal Corp is expected to add further revenue.

- **Margin likely to get better owing to lower thermal coal cost:** Despite possible revenue decline due to seasonal factor in rebar, we expect SMEL's margin to improve owing to steadily declining thermal coal cost and iron ore cost. We envisage Apr23' EBITDA margin between 14-16%, higher than our FY24E EBITDA margin of 14.8%. We believe additional revenue from rolling stainless steel billets at Mittal Corp may be margin accretive.

- **Outlook: Long–term prospects intact:** We stay upbeat on SMEL's prospects largely due to new steel/DRI capacity getting commissioned by end-Jun23'. As a result, at this stage, we don't see a risk to our FY24E EBITDA of Rs29bn (up 93% YoY). Maintain BUY on SMEL stock with an unchanged TP of Rs570.

Market Cap	Rs75.6bn/US$922mn
Bloomberg	SHYAMMET IN
Shares Outstanding (mn)	255.1
52-week Range (Rs)	346/253
Free Float (%)	11.6
FII (%)	0.7
Daily Volume (US$/'000)	629
Absolute Return 3m (%)	(0.2)
Absolute Return 12m (%)	(4.2)
Sensex Return 3m (%)	1.7
Sensex Return 12m (%)	14.8

Year to Mar	FY22	FY23E	FY24E	FY25E
Revenue (Rs mn)	1,03,940	1,21,902	1,89,872	2,65,137
EBITDA(Rs mn)	25,998	14,810	28,077	33,599
Net Income (Rs mn)	17,240	6,719	15,178	19,129
EPS (Rs)	67.59	26.34	59.50	74.99
P/E (x)	4.4	11.3	5.0	4.0
P/B(x)	1.3	1.2	1.0	0.8
EV/E (x)	2.7	5.5	2.9	2.5
Dividend Payout (x)	0.1	0.2	0.2	0.2
RoCE (%)	44.3	15.2	28.3	30.2
RoE (%)	36.4	11.0	21.5	22.5

Table 1: Volume for Apr23'

Volume (Kte)	Apr FY24	Apr FY23	(%)Chg.YoY	Mar FY23	(%)Chg.MoM
Pellet	133.7	133.7	0.0	129.3	3.4
Sponge Iron	61.4	56.1	9.5	52.3	17.6
Billets	16.3	13.4	21.3	13.5	20.7
Rebars	103.4	78.9	31.1	122.2	(15.4)
Ferroalloys	16.1	14.3	13.0	17.4	(7.3)
Aluminium foil	1.1	0.4	212.9	1.2	(8.9)

Source: Company data, I-Sec research

Table 2: Realisation for Apr23'

Realisation (Rs/te)	Apr FY24	Apr FY23	(%)Chg.YoY	Mar FY23	(%)Chg.MoM
Pellet	9,399	11,095	(15.3)	9,362	0.4
Sponge Iron	29,565	36,149	(18.2)	30,421	(2.8)
Billets	45,606	55,736	(18.2)	45,633	(0.1)
Rebars	52,554	61,971	(15.2)	52,593	(0.1)
Ferroalloys	95,939	1,23,160	(22.1)	1,03,439	(7.3)
Aluminium foil	3,52,369	4,07,301	(13.5)	3,69,047	(4.5)
Blended Realisation	11,182	11,046	1.2	12,084	(7.5)

Source: Company data, I-Sec research

Valuation

We maintain **BUY** rating on SMEL. Factoring in the relatively better RoE and volume growth potential compared to peers albeit with smaller size and reach, we value SMEL at a discount of 25% compared to mainstream steel players. Our target price works out to Rs570 based on 4.5x FY25E EBITDA.

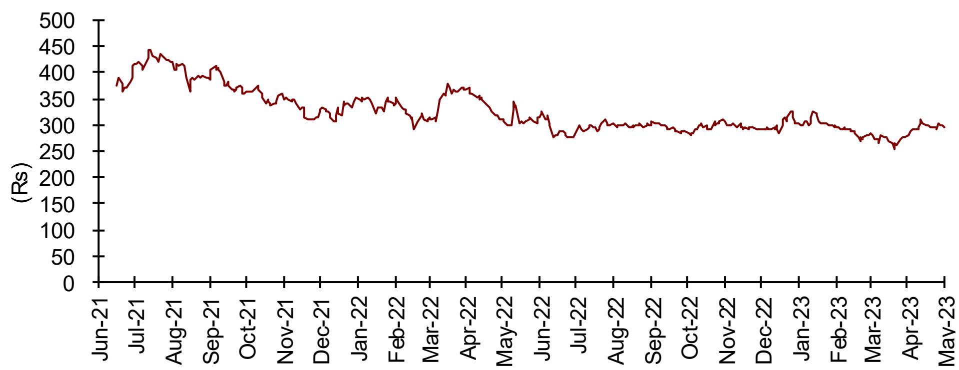
Key risks

Commodity price risk. SMEL is exposed to fluctuations in prices of raw materials, intermediates and final products. Market prices of these commodities fluctuate led by the level of demand and supply in domestic and global markets. Hence, fluctuations in prices of raw materials, intermediates and final products have a significant effect on SMEL's business, results of operations and financial condition.

Delay in commissioning of capacities.

Export duty on iron ore lingering is resulting in a further decline in pellet prices.

Price chart



Source: Bloomberg

Financials

Table 3: Profit and loss statement

Income Statement (Rs.mn)	FY22	FY23E	FY24E	FY25E
Operating Income (Sales)	**1,03,940**	**1,21,902**	**1,89,872**	**2,65,137**
Operating Expenses	77,942	1,07,092	1,61,795	2,31,538
EBITDA	**25,998**	**14,810**	**28,077**	**33,599**
% margins	25.0%	12.1%	14.8%	12.7%
Depreciation & Amortisation	2,724	5,414	6,485	6,084
Gross Interest	232	937	1,164	1,568
Other Income	600	1,140	1,254	1,379
Recurring PBT	**23,642**	**9,599**	**21,683**	**27,327**
Add: Extra ordinaries				
Less: Taxes	6,402	2,880	6,505	8,198
Less : Equity Dividends				
Add: Share of profit from associates	-	-	-	-
Net Income	**17,240**	**6,719**	**15,178**	**19,129**
Recurring Net Income	17,240	6,719	15,178	19,129

Source: Company data, I-Sec research

Table 4: Balance sheet

Balance Sheet (Rs mn)	FY22	FY23E	FY24E	FY25E
Assets				
Total Current Assets	46,737	41,164	50,081	66,108
of which cash & cash eqv.	919	2,215	2,245	377
Total Current Liabilities & Provisions	21,499	20,244	25,412	33,499
Net Current Assets	**25,239**	**20,920**	**24,669**	**32,609**
Investments	3,503	3,503	3,503	3,503
Net Fixed Assets	32,229	46,883	55,847	64,979
Capital Work-in-Progress	7,683	20,068	15,449	15,215
Other non-current assets	-	-	-	-
Total Assets	**84,250**	**93,331**	**1,11,212**	**1,36,371**
Liabilities				
Borrowings	**5,619**	**10,249**	**10,061**	**10,873**
Deferred Tax Liability	1,073	1,073	1,073	1,073
Other long term liabilities	1,212	1,212	1,212	1,212
Minority Interest	40	40	41	41
Equity Share Capital	2,551	2,551	2,551	2,551
Reserves & Surplus	55,796	61,507	74,408	90,668
Net Worth	**58,347**	**64,058**	**76,959**	**93,219**
Total Liabilities	**84,250**	**93,331**	**1,11,212**	**1,36,371**

Source: Company data, I-Sec research

Table 5: Cashflow

Cashflow Statement (Rs mn)	FY22	FY23E	FY24E	FY25E
Operating Cashflow	**16,896**	**18,678**	**19,107**	**16,972**
Working Capital Changes	(3,244)	5,607	(3,719)	(9,808)
Capital Commitments	(10,714)	(20,068)	(15,449)	(15,215)
Free Cashflow	**6,182**	**(1,390)**	**3,658**	**1,757**
Investing Cashflow	**(19,265)**	**(20,068)**	**(15,449)**	**(15,215)**
Issue of Share Capital	(4)	-	-	-
Buyback of Shares				
Inc (Dec) in Borrowings	(2,533)	4,631	(188)	812
Dividend paid	(1,837)	(1,008)	(2,277)	(2,869)
Others	6,256	0	0	0
Interest paid	(232)	(937)	(1,164)	(1,568)
Financing Cashflow	**1,651**	**2,686**	**(3,628)**	**(3,625)**
Chg. in Cash	**(719)**	**1,296**	**30**	**(1,868)**

Source: Company data, I-Sec research

Table 6: Ratios

	FY22	FY23E	FY24E	FY25E
Per Share Data (in Rs)				
Recurring EPS (Basic)	67.6	26.3	59.5	75.0
Dividend per share (DPS)	7.2	4.0	8.9	11.2
Book Value per share (BV)	228.7	251.1	301.7	365.4
Growth Ratios (%)				
Operating Income	65%	17%	56%	40%
EBITDA	87%	-43%	90%	20%
Recurring Net Income	104%	-61%	126%	26%
Valuation Ratios (% YoY)				
P/E	4.4	11.3	5.0	4.0
P/BV	1.3	1.2	1.0	0.8
EV / EBITDA	2.7	5.5	2.9	2.5
Operating Ratios				
Gross Margin (%)	25.0	12.1	14.8	12.7
Other Income / PBT (%)	2.5	11.9	5.8	5.0
Effective Tax Rate (%)	27.1	30.0	30.0	30.0
Debtor (days)	13.0	11.0	11.0	11.0
Inventory (days)	117.3	86.8	86.8	86.8
Creditor (days)	68.1	45.0	45.0	45.0
Net D/E Ratio (x)	(0.1)	0.1	0.1	0.1
Return/Profitability Ratios (%)				
Recurring Net Income Margins	16.6	5.5	8.0	7.2
RoCE	44.3	15.2	28.3	30.2
RoNW	36.4	11.0	21.5	22.5
Dividend Payout Ratio	0.1	0.2	0.2	0.2
EBITDA Margins	25.0	12.1	14.8	12.7

Source: Company data, I-Sec research

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