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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
FIIIs	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

Shyam Metals and Energy

BUY
Maintain
Rs296

Volume growth in value-added products

The volume/realisation data of Shyam Metals and Energy (SMEL) for May'23 has reinforced our conviction on company's growth prospects. Key points: 1) Rebar volume rose despite overall weak demand; 2) volume ramp up of aluminium foils and LC ferrochrome may aid margins; and 3) implied revenue for May'23 is up 2% YoY despite sharply lower realisation across all product lines. Going ahead, we expect earnings growth largely on the back of capacity ramp up.

On profitability front, we expect MoM decline in May'23 owing to lower realisation across all product lines except ferrochrome. That said, we expect lower thermal coal and iron ore costs to aid profitability in Q2FY24. Hence, we do not envisage a risk to our FY24E EBITDA of Rs25.6bn (up 73% YoY). We maintain BUY on SMEL with an unchanged TP of Rs570/share on 4.5x FY25E EBITDA.

- ▶ **Steady revenue rate in May'23:** SMEL's operating performance in May'23 stayed stable largely on the back of volume growth despite lower realisation. Key points: 1) In rebars, sharp volume uptick of 45.2% YoY mitigated 15% YoY dip in realisation; 2) volume of metalics and semis declined in line with ramp up of finished steel capacity; 3) aluminium foil volume was up 128.4% YoY at 1.3kt as foil plant has achieved operating stability; 4) ferroalloys' volume was aided by ramp up of 14ktpa LC ferrochrome plant, resulting in higher blended realisation QoQ despite decline in HC ferrochrome prices. 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-Jun'23. Besides, stainless steel sales volume from Mittal Corp is expected to add further revenue.
- ▶ **Margin likely to get better owing to lower raw material cost:** Despite possible revenue decline owing to seasonal factor in rebars, we expect SMEL's margin to improve led by steadily declining thermal coal cost and iron ore cost. Our channel checks indicate e-auction premium in May'23 was 78% over notified prices, compared to 425% in May'22 and 137% in Apr'23. Furthermore, overall e-auction booked volume in May'23 was 5.68mnte compared to 4.38mnte in May'22. Iron ore fines prices (NMDC) in May'23 were down 34% YoY (12% QoQ) at Rs3,560/te. We believe lower raw material prices will get reflected in P&L Q2FY24 onwards, resulting in further improvement in profitability.
- ▶ **Outlook: Long-term prospects intact.** We stay upbeat on SMEL's prospects largely due to new capacities getting commissioned by end-Jun'23. As a result, at this stage, we don't see a risk to our FY24E EBITDA of Rs25.6bn (up 73% YoY). Maintain BUY on SMEL with an unchanged TP of Rs570.

Market Cap	Rs79bn/US\$961mn	Year to Mar				
		FY22	FY23	FY24E	FY25E	
Bloomberg	SHYAMMET IN					
Shares Outstanding (mn)	255.1	Revenue (Rs mn)	1,03,940	1,26,102	1,86,327	2,58,578
52-week Range (Rs)	335/253	EBITDA (Rs mn)	25,998	14,859	25,663	33,156
Free Float (%)	11.6	Net Income (Rs mn)	17,240	8,483	14,352	19,683
FII (%)	0.7	EPS (Rs)	67.59	33.26	56.27	77.16
Daily Volume (US\$/'000)	619	P/E (x)	4.6	9.4	5.5	4.0
Absolute Return 3m (%)	10.8	P/B(x)	1.4	1.1	0.9	0.8
Absolute Return 12m (%)	2.4	EV/E (x)	2.9	5.7	3.2	2.4
Sensex Return 3m (%)	4.8	Dividend Payout (x)	0.1	0.1	0.1	0.1
Sensex Return 12m (%)	14.2	RoCE (%)	44.3	15.0	23.1	27.3
		RoE (%)	36.4	13.1	18.4	21.1

Please refer to important disclosures at the end of this report

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Table 1: Volume for May'23

Volume (Kte)	May'23	May'22	(%)Chg.YoY	Apr'23	(%)Chg.MoM
Pellet	121.3	120.7	0.6	133.7	(9.2)
Sponge Iron	54.1	55.5	(2.4)	61.4	(11.9)
Billets	15.7	17.2	(9.0)	16.3	(3.6)
Rebars	104.7	72.1	45.2	103.4	1.2
Ferroalloys	18.7	18.2	2.7	16.1	16.0
Aluminium foil	1.3	0.6	128.4	1.1	19.1

Table 2: Realisation for May'23

Realisation (Rs/te)	May'23	May'22	(%)Chg.YoY	Apr'23	(%)Chg.MoM
Pellet	8,923	9,870	(9.6)	9,399	(5.1)
Sponge Iron	27,963	33,588	(16.7)	29,565	(5.4)
Billets	44,299	53,993	(18.0)	45,606	(2.9)
Rebars	50,300	59,140	(14.9)	52,554	(4.3)
Ferroalloys	1,00,383	1,20,916	(17.0)	95,939	4.6
Aluminium foil	3,43,887	3,99,514	(13.9)	3,52,369	(2.4)
Implied Revenue	10,882	10,678	1.9	11,182	(2.7)

Valuation

We maintain **BUY** on SMEL. Factoring in the relatively better RoE and volume growth potential compared to peers albeit of 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.

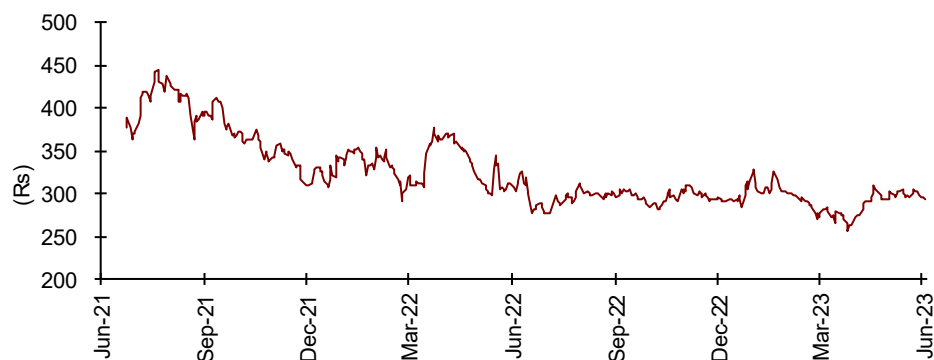
Key risks

Commodity price risk. SMEL is exposed to the fluctuations in prices of raw materials, intermediates and final products. Market prices of these commodities fluctuate due to 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, resulting in further decline in pellet prices.

Price chart



Source: Bloomberg

Financials

Table 3: Profit and loss statement

Income Statement (Rs.mn)	FY22	FY23	FY24E	FY25E
Operating Income (Sales)	1,03,940	1,26,102	1,86,327	2,58,578
Operating Expenses	77,942	1,11,243	1,60,664	2,25,422
EBITDA	25,998	14,859	25,663	33,156
% margins	25.0%	11.8%	13.8%	12.8%
Depreciation & Amortisation	2,724	4,631	5,404	5,114
Gross Interest	232	931	988	1,279
Other Income	600	1,120	1,232	1,355
Recurring PBT	23,642	10,417	20,503	28,119
Add: Extra ordinaries				
Less: Taxes	6,402	1,934	6,151	8,436
Less : Equity Dividends				
Add: Share of profit from associates	-	-	-	-
Net Income	17,240	8,483	14,352	19,683
Recurring Net Income	17,240	8,483	14,352	19,683

Source: Company data, I-Sec research

Table 4: Balance sheet

Balance Sheet (Rs mn)	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	46,737	43,012	50,367	69,000
of which cash & cash eqv.	919	748	1,196	3,085
Total Current Liabilities & Provisions	21,499	29,768	31,831	41,999
Net Current Assets	25,239	13,244	18,536	27,001
Investments	3,503	9,315	9,315	9,315
Net Fixed Assets	32,229	57,150	67,195	77,295
Capital Work-in-Progress	7,683	27,689	15,449	15,215
Other non-current assets	-	-	-	-
Total Assets	84,250	1,11,887	1,29,287	1,58,020
Liabilities				
Borrowings	5,619	11,793	10,061	10,873
Deferred Tax Liability	1,073	712	712	712
Other long term liabilities	1,212	1,537	1,537	1,537
Minority Interest	40	3,856	3,895	3,934
Equity Share Capital	2,551	2,551	2,551	2,551
Reserves & Surplus	55,796	69,074	81,991	99,706
Net Worth	58,347	71,625	84,542	1,02,256
Total Liabilities	84,250	1,11,887	1,29,287	1,58,020

Source: Company data, I-Sec research

Table 5: Cashflow

Cashflow Statement (Rs mn)	FY22	FY23	FY24E	FY25E
Operating Cashflow	16,896	15,069	20,014	19,500
Working Capital Changes	(3,244)	2,770	(730)	(6,576)
Capital Commitments	(10,714)	(15,789)	(15,449)	(15,215)
Free Cashflow	6,182	(721)	4,565	4,286
Investing Cashflow	(19,265)	(19,550)	(15,449)	(15,215)
Issue of Share Capital	(4)	-	-	-
Buyback of Shares				
Inc (Dec) in Borrowings	(2,533)	7,174	(1,732)	812
Dividend paid	(1,837)	(1,148)	(1,435)	(1,968)
Others	6,256	(1,000)	39	39
Interest paid	(232)	(717)	(988)	(1,279)
Financing Cashflow	1,651	4,310	(4,116)	(2,396)
Chg. in Cash	(719)	(171)	448	1,889

Source: Company data, I-Sec research

Table 6: Ratios

	FY22	FY23	FY24E	FY25E
Per Share Data (in Rs)				
Recurring EPS (Basic)	67.6	33.3	56.3	77.2
Dividend per share (DPS)	7.2	4.5	5.6	7.7
Book Value per share (BV)	228.7	280.8	331.4	400.9
Growth Ratios (%)				
Operating Income	65%	21%	48%	39%
EBITDA	87%	-43%	73%	29%
Recurring Net Income	104%	-51%	69%	37%
Valuation Ratios (% YoY)				
P/E	4.6	9.4	5.5	4.0
P/BV	1.4	1.1	0.9	0.8
EV / EBITDA	2.9	5.7	3.2	2.4
Operating Ratios				
Gross Margin (%)	25.0	11.8	13.8	12.8
Other Income / PBT (%)	2.5	10.8	6.0	4.8
Effective Tax Rate (%)	27.1	18.6	30.0	30.0
Debtor (days)	13.0	17.2	17.2	17.2
Inventory (days)	117.3	88.5	80.0	80.0
Creditor (days)	68.1	61.2	61.2	61.2
Net D/E Ratio (x)	(0.1)	0.1	0.0	0.0
Return/Profitability Ratios (%)				
Recurring Net Income Margins	16.6	6.7	7.7	7.6
RoCE	44.3	15.0	23.1	27.3
RoNW	36.4	13.1	18.4	21.1
Dividend Payout Ratio	0.1	0.1	0.1	0.1
EBITDA Margins	25.0	11.8	13.8	12.8

Source: Company data, I-Sec research

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