

08 March 2024

India | Equity Research | Company Update

## Shyam Metalics and Energy

Metals

### Feb'24 operating numbers: Volume growth offsets the price weakness

Shyam Metalics & Energy (SMEL) reported firm operating performance in Feb'24. Key points: 1) Volume grew across major products MoM despite less number of working days; 2) Realisation declined (MoM) for all the products except Aluminium foil; and 3) Implied revenue was down only 1.4% MoM as higher volume mitigated the impact of lower prices. Going ahead, we expect SMEL to gain from capacity ramp-up of steel and value-added products. Besides, the lower coal price is also expected to sustain the EBITDA margin in the range of 12-13%. Taking cognizance of lower pellet sales volume and prevailing prices, we lower our FY24E/FY25E EBITDA by 5%/10%. As a result, our revised TP works out to INR 815 (earlier INR 840). We maintain **BUY**.

#### Higher volume across major products

SMEL's operating performance in Feb'24 remained firm (MoM) as higher volume across the major product categories offset the adverse impact of lower realisation. Key points: 1) Implied revenue of INR 11.6bn is up 9.7% YoY; but down 1.4% MoM; 2) Realisation across the product categories was down 1-3% MoM; 3) Despite lower number of working days, volume was up 6% MoM for rebars and 12% MoM for sponge iron; 4) Pellet sales volume was impacted by subdued prices; and 5) Sponge iron sales volume was up 123% YoY at 94kt, mainly due to the capacity ramp-up of 198ktpa sponge iron plant commissioned in Nov'23. Going ahead, we expect EBITDA margin to sustain between 12-13% as domestic thermal coal price (e-auction) has come off significantly in Q4FY24 compared to Q3FY24.

#### Capacity ramp-up of value-added products to boost earnings

Despite an insipid Q4FY24 in terms of prices, we expect SMEL to sustain its EBITDA margin mainly due to higher volumes. Besides, we expect carbon steel sales volume to grow by 13-15% YoY through to FY26E. In FY25, we also expect ramp-up of stainless steel capacity at Mittal Corp to aid revenue growth. Going ahead, additional revenue streams of colour coated steel and pig iron are likely to maintain earnings growth momentum. Hence, we expect SMEL to remain relatively less impacted by lower realisation compared to peers. Furthermore, unlike coking coal, thermal coal prices have moderated considerably. This is expected to have positive impact on margins.

#### Financial Summary

| Y/E March (INR mn) | FY23A    | FY24E    | FY25E    | FY26E    |
|--------------------|----------|----------|----------|----------|
| Net Revenue        | 1,26,102 | 1,32,422 | 1,93,543 | 2,38,451 |
| EBITDA             | 14,859   | 15,828   | 22,677   | 32,800   |
| EBITDA Margin (%)  | 11.8     | 12.0     | 11.7     | 13.8     |
| Net Profit         | 8,483    | 11,167   | 14,058   | 21,872   |
| EPS (INR)          | 33.3     | 40.0     | 50.4     | 78.4     |
| EPS % Chg YoY      | (50.8)   | 20.3     | 25.9     | 55.6     |
| P/E (x)            | 19.3     | 16.0     | 12.7     | 8.2      |
| EV/EBITDA (x)      | 11.8     | 10.1     | 6.9      | 4.6      |
| RoCE (%)           | 12.8     | 12.0     | 12.3     | 16.7     |
| RoE (%)            | 14.9     | 14.4     | 14.7     | 19.1     |

Amit Dixit

amit.dixit@icicisecurities.com  
+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Pritish Urumkar

Pritish.urumkar@icicisecurities.com

#### Market Data

|                     |             |
|---------------------|-------------|
| Market Cap (INR)    | 179bn       |
| Market Cap (USD)    | 2,160mn     |
| Bloomberg Code      | SHYAMMET IN |
| Reuters Code        | SHYE BO     |
| 52-week Range (INR) | 772 /253    |
| Free Float (%)      | 18.0        |
| ADTV-3M (mn) (USD)  | 12.1        |

| Price Performance (%) | 3m   | 6m   | 12m   |
|-----------------------|------|------|-------|
| Absolute              | 24.8 | 35.1 | 128.0 |
| Relative to Sensex    | 18.2 | 23.3 | 104.9 |

| Earnings Revisions (%) | FY24E | FY25E  |
|------------------------|-------|--------|
| Revenue                | (4.2) | (12.3) |
| EBITDA                 | (5.1) | (10.4) |
| EPS                    | (7.1) | (12.3) |

#### Previous Reports

07-02-2024: [Company Update](#)01-02-2024: [Q3FY24 results review](#)

## Outlook: Volume growth sustains; Maintain BUY

Despite lower realisation across all the major products, we expect volume growth to aid revenue. On margins front, lower thermal coal prices are likely to aid profitability. As a result, we expect EBITDA margin to sustain between 12% and 13%. That said, taking cognizance of lower pellet sales volume and current price environment, we trim our FY24E/FY25E EBITDA by 5%/10%. As a result, our TP works out to INR 815 (earlier INR 840) on an unchanged 6.5x FY26E EBITDA. Maintain BUY.

### Exhibit 1: Earnings Revision

| (INR mn) | FY24E    |          |       | FY25E    |          |        |
|----------|----------|----------|-------|----------|----------|--------|
|          | New      | Old      | % Chg | New      | Old      | % Chg  |
| Sales    | 1,32,422 | 1,38,258 | (4.2) | 1,93,543 | 2,20,688 | (12.3) |
| EBITDA   | 15,828   | 16,682   | (5.1) | 22,677   | 25,297   | (10.4) |
| PAT      | 11,167   | 12,016   | (7.1) | 14,058   | 16,025   | (12.3) |

Source: I-Sec research

### Key downside risks

- Sharp fall in pellet and rebar prices
- Delay in commissioning of capacities
- Squeeze in spreads owing to high thermal coal prices

### Exhibit 2: Volume across the products

| Volume (Kte)    | Feb-24 | Feb-23 | (%)Chg.YoY | Jan-24 | (%)Chg.MoM |
|-----------------|--------|--------|------------|--------|------------|
| Pellet          | 63.0   | 85.4   | (26.2)     | 94.9   | (33.6)     |
| Sponge Iron     | 94.1   | 42.2   | 122.9      | 83.9   | 12.2       |
| Billets         | 14.6   | 11.6   | 26.5       | 12.4   | 18.4       |
| Rebars          | 125.5  | 116.9  | 7.4        | 118.6  | 5.8        |
| Ferroalloys     | 17.0   | 13.0   | 30.7       | 17.2   | (1.4)      |
| Aluminium foil  | 1.4    | 1.0    | 34.8       | 1.4    | (5.5)      |
| Stainless Steel | 4.1    | 1.1    | 274.9      | 5.6    | (27.8)     |

Source: I-Sec research, Company data

### Exhibit 3: Realisation across the products

| Realisation (INR/te)   | Feb-24        | Feb-23        | (%)Chg.YoY | Jan-24        | (%)Chg.MoM   |
|------------------------|---------------|---------------|------------|---------------|--------------|
| Pellet                 | 9,145         | 9,174         | (0.3)      | 9,342         | (2.1)        |
| Sponge Iron            | 24,884        | 30,534        | (18.5)     | 25,736        | (3.3)        |
| Billets                | 38,715        | 46,015        | (15.9)     | 39,378        | (1.7)        |
| Rebars                 | 44,529        | 52,687        | (15.5)     | 45,089        | (1.2)        |
| Ferroalloys            | 94,680        | 1,00,736      | (6.0)      | 98,367        | (3.7)        |
| Aluminium foil         | 3,11,922      | 3,67,149      | (15.0)     | 3,01,748      | 3.4          |
| Stainless Steel        | 1,17,479      | 1,09,704      | 7.1        | 1,31,162      | (10.4)       |
| <b>Implied Revenue</b> | <b>11,588</b> | <b>10,566</b> | <b>9.7</b> | <b>11,751</b> | <b>(1.4)</b> |

Source: Company data, I-Sec research

### Exhibit 4: Shareholding pattern

| %                       | Jun'23 | Sep'23 | Dec'23 |
|-------------------------|--------|--------|--------|
| Promoters               | 88.4   | 81.6   | 81.6   |
| Institutional investors | 3.8    | 6.2    | 6.2    |
| MFs and others          | 2.7    | 2.5    | 2.5    |
| FIs/Banks, Insurance    | 0.4    | 1.7    | 1.7    |
| FII                     | 0.7    | 2.0    | 2.0    |
| Others                  | 7.8    | 12.2   | 12.2   |

Source: Bloomberg, I-Sec research

### Exhibit 5: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 6: Profit & Loss

(INR mn, year ending March)

|  | FY23A           | FY24E           | FY25E           | FY26E           |
|--|-----------------|-----------------|-----------------|-----------------|
| <b>Net Sales</b>                       | <b>1,26,102</b> | <b>1,32,422</b> | <b>1,93,543</b> | <b>2,38,451</b> |
| Operating Expenses                     | 1,11,243        | 1,16,594        | 1,70,866        | 2,05,651        |
| <b>EBITDA</b>                          | <b>14,859</b>   | <b>15,828</b>   | <b>22,677</b>   | <b>32,800</b>   |
| EBITDA Margin (%)                      | 11.8            | 12.0            | 11.7            | 13.8            |
| Depreciation & Amortization            | 4,631           | 5,404           | 5,114           | 4,878           |
| <b>EBIT</b>                            | <b>10,228</b>   | <b>10,424</b>   | <b>17,562</b>   | <b>27,923</b>   |
| Interest expenditure                   | 931             | 546             | 493             | 484             |
| Other Non-operating Income             | 1,120           | 1,288           | 1,675           | 1,725           |
| <b>Recurring PBT</b>                   | <b>10,417</b>   | <b>11,167</b>   | <b>18,744</b>   | <b>29,163</b>   |
| <b>Profit / (Loss) from Associates</b> | -               | -               | -               | -               |
| Less: Taxes                            | 1,934           | -               | 4,686           | 7,291           |
| <b>PAT</b>                             | <b>8,483</b>    | <b>11,167</b>   | <b>14,058</b>   | <b>21,872</b>   |
| Less: Minority Interest                | -               | -               | -               | -               |
| Extraordinaries (Net)                  | -               | -               | -               | -               |
| <b>Net Income (Reported)</b>           | <b>8,483</b>    | <b>11,167</b>   | <b>14,058</b>   | <b>21,872</b>   |
| <b>Net Income (Adjusted)</b>           | <b>8,483</b>    | <b>11,167</b>   | <b>14,058</b>   | <b>21,872</b>   |

Source Company data, I-Sec research

### Exhibit 7: Balance sheet

(INR mn, year ending March)

|  | FY23A         | FY24E           | FY25E           | FY26E           |
|--|---------------|-----------------|-----------------|-----------------|
| Total Current Assets                   | 37,696        | 53,373          | 55,539          | 65,477          |
| of which cash & cash eqv.              | 748           | 17,962          | 22,106          | 26,800          |
| Total Current Liabilities & Provisions | 21,346        | 27,709          | 32,977          | 38,064          |
| <b>Net Current Assets</b>              | <b>16,350</b> | <b>25,664</b>   | <b>22,562</b>   | <b>27,414</b>   |
| Investments                            | 14,631        | 11,631          | 10,631          | 10,631          |
| Net Fixed Assets                       | 29,461        | 51,746          | 67,632          | 85,754          |
| ROU Assets                             | -             | -               | -               | -               |
| Capital Work-in-Progress               | 27,689        | 21,000          | 23,000          | 20,000          |
| Total Intangible Assets                | -             | -               | -               | -               |
| Other assets                           | 2,410         | 2,410           | 2,410           | 2,410           |
| Deferred Tax assets                    | -             | -               | -               | -               |
| <b>Total Assets</b>                    | <b>90,541</b> | <b>1,12,451</b> | <b>1,26,235</b> | <b>1,46,208</b> |
| <b>Liabilities</b>                     |               |                 |                 |                 |
| Borrowings                             | <b>11,793</b> | <b>10,061</b>   | <b>10,873</b>   | <b>10,685</b>   |
| <b>Deferred Tax Liability</b>          | <b>712</b>    | <b>412</b>      | <b>412</b>      | <b>412</b>      |
| provisions                             | 202           | 202             | 202             | 202             |
| other Liabilities                      | 2,353         | 2,353           | 2,353           | 2,353           |
| Equity Share Capital                   | 2,551         | 2,791           | 2,791           | 2,791           |
| Reserves & Surplus                     | 69,074        | 92,737          | 1,05,670        | 1,25,793        |
| <b>Total Net Worth</b>                 | <b>71,625</b> | <b>95,528</b>   | <b>1,08,461</b> | <b>1,28,584</b> |
| Minority Interest                      | 3,856         | 3,895           | 3,934           | 3,973           |
| <b>Total Liabilities</b>               | <b>90,541</b> | <b>1,12,451</b> | <b>1,26,235</b> | <b>1,46,208</b> |

Source Company data, I-Sec research

### Exhibit 8: Quarterly trend

(INR mn, year ending March)

|                     | Mar-23 | Jun-23 | Sep-23 | Dec-23 |
|---------------------|--------|--------|--------|--------|
| Net Sales           | 33,801 | 33,330 | 29,407 | 33,153 |
| % growth (YOY)      | 18.3   | 3.4    | (4.7)  | 13.5   |
| EBITDA              | 4,135  | 4,139  | 3,071  | 4,074  |
| Margin %            | 12.2   | 12.4   | 10.4   | 12.3   |
| Other Income        | 309    | 298    | 382    | 399    |
| Extraordinaries     | -      | -      | -      | -      |
| Adjusted Net Profit | 2,612  | 2,041  | 4,841  | 1,273  |

Source Company data, I-Sec research

### Exhibit 9: Cashflow statement

(INR mn, year ending March)

|  | FY23A          | FY24E         | FY25E         | FY26E         |
|--|----------------|---------------|---------------|---------------|
| <b>Operating Cashflow</b>              | <b>15,069</b>  | <b>28,016</b> | <b>27,911</b> | <b>27,077</b> |
| Working Capital Changes                | 2,770          | 10,900        | 8,246         | (157)         |
| Capital Commitments                    | (15,789)       | (21,000)      | (23,000)      | (20,000)      |
| <b>Free Cashflow</b>                   | <b>(721)</b>   | <b>7,016</b>  | <b>4,911</b>  | <b>7,077</b>  |
| <b>Other investing cashflow</b>        | <b>(3,760)</b> | -             | -             | -             |
| Cashflow from Investing Activities     | (19,550)       | (21,000)      | (23,000)      | (20,000)      |
| Issue of Share Capital                 | -              | 13,853        | -             | -             |
| Interest Cost                          | (717)          | (546)         | (493)         | (484)         |
| Inc (Dec) in Borrowings                | 7,174          | (1,732)       | 812           | (188)         |
| Dividend paid                          | (1,148)        | (1,117)       | (1,125)       | (1,750)       |
| Others                                 | (1,000)        | (261)         | 39            | 39            |
| Cash flow from Financing Activities    | 4,310          | 10,198        | (767)         | (2,383)       |
| <b>Chg. in Cash &amp; Bank balance</b> | <b>(171)</b>   | <b>17,214</b> | <b>4,144</b>  | <b>4,694</b>  |
| Closing cash & balance                 | 748            | 17,962        | 22,106        | 26,800        |

Source Company data, I-Sec research

### Exhibit 10: Key ratios

(Year ending March)

|                             | FY23A  | FY24E | FY25E | FY26E |
|-----------------------------|--------|-------|-------|-------|
| <b>Per Share Data (INR)</b> |        |       |       |       |
| Reported EPS                | 33.3   | 40.0  | 50.4  | 78.4  |
| Adjusted EPS (Diluted)      | 33.3   | 40.0  | 50.4  | 78.4  |
| Cash EPS                    | 51.4   | 59.4  | 68.7  | 95.8  |
| Dividend per share (DPS)    | 4.5    | 4.0   | 4.0   | 6.3   |
| Book Value per share (BV)   | 280.8  | 342.2 | 388.6 | 460.7 |
| Dividend Payout (%)         | 13.5   | 10.0  | 8.0   | 8.0   |
| <b>Growth (%)</b>           |        |       |       |       |
| Net Sales                   | 21.3   | 5.0   | 46.2  | 23.2  |
| EBITDA                      | (42.8) | 6.5   | 43.3  | 44.6  |
| EPS (INR)                   | (50.8) | 20.3  | 25.9  | 55.6  |
| <b>Valuation Ratios (x)</b> |        |       |       |       |
| P/E                         | 19.3   | 16.0  | 12.7  | 8.2   |
| P/CEPS                      | 12.5   | 10.8  | 9.3   | 6.7   |
| P/BV                        | 2.3    | 1.9   | 1.6   | 1.4   |
| EV / EBITDA                 | 11.8   | 10.1  | 6.9   | 4.6   |
| Dividend Yield (%)          | 0.7    | 0.6   | 0.6   | 1.0   |
| <b>Operating Ratios</b>     |        |       |       |       |
| Gross Profit Margins (%)    | 24.2   | 25.3  | 23.2  | 25.3  |
| EBITDA Margins (%)          | 11.8   | 12.0  | 11.7  | 13.8  |
| Effective Tax Rate (%)      | 18.6   | -     | 25.0  | 25.0  |
| Net Profit Margins (%)      | 6.7    | 8.4   | 7.3   | 9.2   |
| Net Debt / Equity (x)       | 0.0    | (0.2) | (0.2) | (0.2) |
| Net Debt / EBITDA (x)       | (0.2)  | (1.2) | (1.0) | (0.8) |
| Fixed Asset Turnover (x)    | 3.0    | 2.3   | 2.5   | 2.4   |
| Inventory Turnover Days     | 82     | 58    | 51    | 49    |
| Receivables Days            | 30     | 16    | 13    | 13    |
| Payables Days               | 58     | 67    | 66    | 63    |
| <b>Profitability Ratios</b> |        |       |       |       |
| RoCE (%)                    | 12.8   | 12.0  | 12.3  | 16.7  |
| RoE (%)                     | 14.9   | 14.4  | 14.7  | 19.1  |
| RoIC (%)                    | 15.2   | 15.3  | 16.3  | 22.7  |

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: **Mr. Prabodh Avadhoot** Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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