

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

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#### 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>

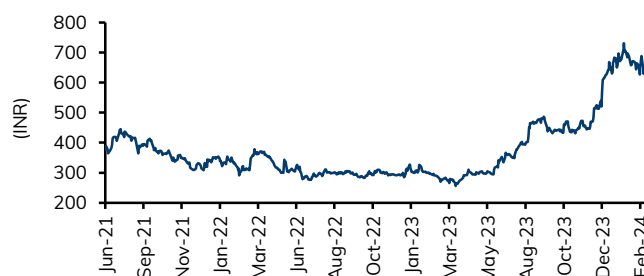
Source: Company data, I-Sec research

#### 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
FIIIs	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
EBIT	10,228	10,424	17,562	27,923
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
PAT	8,483	11,167	14,058	21,872
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>				
<b>Borrowings</b>	<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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