

Subscribe for Long Term

Issue Details	
Price Band (Rs)	Rs. 303 - 306
Face Value (Rs)	10
Issue Size (Rs)	909Cr
Issue Type	Book Building
Minimum lot	45
Issue Opens	June 14, 2021
Issue Closes	June 16, 2021
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	June 21, 2021
Unblocking of Funds	June 22, 2021
Credit of shares to Demat Account	June 23, 2021
Listing on exchange	June 24, 2021

Other Detail	
Book Running Lead Managers	ICICI Securities Limited, Axis Capital Limited, IIFL Securities Limited, JM Financial Limited, SBI Capital Markets Limited
Registrar	KFin Technologies Private Limited

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Shyam Metals and Energy Limited

Company Background

Shyam Metals and Energy Limited ("SMEL") is a leading integrated metal producing company based in India with a focus on long steel products and ferro alloys. They are amongst the largest producers of ferro alloys in terms of installed capacity in India, as of February 2021. They have the ability to sell intermediate and final products across the steel value chain. As of March 31, 2020, they were one of the leading players in terms of pellet capacity and the 4th largest player in the sponge iron industry in terms of sponge iron capacity in India. SMEL currently operates 3 manufacturing plants that are located at Sambalpur in Odisha, and Jamuria and Mangalpur in West Bengal.

Issue Details

The offer comprises Fresh Issue of Equity shares aggregating upto Rs.657Cr and Offer for sale of Equity Shares aggregating upto Rs.252Cr.

Issue Objectives :

Particulars	Amt (Rs.Cr)
Repayment/prepayment of certain indebtedness availed by the company	470
General corporate purposes	187

Source: Company RHP, ACMIIL Research

IPO share allotment pattern

Category	Allocation	Number of Shares at Rs.303	Number of Shares at Rs.306	Issue Size (Rs.Cr)
QIB	50%	1,48,50,000	1,47,02,941	450
Non-Institutional	15%	44,55,000	44,10,882	135
Retail	35%	1,03,95,000	1,02,92,059	315
Employee~		3,00,000	3,00,000	9
Total		3,00,00,000	2,97,05,882	909

Source: Company RHP, ACMIIL Research

Outlook and Valuations

SMEL is a leading integrated metal producing company based in India with a focus on long steel products and ferro alloys. Unlike flat steel products, whose market is dominated by big players, long steel has a fair share of smaller companies. Shyam Metals is among the largest producers of ferroalloys in terms of installed capacity in India, as of February end. The company is in the process of further diversifying its product portfolio by entering segments, such as pig iron, ductile iron pipes and aluminum foil. They are also in the process of increasing the capacities of their existing manufacturing plants and captive power plants, which is expected to increase their aggregate installed metal capacity from 5.71 MTPA to 11.60 MTPA and captive power plants aggregate installed capacity from 227 MW to 357 MW. These proposed expansions are expected to become operational between FY2022 and FY2025. SMEL has a relatively better financial strength as compared to other companies operating in the long and intermediary steel sector. At the upper price band of Rs.306/-, stock is valued at 12.83x of FY21E Earnings of Rs.23.85 (based annualize latest earnings and on weighted average diluted basis). **We recommend to subscribe the issue from a long-term prospective.**

Investment Rationale

Integrated operations across the steel value chain

SMEL is the leading integrated metal producing company based in India currently operate two 'ore to metal' integrated steel manufacturing plants one each in Sambalpur, Odisha and Jamuria, West Bengal. The integrated nature (backward and forward integration) of their manufacturing plants has resulted in the control over all aspects of their operations (with the exception of sourcing of primary raw materials) as well as operating margins, thereby enabling them to focus more on quality and create multiple points of sale across the steel value chain.

The backward integration activities include, setting up of iron pellet plants and installation of rotary kilns to produce sponge iron. They utilise the sponge iron produced to further manufacture billets, which are not required to be reheated and are directly utilised by their rolling mills to produce TMT bars and wire rods, thereby resulting in cost efficiencies. Whereas, the forward integration activities, include, diversification of their product mix by utilising the billets to produce value added products, such as, TMT bars, structural products and wire rods, which enable them to de-risk their revenue streams and expand their product offerings.

Strategically located manufacturing plants supported by robust infrastructure resulting in cost and time efficiencies

Company's manufacturing facilities are strategically located in close proximity to their raw material sources, which lowers their transportation costs and provides significant logistics management and cost benefits thereby improving their operating margins. Their manufacturing plants are located within 250 kilometres of the mineral belt in eastern India, including, iron ore, iron ore fines, manganese ore, chrome ore and coal mines, their primary raw materials. The strategic location of their manufacturing plants has helped them in creating synergies as well as achieving economies of scale and operational efficiencies. They source their primary raw materials in the following manner

Raw Material	Source
Iron ore / Iron ore fines	Mine owners located in Odisha
Chrome ore	Long term linkages with Odisha Mining Corporation Ltd, other mine owners and imports
Manganese ore	MOIL Ltd, other mine owners and imports
Coal	Fuel supply agreements entered into with Mahanadi Coalfields Ltd, Central Coalfields Ltd and South Eastern Coalfields Ltd, and imports

Source: Company RHP, ACMIIL Research

Diversified product mix with strong focus on value added products

Company'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.

Their TMT and structural products are sold under the brand 'SEL' and the company logo. They also undertake conversion of hot rolled coils to pipes, chrome ore to ferro chrome and manganese ore to silico manganese. The company sell their products to institutional customers and end consumers through their distribution network. They also customise and sell their products as per the customer's specifications.

Strong financial performance and credit ratings

Company's focus on continuous efficiency improvements, improved productivity and cost rationalization has enabled them to deliver consistent and strong financial and operational performance. They have a relatively better financial strength as compared to other companies operating in the long and intermediary steel sector. The revenue from operations increased at a CAGR of 6.56%. Further, since the commencement of their operations in Fiscal 2005, they have delivered a positive EBITDA in each of the Fiscals. As of March 31, 2020, the gearing ratio was one of the lowest amongst their competitors. In Fiscal 2020, the interest coverage ratio was one of the highest amongst their competitors.

They have also obtained strong credit ratings. In particular, the company and their subsidiary, Shyam SEL and Power Ltd, has received CRISIL A1+, CRISIL AA-/Stable, and CRISIL A1+ rating from CRISIL for their short-term (bank facilities) rating, long-term (bank facilities) rating and commercial paper, respectively.

Financials Snapshot

Particulars (Rs. Million)	FY18	FY19	FY20	9MFY21
Equity share capital	467	2336	2336	2336
Net worth	18,539	24,896	28,260	32,853
Net asset value per share	79.36	106.57	120.97	140.63
Debt to Equity Ratio	0.30	0.29	0.47	0.27
Revenue from Operations	38,426	46,064	43,529	39,331
EBITDA	7,149	9,567	6,340	7,173
EBITDA %	18.97%	20.64%	14.49%	18.18%
Diluted EPS (Rs)	18.17	25.86	14.57	19.53
ROE	22.89%	24.27%	12.04%	13.89%*
ROCE	19.58%	24.69%	9.49%	13.30%*

*Not annualized
Source: Company RHP, ACMIIL Research

Comparison With Listed Peers: Peer Comparison -FY20

Company	Standalone/ Consolidated	Total Income (Rs.Mn)**	EPS	NAV	TTM P/E	ROE (%)
Shyam Metals and Energy Ltd	Consolidated	43,953	14.57	120.97	12.83^	12.04
Tata Steel Ltd	Consolidated	14,16,601	11.86	640.52	16.4	1.54
JSW Steel Ltd	Consolidated	7,38,720	16.78	150.41	21.3	10.87
Steel Authority of India Ltd	Consolidated	6,25,700	5.13	100.58	14	5.11
Jindal Steel & Power Ltd	Consolidated	3,69,437	(1.08)	310.62	9.3	(1.28)
Tata Steel Long Products Ltd	Consolidated	35,713	(142.81)	452.16	7.26	(25.59)

* All the financial information for listed industry peer mentioned above is on a consolidated basis and is sourced from the annual report of the company for the year ended March 31, 2020.**Total Income includes other income. P/E Ratio has been computed based on the closing market price as on June 09,2021.^P/E Ratio has been computed based on the Issue price and annualize December 2020 earnings.

Risk and Concern

1. Loss of any of their suppliers or a failure by suppliers to deliver some of their primary raw materials such as iron ore, iron ore fines, coal, chrome ore and manganese ore may have an adverse impact on SMEL.
2. The demand and pricing in the steel industry is volatile and are sensitive to the cyclical nature of the industries it serves. A decrease in steel prices may have a material adverse effect on SMEL business, results of operations, prospects and financial condition.

ACMIIL Retail Research Products

Informational Products	Recommendation Products
Morning Notes	Momentum Calls
Equi-Tea	Positional Calls
Market Watch	Smart Delivery Calls
Investor First Magazine	Investment Ideas
IPO/NCD/ETF/OFS/BOND	Master Trades High Risk
Market Pulse	Master Trades Medium Risk
RBI Monetary Policy	Techno-Funda
Union Budget Report	Top Mutual Fund Schemes
Weekly Derivative Synopsis	Portfolio Review
Rollover Snapshot	Stock Basket

Asit C. Mehta

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