

Issue Details		
Issue Opens	14-06-21	
Issue Closes	16-06-21	
Issue Size (in Rs. Crs)	909.00	
Issue Size (Shares)	29,999,999 – 27,705,882	
Authorised Shares	29,00,00,000	
Issued, Subscribed and Paid Up Sh. Pre offer	23,36,10,100	
Offer for Sale	252 crores	
Face Value	Rs. 10.00	
Lot Size (Sh)	45.00	
Price Band	Rs.303 - Rs.306	
Issue Type	Book Building	
Book Value (in Rs.)(9MFY21)	140.64	
BRLMs	ICICI Securities, Axis Capital, IIFL Securities, JM Financial, SBI Capital Markets	
Registrar	Kfin Technologies Pvt. Ltd.	
Listing Venue	BSE/NSE	
Finalization of Allotment	21-June -21	
Initiation of refund	22-June -21	
Credit to Demat Account	23-June -21	
Listing	24-June -21	
Issue Structure		
Categories	Allocation	
QIBs	50.00%	
Non-Institutional	15.00%	
Retail Portion	35.00%	
Total	100.00%	
Shareholding Pattern		
Categories	Pre Issue	Post Issue
Promoter & Promoter Group	100.00%	88.35%
Public	-	11.65%
Total	100.00%	100.00%
Recommendation		
<b>SUBSCRIBE</b>		

### **Company Background**

Shyam Metalics & Energy Ltd. (SMEL) is a leading integrated metal producing company with a focus on long steel products and ferro alloys. It is amongst the largest producers of ferro alloys in terms of installed capacity in India, as of February 2021. SMEL has the sheer ability to sell intermediate and final products across the steel value chain. As of March 31, 2020, it is one of the leading players in terms of pellet capacity and the fourth largest player in the sponge iron industry in terms of sponge iron capacity in India. It is also one of the leading integrated steel and ferro alloys producers in the eastern region of India in terms of long steel products, as of March 31, 2020.

### **Objects of the Issue**

SMEL proposes to utilize the Net Proceeds from the Offer towards funding the following objects: a.) Repayment and/or pre-payment, in full or part, of debt of its own and Shyam SEL & Power Ltd. (SSPL), one of its Subsidiaries b.) For general corporate purposes.

### **Key Points**

- SMEL currently operates three manufacturing plants that are located at Sambalpur in Odisha, and Jamuria and Mangalpur in West Bengal. As of December 31, 2020, the aggregate installed metal capacity of its manufacturing plants is pegged at 5.71 Million Tonne Per Annum (MTPA).
- Manufacturing plants also include captive power plants with an aggregate installed capacity of 227 MW, as of December 31, 2020. Company is also in the process of increasing the capacities of its existing manufacturing plants and captive power plants, which is expected to increase to 11.60 MTPA and 357MW respectively. These proposed expansions are expected to become operational between FY22 and FY25.
- In addition, SMEL is in the process of commissioning an aluminium foil rolling mill at Pakuria in West Bengal with a proposed installed capacity of 0.04 MTPA, which is expected to become operational by FY2022.
- Sambalpur and Jamuria plants operate as 'ore to metal' integrated steel manufacturing plants and comprise captive railway sidings, captive power plants, iron pellet, sponge iron, billet, thermo mechanically treated wire rod and structural mills, and ferro alloy plants.
- Integrated manufacturing plants are fungible by design, which renders SMEL with the ability to quickly adapt to continuously evolving market conditions, and optimize its operating margins from price volatility.
- The IPO timing couldn't have been more perfect. The expansion plans, which are huge, will be a key thing to watch as this should further strengthen the financials of the company, going ahead. They are also currently in the process of further diversifying their product portfolio by entering into the segments, such as pig iron, ductile iron pipes, and aluminium foil. **Investor with long term view can Subscribe to this issue.**

Particulars (Rs. Crs)	9MFY21	9MFY20	FY20	FY19	FY18
Revenue from Operations	3933.08	3283.09	4362.89	4606.40	3848.45
Other Income	62.55	33.35	32.42	78.17	77.83
Total Expenses	3489.52	3094.88	3717.33	3661.69	3053.05
Profit Before Tax (PBT)	506.26	222.10	295.46	763.90	516.46
Profit After Tax (PAT)	456.32	260.57	340.33	636.78	527.11
PATM (%)	11.60	7.94	7.80	13.82	13.70
Equity (Rs. Crs)	233.61	233.61	233.61	233.61	46.72
EPS (Rs.) (FV Rs.10)	19.53	11.15	14.57	25.86	91.15

Source: Company's RHP, Ace Equity, AUM Research

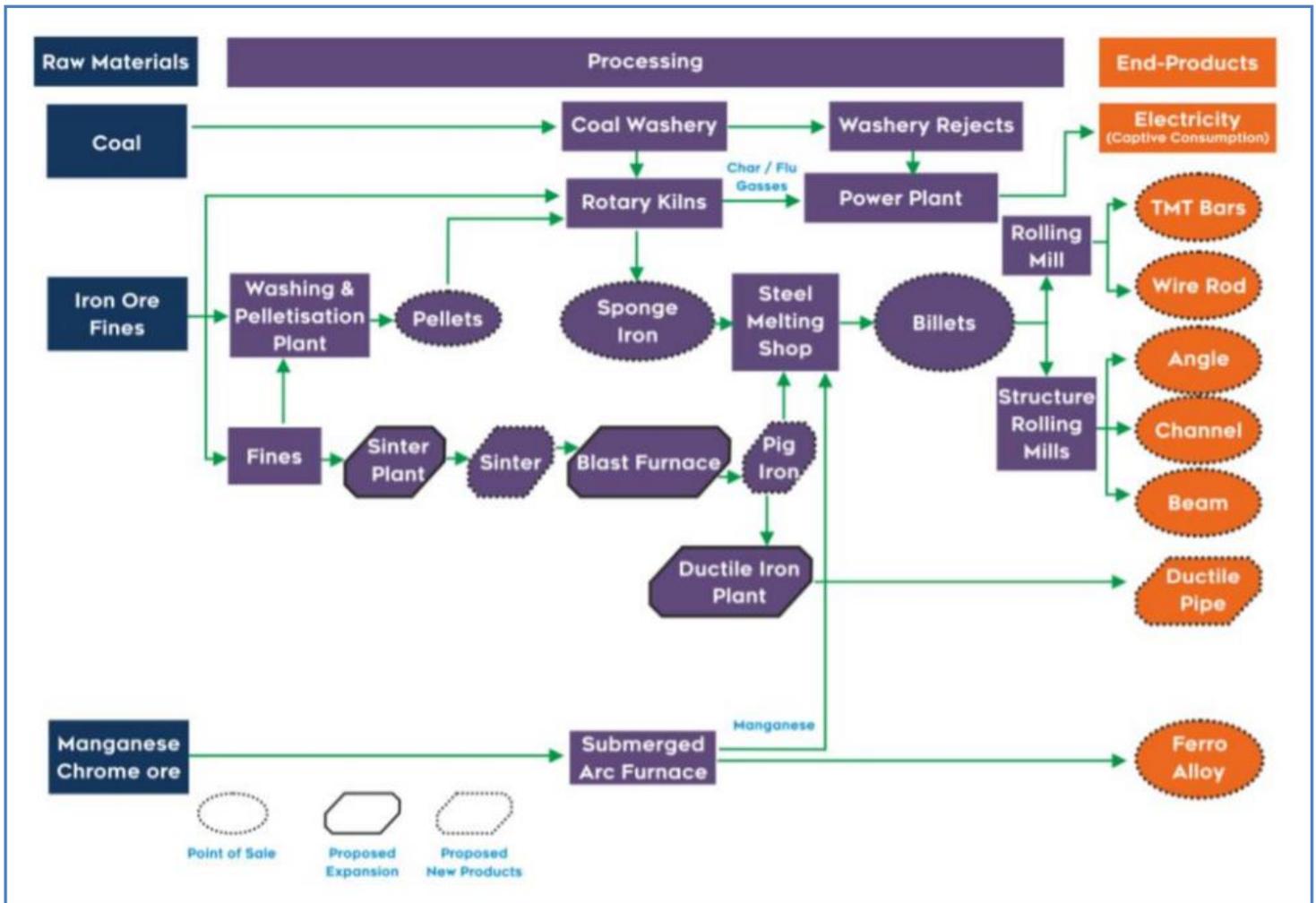
### Competitive Strengths

- ✦ **The integrated nature (backward and forward integration)** of SMEL manufacturing plants has resulted in the control over all aspects of its operations (with the exception of sourcing of primary raw materials) as well as operating margins, thereby enabling the company to focus more on quality and create multiple points of sale across the steel value chain.
- ✦ SMEL's **manufacturing plants are strategically located** in close proximity to its raw material sources, which lowers its transportation costs and provides significant logistics management and cost benefits thereby improving operating margins.
- ✦ SMEL'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, customized billets, structural products and wire rods; and **(ii) ferro alloys with a specific focus on high margin products**, such as, specialized ferro alloys for special steel applications. It also undertakes conversion of hot rolled coils to pipes, chrome ore to ferro chrome and manganese ore to silico manganese for an Indian steel conglomerate.
- ✦ SMEL's **focus on continuous efficiency improvements, improved productivity and cost rationalization** has enabled to deliver consistent and strong financial and operational performance. It has a relatively better financial strength as compared to other companies operating in the long and intermediary steel sector.

### Key Business Strategies

- ✦ SMEL intends to strengthen **its leading market position in India and achieve better economies of scale** by expanding its existing manufacturing capacities and setting up additional manufacturing plants. It has over the years, consistently grown its manufacturing capabilities. Recently SMEL has undertaken various expansions of its manufacturing plants. Consistent with past practice, it will look to add capacity in a phased manner to ensure that it utilize its capacity at optimal levels.
- ✦ The **forward and backward integration of Sambalpur and Jamuria manufacturing plants** has created cost synergies resulting in cost efficiencies and increase in profitability. It intends to further integrate its operations by using the existing waste and by-products from its operations to introduce new and high margin products. In order to market its new products, it intends to leverage its existing distribution network.
- ✦ SMEL intends to **focus on keeping its operating costs low, which is critical for remaining profitable**, by implementing measures to reduce its operating costs and improving operational efficiencies. It intends to continuously invest in new infrastructure at its manufacturing plants and are exploring opportunities to obtain synergies in its existing manufacturing plants. In order **to increase market share, SMEL also aims to selectively acquire established businesses whose operations, resources and capabilities are complementary and/or supplementary to it.**
- ✦ **Exports typically result in higher margins and timely realization of revenue streams.** The National Steel Policy ("NSP"), approved by the Government of India in 2017, serves as a long-term policy goal aimed at creating incremental demand and augmenting steel exports. Further, NSP aims to export approximately 24 Metric Tonne (MT) of steel by 2030. SMEL intends to capitalize on such industry opportunities and increase its exports by leveraging the close proximity of its manufacturing plants to various ports and export products, such as, ferro alloys and specialized billets to international markets. Currently it exports its products to Nepal, China, Bangladesh, Bhutan, United Kingdom, South Korea, Thailand, Indonesia, Taiwan and Japan, and are currently exploring newer geographies in North America, South America, Europe and Africa in order to increase its exports.

**Integrated Operations across the steel value chain**



Source: Company's RHP, Ace Equity, AUM Research

- Multiple Sale Points across the Value Chain
- Greater Control on Operating Margin
- Flexibility to alter Product Mix
- Focus on Quality

In the long and intermediary steel sector SMEL has demonstrated **fair & reasonable financial strength** as they have been reporting benign operational, robust financial performance and growth despite down cycle in the industry (specifically during FY2009 and FY2015). SMEL's revenue from operations increased at a CAGR of 6.56% from 3,848.45 crore in FY2018 to 4,362.89 crore in FY2020 and was 3,933.08 crore in the 9 months ended December 31, 2020. EBITDA for the company stood at 634.05 crore and 717.32 crore in FY2020 and the 9 months ended December 31, 2020, respectively. Moreover, the company has contained lowest leverage in the sector. Further, since the commencement of their operations in FY2005, they have delivered a positive EBITDA in each financial year. As of March 31, 2020, the gearing ratio was the lowest and that of interest coverage ratio was at a peak.

Following are the facts relating to a proposed & envisaged expansion plans SMEL intend to undertake to further augment their existing capacities:

Particulars	Unit	Sambalpur manufacturing Plant		Jamuria manufacturing plant		Mangalpur manufacturing plant		Total		
		Existing installed capacity	Proposed capacity expansion	Existing installed capacity	Proposed capacity expansion	Existing installed capacity	Proposed capacity expansion	Existing installed capacity	Proposed capacity expansion	Proposed Grand Total
Captive power plant	MW	118	40	94	90	15	-	227	130	357
Iron pellet plant	TPA	12,00,000	6,00,000	12,00,000	6,00,000	-	-	24,00,000	12,00,000	36,00,000
Sponge iron plant	TPA	7,92,000	5,61,000	5,37,900	9,47,100	60,000	-	13,89,900	15,08,100	28,98,000
Billet plant	TPA	4,01,280	4,61,200	4,91,040	6,53,440	-	-	8,92,320	11,14,640	20,06,960
TMT, structural product, wire rods and pipes	TPA	4,10,000	5,10,000	4,10,000	7,44,000	-	-	8,20,000	12,54,000	20,74,000
Ferro alloy plant	TPA	98,000	14,000	70,000	-	37,920	-	2,05,920	14,000	2,19,920
Blast furnace	TPA	-	-	-	6,00,000	-	-	-	6,00,000	6,00,000
Ductile pipe plant	TPA	-	-	-	2,00,000	-	-	-	2,00,000	2,00,000
<b>Total - TPA</b>		<b>29,01,280</b>	<b>21,46,200</b>	<b>27,08,940</b>	<b>37,44,540</b>	<b>97,920</b>	<b>-</b>	<b>57,08,140</b>	<b>58,90,740</b>	<b>1,15,98,880</b>

Source: Company's RHP, Ace Equity, AUM Research

These proposed expansions are expected to become operational between FY2022 and FY2025.

SMEL is highly underleveraged among its peers. As of March 31, 2020, their gearing ratio was one of the lowest amongst their competitors. As of March 31, 2018, 2019 and 2020 and as of December 31, 2020, their Gross Debt to Equity ratio was 0.30, 0.29, 0.47 and 0.27, respectively. The Gross Debt to EBITDA ratio for FY 2018, 2019 and 2020, and for the 9 months ended December 31, 2020, was 0.79, 0.75, 2.10 and 1.24, respectively. They intend to use the Net Proceeds from the Offer to prepay their and their Subsidiary, Shyam SEL and Power Ltd's debt. Prepayment of their debt will reduce their debt to equity ratio for future leverage as well as increase their profits.

**SMEL houses captive power plant of 227 MW capacity as of FY2020 which typically meets 90% of its power requirement and is self-sufficient. While average grid power is estimated to cost Rs.5 to 7 per unit at an all India basis, however, SMEL's power and fuel cost is significantly lower at Rs.2.24 per unit as of FY20. Further the captive power plant uses waste heat and Dolochar (non-fossil fuel) as the main feed. Since power is a major raw material this significantly adds to economic moat and scalable advantage of SMEL.**

As a result of its proposed capacity expansion plans, its aggregate installed metal capacity (comprising of intermediate and final products) and captive power plants installed capacity are proposed to be increased from 5.71 MTPA, as of December 31, 2020, to 11.60 MTPA, and 227 MW, as of December 31, 2020, to 357 MW, respectively. These proposed expansions are expected to become operational between FY2022 and FY2025. The expansion of its capacities will result in further integration of its Sambalpur and Jamuria manufacturing plants, augmentation of its revenues, better cost controls and consequent increase in profitability and presence across the steel value chain. In addition, its expansion plans and strategy will allow to meet the anticipated increase in steel demand in the future and enable to supply growing markets more efficiently and drive better margins & profitability.

**Financials**

Financial Highlights-Consolidated (Values in Rs. Crore)				
Description	FY20	FY19	FY18	FY17
<b>Inc / Exp Performance</b>				
Gross Sales	4362.89	4606.40	3848.45	2403.37
Total Income	4395.33	4684.59	3832.78	2273.78
Total Expenditure	3717.33	3661.69	3053.05	1923.34
PBIDT	678.00	1022.91	779.73	350.44
PBIT	381.35	828.33	564.99	137.87
PBT	295.46	763.90	516.46	86.29
PAT	340.33	636.78	527.11	81.54
EPS	14.57	25.86	91.15	15.36
Book Value	120.92	106.57	397.14	297.30
<b>Equity and Debt</b>				
Equity Paid Up	233.61	233.61	46.72	46.72
Reserves and Surplus	2591.29	2256.05	1808.78	1342.35
Net Worth	2824.90	2489.66	1855.51	1389.07
Total Debt (Long Term plus Short Term)	1330.48	722.11	564.13	720.54
Capital Employed	4156.45	3211.77	2419.63	2109.61
<b>Assets and Liabilities</b>				
Gross Block	3128.64	2596.58	2371.43	2189.61
Investments	143.98	273.85	195.39	111.25
Cash and Bank balance	121.23	97.84	53.29	90.84
Net Current Assets (Including Current Investments)	878.22	754.97	494.59	325.25
Total Current Liabilities	1706.64	1031.78	1002.59	842.14
Total Assets	5174.78	4052.43	3469.82	3222.94
<b>Cash Flow</b>				
Cash Flow from Operations	85.16	456.56	502.71	134.58
Cash Flow from Investing activities	-277.40	-566.96	-156.15	102.18
Cash Flow from Finance activities	212.05	112.18	-403.84	-222.38
Free Cash flow	-206.03	-20.56	502.76	142.54
<b>Financial Ratios</b>				
Debt to Equity(x)	0.47	0.29	0.30	0.52
Current Ratio(x)	1.51	1.73	1.49	1.39
ROCE (%)	10.35	29.42	24.95	6.50
RONW (%)	12.81	29.31	32.49	5.93
PBIDTM (%)	15.54	22.21	20.26	14.58
PATM (%)	7.80	13.82	13.70	3.39

**Aum Capital RESEARCH DESK**

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