SHYAM METALICS AND ENERGY LIMITED
IPO NOTE
Date: 11.06.2021

SMEL's backward and forward integration along with captive power plant and captive railway siding allows to deliver strong operating margins. The company's presence across eastern coast provides export growth potential. SMEL has maintained low leverage with healthy capitalisation metrics. The company has plans to increase manufacturing capacities capacity from 5.71 MTPA to 11.60 MTPA by 2025. It has plans to add manufacturing facilities of Ductile Pipe, Blast furnace and Aluminium foil.

The company would trade at P/E of 21x for FY20 which is quite attractive as compared to listed peers. Considering the company's capacity expansion plans and growth prospectus, we recommend '**SUBSCRIBE**' for listing and long term gains.

Issue details

Price Band (in ₹ per share)	303-306
Issue size (in ₹ Crore)	909
Offer for Sale (in ₹ Crore)	252
Total number of shares (lakhs)	299.99-297.05
Issue open date	14-06-2021
Issue close date	16-06-2021
Tentative date of Allotment	22-06-2021
Tentative date of Listing	24-06-2021
Offer Allocation	QIB - 50 %, Retail- 35%, NIB - 15%
Minimum order quantity	45
Face value (in ₹)	10
No. of shares for Eligible Employees (lakhs)	3.00
Employee Discount (in ₹)	NA
Amount for retail investors (1 lot)	13635-13770
Maximum number of shares for Retail investors at lower Band	630(14 Lots)
Maximum number of shares for Retail investors at upper band	630(14 Lots)
Maximum amount for retail investors at lower Band-upper band (in ₹)	190890-192780
Exchanges to be listed on	BSE, NSE

About the Company

Incorporated in 2002, Shyam Metalics and Energy Limited (SMEL) is India's leading integrated metal producer company. The company is primarily engaged in the production of long steel products such as iron pellets, sponge iron, steel billets, TMT, structural products, wire rods, and ferro alloys. As of February 2021, it is among India's largest producers of ferro alloys in terms of installed capacity and the fourth-largest player in the sponge iron industry. The company serves institutional customers and end-users. Jindal Stainless Limited, Rimjhim Ispat Limit are some of its domestic clients whereas Norecom DMCC, Norecom Limited, POSCO International Corporation, World Metals & Alloys, Traxys North America LLC, JM GLobal Resources, Vijayshri Steel Pvt Ltd, etc. are the international clients. The company has a partnership with 42 distributors to offer its products across 13 states and 1 union territory.

Currently, the firm has 3 manufacturing plants located in Sambalpur in Odisha, and Jamuria and Mangalpur in West Bengal. As of Dec 31, 2020, its manufacturing units have an aggregated installed metal capacity of 5.71 million tonnes per annum. The company is looking to expand its capacity from 5.71 MTPA to 11.60 MTPA by 2025. The Sambalpur and Jamuria plants are integrated steel manufacturing plants that produce captive railway sidings, captive power plants, iron pellet, sponge iron, bilet, thermo mechanically treated (TMT), wire rod, and structural mills, and ferro alloys plants. Further, its manufacturing facility at Mangalpur comprises sponge iron and ferro alloy plants, and a captive power plant.

Promoters

Mahabir Prasad Agarwal, Brij Bhushan Agarwal, Sanjay Kumar Agarwal, Subham Capital Private Limited, Subham Buildwell Private Limited, Narantak Dealcomm Limited, Kalpataru Housefin & Trading Private Limited, Dorite Tracon Private Limited, and Toplight Mercantiles Private Limited

Objective of the Offer

The net IPO proceeds are proposed to be utilized for the following objects:

1. Repayment and/or pre-payment of company and its subsidiary (SSPL)'s debt fully or partially
2. General corporate purposes

Brief Financials				
Particulars (Rs. Cr)*	**9MFY21**	**FY20**	**FY19**	**FY18**
Share Capital	233.61	233.61	233.61	46.72
Net Worth	3285.28	2825.98	2489.66	1853.99
Revenue from Operation	3933.08	4362.89	4606.40	3842.57
EBITDA	719.38	645.56	944.71	701.01
EBITDA Margin (%)	18.29%	14.80%	20.51%	18.24%
PAT	456.32	340.33	636.78	528.04
PAT Margin (%)	11.60%	7.80%	13.82%	13.74%
EPS(Rs)	19.53	14.57	25.86	18.17
Net Asset Value (Rs)	140.63	120.97	106.57	79.36
Debt to Equity Ratio	0.27	0.47	0.29	0.30
P/E #	11.75	21.00	-	-
P/B #	2.18	2.53	-	-

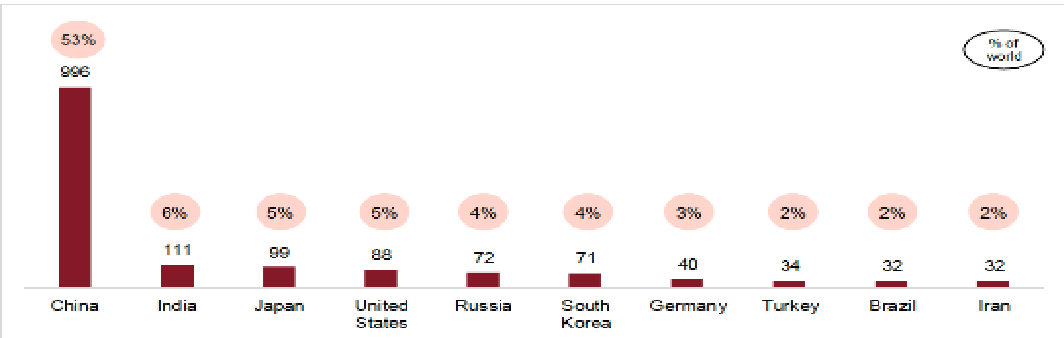
Source: RHP, *Restated Consolidated, FV Rs.10/-, # Calculated at the upper price band

Industry Review

INDIAN STEEL INDUSTRY OVERVIEW

India is the second largest producer of steel in the world with nearly 6% share of global steel production

Country-wise crude steel production in 2019 for major countries (in MT)



Note: Data for 2019
Source: World Steel Association
Note: Please note that MT refers to Million Tonnes in the document, unless stated otherwise

Source: RHP, CBSL

Indian Steel sector growth

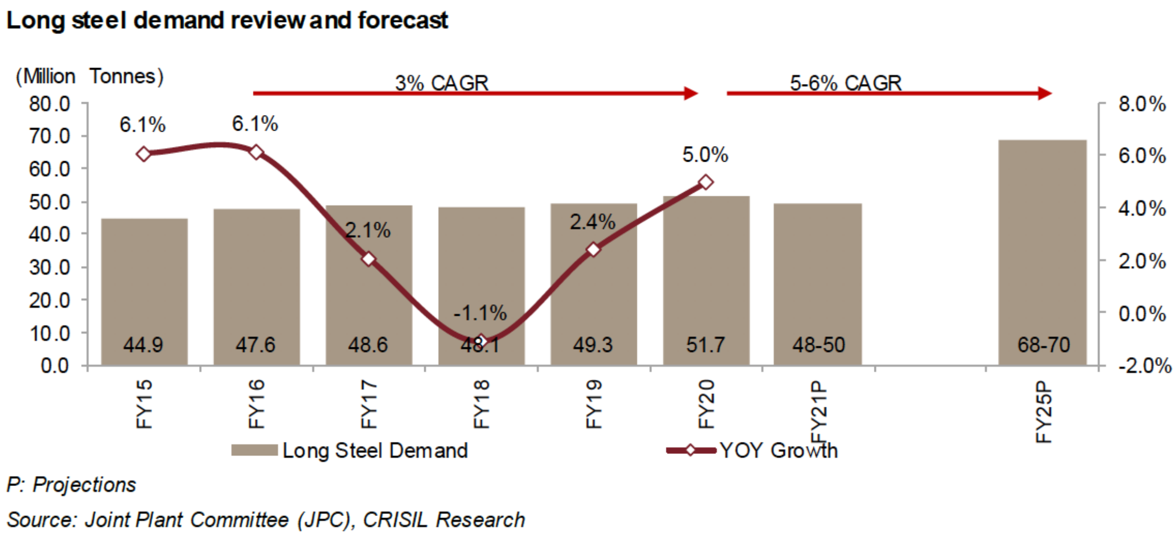
Post moderate growth cycles since 2012, India's steel demand exhibited swift comeback with vigorous growth of 8% to 9% on-year in Fiscal 2018. However, demand momentum slowed down to 1.4% in Fiscal 2020 with the COVID-19 pandemic set to dampen demand prospects from automobile, construction and capital goods segment.

Going ahead, CRISIL forecasts steel demand to continue its strong stride at 5% to 6% CAGR through Fiscal 2025 supported by:

- Soft revival in housing sector in the medium term led by affordable housing, rural housing and commercialization of tier III/IV cities. On the other hand, growth in industrial segment is expected to remain muted
- Infrastructure projects in metro, road, and urban infra space (which are more steel intensive)
- Automotive industry has begun to recover post a drop in growth of 12% to 14% in Fiscal 2021 due to COVID-19 outbreak. The sector, however, recently witnessed uptick in demand post August 2020 and has given green shoots to the sector.

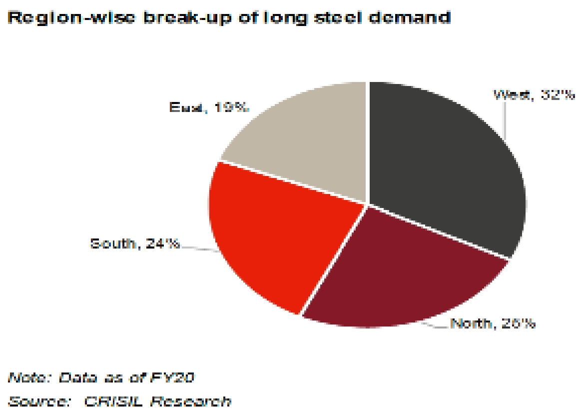
Industry Review

Demand review and outlook: Long Steel



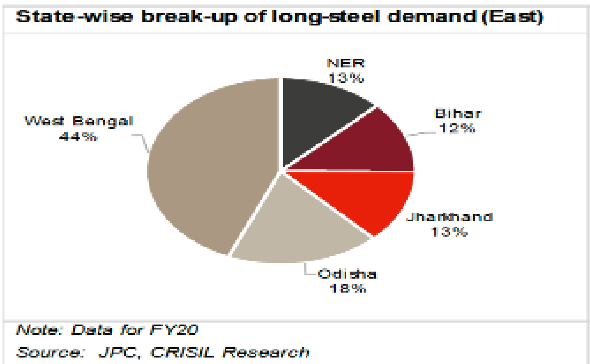
Source: RHP, CBSL

Long steel demand is fairly spread out in India with southern and Northern region constituting around one-fourth of India's long steel demand.



Source: RHP, CBSL

West and North region together account for more than half the pan-India demand for long products (bars and rods, structural, and railway materials). In the West, demand is concentrated in Maharashtra and Gujarat. They together account for more than three-fourth of region's demand. Uttar Pradesh, Haryana and Rajasthan are the largest consumers in Northern region, with a market share of 73% of region's demand.



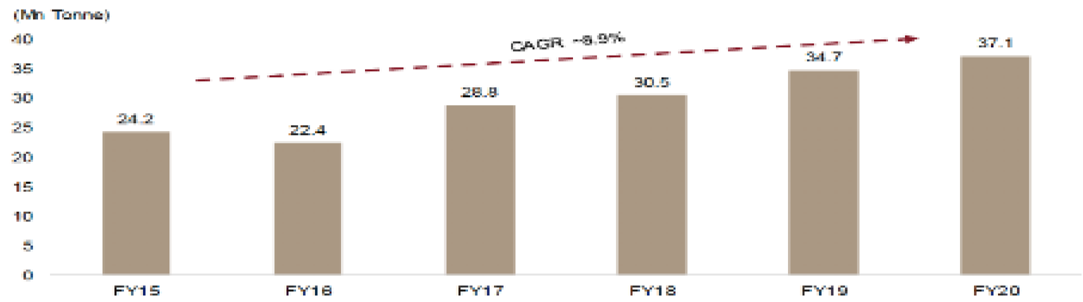
Source: RHP, CBSL

Industry Review

Demand review and outlook: Sponge Iron

Sponge iron, also termed direct-reduced iron, is produced by reducing (removing oxygen) from iron ore to increase free iron content. This also makes the ore porous. Sponge iron is popularly used as a feed in electric/induction furnaces and as a substitute for steel scrap, because high-quality scrap is costly and scarcely available. It is also used as a coolant by integrated steel plants, again as a substitute to melting scrap (Sponge iron is added as a solid only to hot metal. It then melts inside and stabilises the temperature. Sponge iron melts faster than iron ore or scrap). India is the second largest sponge iron producer, having an annual production of 37 million tonnes, increasing consistently since Fiscal 2017. Of the total production in Fiscal 2019, coal-based accounted for nearly 79% and gas-based accounted for 21%. Going forward, CRISIL expects prospects of sponge iron industry to grow at 3.5% to 4.5% CAGR over the next five years (Fiscal 2021 to Fiscal 2025).

Sponge iron production review (gross production):



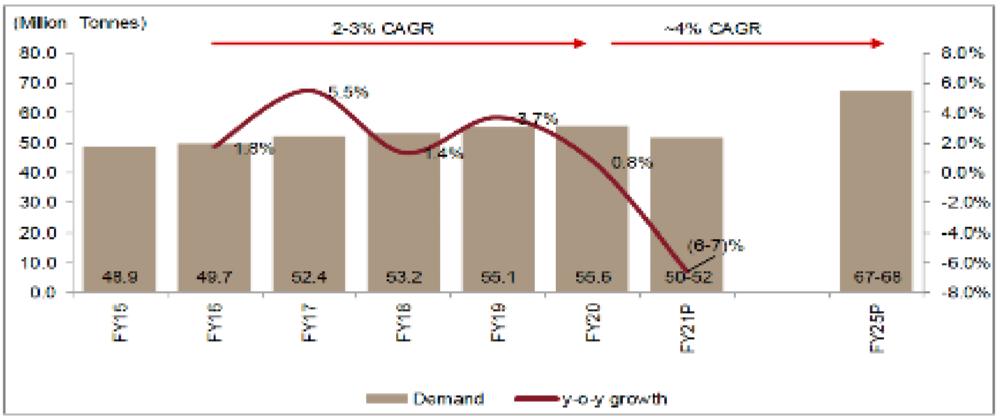
Source: JPC, CRISIL Research

Source: RHP, CBSL

Demand review and outlook: Billets

Billets consumption has largely moved in conjunction with long steel production at around 2.5% to 3% CAGR during past five year period from 2014 to 2015 to 2019 to 2020. Healthy infrastructure demand coupled with modest growth in housing segment drove long steel demand and thereby billets consumption. Going ahead, CRISIL expects India's billet consumption to rise approximately 4% through Fiscal 2025.

Demand review and outlook for Billets



P: Projections

Note: Billet consumption includes captive and merchant. It has been estimated based on input-output norms for long steel making.

Source: JPC, CRISIL Research

Source: RHP, CBSL

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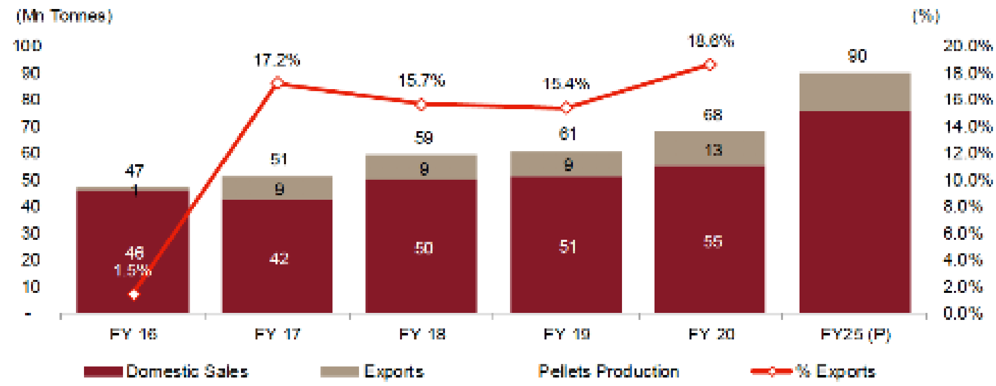
Industry Review

Demand review and outlook: Pellets

Pellets are normally produced in the form of Globules from very fine iron ore (normally -100 mesh) and mostly used for production of sponge iron in gas based plants, though they are also used in blast furnaces in some countries in place of sized iron ore. Pellet production has risen at a robust pace led by healthy domestic demand along with exceptional stride in export volumes. Share of exports in overall production has increased from 1.5% in Fiscal 2016 to around 18% in Fiscal 2020. Domestic sales of pellets is estimated to have grown at 9% CAGR against 13% CAGR growth in exports from Fiscal 2017 to Fiscal 2020. Subdued domestic demand owing to pandemic related lockdown in the H1 Fiscal 2021 resulted in exports reaching approximately 10 million tonnes till December in Fiscal 2020. Going forward, CRISIL foresees the pellet demand to rise at 6% CAGR through Fiscal 2025.

Production and Export Trends for Pellet



P: Projections

Source: Industry, DGFT, CRISIL Research

Source: RHP, CBSL

Company Review

SMEL is one of the leading integrated steel and Ferro alloys producer in Eastern region of India in terms of long steel products as of Fiscal 2020. It is present across the steel sector's value chain- pellets, sponge iron, billets, long steel (structural / TMT), pipe, Ferro alloys, railway siding and captive power plant. SMEL has 3 manufacturing units with aggregate operating capacity of 5.70 million TPA with 227 MW of Captive Power Plant. Its 2 integrated units are located at Sambalpur, Odisha and Jamuria, West Bengal respectively. One other unit is located at Mangalpur, West Bengal.

The Company's product and capacity portfolio includes:

Steel Segment	Capacity as of December 2020
Iron Pellet	2.40 MT
Sponge Iron	1.38 MT
Billets / SMS	0.89 MT
Long Steel (Wire Rods, Structural)	0.82 MT
Ferro Alloys	0.21 MT
Captive Power Plant	227 MW
Wind Power	5.1 MW

Source: Company information

Source: RHP, CBSL

Competitive Strengths

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 utilises 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.

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

Further, the ports nearest to their Odisha manufacturing plant are Dhamra and Paradip, which are situated within a radius of 300 km while Visakhapatnam port is situated within a radius of 600 km from their Odisha manufacturing plant. The ports nearest to their West Bengal manufacturing plants are Kolkata and Haldia, which are situated within a radius of 300 km from their West Bengal manufacturing plants. SMEL has also achieved cost efficiencies by utilising waste materials or by-products as raw material inputs for other products and processes.

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.

Product	Fiscal 2018		Fiscal 2019		Fiscal 2020		Nine months ended December 31, 2020	
	Revenue from sale	As a % of total revenue from sale of manufactured products	Revenue from sale	As a % of total revenue from sale of manufactured products	Revenue from sale	As a % of total revenue from sale of manufactured products	Revenue from sale	As a % of total revenue from sale of manufactured products
	(₹ million)	(%)	(₹ million)	(%)	(₹ million)	(%)	(₹ million)	(%)
Ferro alloys	11,136.25	30.98%	8,517.08	19.22%	7,525.66	17.99%	5,995.75	15.47%
TMT, structural products, wire rods and pipes	5,520.73	15.36%	7,545.85	17.03%	9,594.47	22.93%	14,495.56	37.39%
Steel billets	6,874.48	19.12%	11,187.09	25.24%	10,221.71	24.43%	5,417.82	13.97%
Sponge iron	9113.94	25.35%	12,132.55	27.37%	8,523.86	20.37%	4,402.09	11.35%
Iron pellets	3,305.74	9.20%	4,937.66	11.14%	5,973.10	14.28%	8,456.82	21.81%
Total	**35,951.14**	**100.00%**	**44,320.23**	**100.00%**	**41,838.80**	**100.00%**	**38,768.04**	**100.00%**

Risk Factors

The demand and pricing in the steel industry is volatile and are sensitive to the cyclical nature

Steel prices fluctuate based on a number of factors, such as, the availability and cost of raw material inputs, fluctuations in domestic and international demand and supply of steel and steel products, international production and capacity, fluctuation in the volume of steel imports, transportation costs, protective trade measures and various social and political factors, in the economies in which the steel producers sell their products and are sensitive to the trends of particular industries, such as, the construction and machinery industries.

A decrease in steel prices may have a material adverse effect on company's business, results of operations, prospects and financial condition

Manufacturing plants and sources of raw materials are primarily concentrated in eastern India and any adverse developments affecting this region could have an adverse effect on business

The company own and operate three manufacturing plants located in the states of West Bengal and Odisha and procure raw materials such as iron ore, iron ore fines, coal, pig iron, manganese ore, chrome ore and coke from these states. It is also in the process of commissioning an aluminium foil rolling mill at Pakuria in West Bengal. In FY2018, FY2019 and FY2020, and 9MFY21, revenue from the eastern region of India accounted for 29.12%, 49.75%, 35.04% and 34.47%, respectively, of the total revenue. Any materially adverse social, political or economic development, natural calamities, civil disruptions, or changes in the policies of the central or state government or local governments in the eastern region of India could adversely affect, manufacturing operations and transport operations.

Presence in the steel industry which face numerous protective trade restrictions, including anti-dumping laws, countervailing duties and tariffs, which could adversely affect revenue from exports

Protectionist measures, including anti-dumping laws, countervailing duties and tariffs and government subsidization adopted or currently contemplated by governments in some of export markets could adversely affect its sales from exports. While there have been no sanctions / penalties imposed by any foreign country which have had a material impact on the company in the last three financial years, in the event any antidumping duty proceedings or any resulting penalties or any other form of import restrictions are imposed, it may limit access to export markets for products.

Tariffs are often driven by local political pressure in a particular country and therefore there can be no assurance that quotas or tariffs will not be imposed on the company in the future. In the event that such protective trade restrictions are imposed on, its exports could decline. Further, a decrease in exports from India or an increase in steel imports to India as a result of protective trade restrictions could have a negative impact on business, financial condition and results of operations.

Peer Comparison

Name of the company	Face Value	Revenue in INR crore	Basic EPS	NAV	P/E	P/B	RoNW (%)
Shyam Metalics and Energy Ltd	10	4395.3	14.57	120.97	21.00	2.53	12.04%
Tata Steel Ltd	10	141660.1	11.86	640.52	93.68	1.73	1.54%
JSW Steel Ltd	1	73872	16.78	150.41	42.16	4.70	10.87%
Steel Authority of India Ltd	10	62570	5.13	100.58	23.67	1.21	5.11%
Jindal Steel & Power Ltd	1	36943.7	(1.08)	310.62	NA	1.29	(1.28%)
Tata Steel Long Products Ltd	10	3571.3	(142.81)	452.16	NA	2.03	(25.59%)

P/E & P/B ratio based on closing market price as on June 08th, 2021, At the upper price band of IPO, financial details consolidated audited results as on FY20.

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Our Views

Shyam Metalics and Energy Limited (SMEL) is a leading integrated metal producing company based in India with a focus on long steel products and ferro alloys. The company is amongst the largest producers of ferro alloys in terms of installed capacity in India, as of February 2021. 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. The company has a consistent track record of delivering operating profitability since the commencement of their operations in FY2005.

SMEL's manufacturing units have proximity to raw material sources & key demand clusters. The company's backward and forward integration along with captive power plant and captive railway siding allows to deliver strong operating margins. The company's presence across eastern coast provides export growth potential. SMEL has maintained low leverage with healthy capitalisation metrics. The company has plans to increase manufacturing capacities capacity from 5.71 MTPA to 11.60 MTPA by 2025. It has plans to add manufacturing facilities of Ductile Pipe, Blast furnace and Aluminium foil.

The company would trade at P/E of 21x for FY20 which is quite attractive as compared to listed peers. Considering the company's capacity expansion plans and growth prospectus, we recommend '**SUBSCRIBE**' for listing and long term gains.

Sources: *Company Website and red herring prospectus*

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