



**SMC Ranking**

★ ★ ★ ☆ ☆ (3/5)

**Issue Highlights**

Industry	Metal
Offer for sale (Shares)	8,235,294
Fresh Issue (Shares)	21,470,588
Net Offer to the Public	29,705,882
Employee reservation	300,000
Issue Size (Rs. Cr.)	900-909
Price Band (Rs.)	303-306
Discount offered to Retail & Employee investors	15
Offer Date	14-Jun-21
Close Date	16-Jun-21
Face Value	10
Lot Size	45

**Issue Composition**

	In shares
Total Issue for Sale	29,705,882
QIB	14,702,941
NIB	4,410,882
Retail	10,592,059

**Shareholding Pattern (%)**

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	88.35%
QIB	0.00%	5.76%
NIB	0.00%	1.73%
Employee reservation	0.00%	0.12%
Retail	0.00%	4.03%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

**Objects of the Issue**

Repayment and/or pre-payment of company and its subsidiary (SSPL)'s debt fully or partially.  
To meet general corporate purposes.

**Book Running Lead Manager**

- Axis Capital Limited
- ICICI Securities Limited
- IIFL Holdings Limited
- JM Financial Consultants Private Limited
- SBI Capital Markets Limited

**Name of the registrar**

- KFin Technologies Private Limited

**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 GLocal 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.

**Strength**

**Leading integrated metal producing company:** As of the end of Dec-2020, the aggregate installed metal capacity of its manufacturing plants was 5.71 million tonne per annum (comprising of intermediate and final products). Its manufacturing plants also include captive power plants with an aggregate installed capacity of 227 MW. It is also in the process of increasing the capacities of its existing manufacturing plants and captive power plants, which is expected to increase its 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 Fiscal 2022 and Fiscal 2025.

**Integrated operations across the steel value chain:** The company is a leading integrated metal producing company based in India and 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. The backward integration activities include, setting up of iron pellet plants and installation of rotary kilns to produce sponge iron. Its forward and backward integration activities are generally undertaken by its in-house engineering team who conceptualise and execute such activities in a timely manner with the help of various construction equipment owned by the company. The company believes that integration of its operations has provided it with the flexibility to alter its product mix to cater to the continuously evolving market conditions, insulated it from price volatility and optimised its operating margins.

**Strategically located manufacturing plants supported by robust infrastructure resulting in cost and time efficiencies:** Its manufacturing plants are strategically located in close proximity to its raw material sources, which it believes lowers its transportation costs and provides significant logistics management and cost benefits thereby improving its operating margins. Its 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, its primary raw materials. The company believes the strategic location of its manufacturing plants has helped it in creating synergies as well as achieving economies of scale and operational efficiencies.

**Diversified product mix with strong focus on value added products and association with reputed customers and robust distribution network:** Its 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. Its TMT and structural products are sold under the brand 'SEL'. It sells its products to institutional customers and end consumers through its distribution network. It also customises and sells its products as per the customer's specifications. Its domestic customers include Jindal Stainless Limited, Jindal Stainless (Hisar) Limited, and Rimjhim Ispat Limited. Its international customers include Norecom DMCC, Norecom Limited, POSCO International Corporation, World Metals & Alloys (FZC), Traxys North America LLC, JM Global Resources Limited, Goenka Steels Private Limited and Vijayshri Steel Private Limited.

**Strong financial performance and credit ratings:** The company believes its focus on continuous efficiency improvements, improved productivity and cost rationalization has enabled it 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. It has also obtained strong credit ratings. In particular, its Company and its Subsidiary, Shyam SEL and Power Limited, has received CRISILA1+, CRISILAA-/ Stable, and CRISILA1+ rating from CRISIL for their short-term (bank facilities) rating, long-term (bank facilities) rating and commercial paper, respectively. In addition, the Company and its Subsidiary, Shyam SEL and Power Limited, has received CARE A1+, CARE AA-/ Stable, and CARE A1+ rating from CARE for their short-term (bank facilities) rating, long-term (bank facilities) rating and commercial paper, respectively

### Strategies

**Continue to increase the manufacturing capacities:** The company 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. It has recently undertaken various expansions of its manufacturing plants. Consistent with past practice, the company will look to add capacity in a phased manner to ensure that it utilize its capacity at optimal levels.

**Introduce new products by leveraging the forward integration capabilities:** The forward and backward integration 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. It is currently in the process of further diversifying its product portfolio by entering into the segments, such as, pig iron, ductile iron pipes and aluminium foil. In particular, it intends to use the pig iron from its operations to produce ductile iron pipes. In order to market new products, the company intends to leverage its existing distribution network. The company is also in the process of (i) setting up a new 200,000 TPA ductile iron pipe plant at its Jamuria manufacturing plant; and (ii) commissioning an aluminium foil rolling mill at Pakuria in West Bengal by installing 2 mills with an installed capacity of 20,000 TPA each. It expects this aluminium foil rolling mill to become operational in Fiscal 2022.

**Continue to maintain low leverage with healthy capitalisation metrics:** SMEL is the least leveraged group among its peers. As of March 31, 2020, its gearing ratio was one of the lowest amongst its competitors. As of March 31, 2018, 2019 and 2020 and as of December 31, 2020, its Gross Debt to Equity ratio was 0.30, 0.29, 0.47 and 0.27, respectively. The Gross Debt to EBITDA ratio for Fiscals 2018, 2019 and 2020, and for the 9 months ended December 31, 2020, was 0.79, 0.75, 2.10 and 1.24, respectively. It intends to use the Net Proceeds from the Offer to prepay its and its Subsidiary, Shyam SEL and Power Ltd's debt. Prepayment of its debt will reduce its debt to equity ratio for future leverage as well as increase their profits.

**Continue to focus on cost efficiency and increase profitability and market share:** The company intends to focus on keeping its operating costs low, which is critical for remaining profitable, by implementing measures to reduce their operating costs and improving the operational efficiencies. It intends to continuously invest in new infrastructure at its manufacturing plants and is exploring opportunities to obtain synergies in its existing manufacturing plants. The company intends to introduce a new 600,000 TPA blast furnace at its Jamuria manufacturing plant which will enable the company to forward integrate by manufacturing pig iron. The gas generated from the blast furnace will be utilised by its captive power plant thereby resulting in lower cost of power. The proposed iron pellet plant at its Jamuria manufacturing plant will enable it to backward integrate its proposed ductile iron pipe plant.

Focus on exports: In Fiscal 2019, a sharp increase in chrome alloy demand from South Korea, China and Japan supported an increase in exports from India. The company's exports of chrome alloy have increased by 9% year-on-year in Fiscal 2019 due to improved demand from Indonesia, Japan and South Korea. Further, pellet production has increased at a robust rate led by strong domestic demand along with an exceptional increase in export volumes. Share of exports in overall pellet production has increased from 1.5 % in Fiscal 2016 to approximately 18% in Fiscal 2020. The domestic sale of pellets is estimated to have grown at a CAGR of 9% compared to a CAGR of 13% in exports during Fiscal 2017 and Fiscal 2020. The company currently exports its products to Nepal, China, Bangladesh, Bhutan, United Kingdom, South Korea, Thailand, Indonesia, Taiwan and Japan, and is currently exploring newer geographies in North America, South America, Europe and Africa in order to increase its exports.

### Risk factors

- The company depends on its suppliers on delivery of some of the primary raw materials like iron ore, iron ore fines, coal, chrome ore and manganese ore. If there is any loss of such suppliers, company business would get interrupted.
- The Company success depends on reliable logistics and transportation infrastructure. If there is any disruption in such services, it might not be able to deliver products on time. This would adversely impact the operations of the company.
- Demand and supply in Steel industry are highly volatile and sensitive to cyclical nature. Decrease in steel prices would have a material impact on the business and financial condition.
- Raw materials and energy are critical to the steel industry. Any volatility in their prices could impact company profitability.
- The Company proposes some expansion plans. In case they are unable to successfully implement such expansion plans, it can impact the financial condition of the company.

### Peer comparison

Company	Net sales	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Tata Steel BSL	19976.90	2518.16	23.03	3.88	0.47	192.09	2.00	89.40	9775.35
Ratnamani Metals	2298.13	276.00	59.07	33.54	4.66	425.35	2.00	1981.45	9258.92
Jindal Stain.	12188.46	419.23	7.33	12.65	1.45	64.16	2.00	92.75	4519.10
Jindal Stain. Hi	9400.29	693.78	28.06	6.28	1.40	125.93	2.00	176.30	4159.53
Mishra Dhatu Nig (TTM Basis)	667.49	131.85	7.04	28.32	3.78	52.71	10.00	199.35	3734.62
Jindal Saw	10663.64	318.83	9.97	11.39	0.52	218.39	2.00	113.55	3630.81
Godawari Power	4071.92	638.39	181.17	5.58	1.75	578.02	10.00	1010.35	3560.09
Shyam Metalics and Energy Ltd	5244.11	608.43	17.89	17.11	1.98	154.55	10.00	306.00	7805.47

\*\* Financials are estimated annualised Fy21

### Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.306, the stock is priced at pre issue P/E of 15.67x on its actual annualised FY21 EPS of Rs. 19.53. Post issue, the stock is priced at a P/E of 17.11x on its EPS of Rs. 17.89. Looking at the P/B ratio at Rs. 306 the stock is priced at P/B ratio of 2.18x on the pre issue book value of Rs. 140.63 and on the post issue book value of Rs. 154.55 the P/B comes out to 1.98x.

On the lower end of the price band of Rs.303 the stock is priced at pre issue P/E of 15.51x on its actual annualised FY21 EPS of Rs. 19.53. Post issue, the stock is priced at a P/E of 16.94x on its EPS of Rs. 17.89. Looking at the P/B ratio at Rs.305, the stock is priced at P/B ratio of 2.15x on the pre issue book value of Rs. 140.63 and on the post issue book value of Rs. 154.55, the P/B comes out to 1.96x.

### Industry overview

In Fiscal 2020, year-on-year GDP growth declined consecutively for the third year. It decreased from 6.5% in Fiscal 2019 to 4.0% in Fiscal 2020. Steel demand is closely related with GDP growth, with steel demand to GDP growth multiplier varying across phases. After lagging India's GDP growth since 2012 to 2013, steel demand growth outpaced macro-economic growth in Fiscal 2018 and

Fiscal 2019. A gradual expansion in GDP and rise in income has led to robust growth in auto, consumer durables, railways, affordable housing, and rural housing along with low base effect of Fiscal 2017 (demonetisation). Over the last decade, India steel demand growth has outpaced world's average except for a brief period from 2010 to 2013 that was impacted by slowdown in key end-use segments in the domestic market. However, post 2013, domestic demand has invariably exceeded global demand which was marred by slowdown in China (which accounts for half of global steel demand). In contrast India's steel demand growth has remained modest driven by soft growth in auto and building and construction ("B&C") segments. As per World Steel Association, global steel demand is expected to contract by 2.4% in 2020 and drop to global steel 1.725 billion tonnes due to the Covid-19 crisis. However, demand is expected to recover to 1.795 billion tonnes and grow 4.1% in 2021. As per CRISIL Research, post 2019, global steel demand is expected to grow approximately 0.2% CAGR through 2024.

### Outlook

The company is a leading integrated metal producing company based in India with a focus on long steel products and ferro alloys. The company is in the process of increasing the capacities of its existing manufacturing plants and captive power plants, which is expected to increase its 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. The commodity cycle is on an upswing with tailwinds working in the steel makers' favour along with extreme bullishness for the sector. Considering all these positive factors, one can invest for long term perspective.

### An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	June 14, 2021
Bid/Offer Closing Date	June 16, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about June 21, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about June 22, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about June 23, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about June 24, 2021

## Consolidated Financials

### Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Dec-20 (9 Months)	31-Mar-20 (12 Months)	31-Mar-19 (12 Months)
Revenue from operations	3933.084	4362.886	4606.395
Total expenditure	3213.708	3717.33	3661.685
<b>Operating Profit</b>	<b>719.38</b>	<b>645.56</b>	<b>944.71</b>
OPM%	56.77	65.87	48.53
Other Income	62.548	32.416	78.165
<b>PBDIT</b>	<b>781.92</b>	<b>677.97</b>	<b>1,022.88</b>
Interest	55.844	85.884	64.434
<b>PBDT</b>	<b>726.08</b>	<b>592.09</b>	<b>958.44</b>
Depreciation	219.97	296.649	194.576
<b>PBIT</b>	<b>506.11</b>	<b>295.44</b>	<b>763.87</b>
Share in Profit/(Loss) of Associate and Joint Venture	0.151	0.024	0.032
<b>PBT</b>	<b>506.26</b>	<b>295.46</b>	<b>763.90</b>
Tax	49.94	-44.866	127.114
<b>Profit After Tax</b>	<b>456.32</b>	<b>340.33</b>	<b>636.78</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-20	As on 31-Mar-20	As on 31-Mar-19
<b>Asset</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1837.85	1968.51	1729.78
Capital Work-in-Progress	350.95	235.45	357.70
Right-Of-Use Assets	41.96	42.72	43.47
Intangible Assets	0.63	0.79	0.84
<b>Financial Assets</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Investments	70.31	72.43	68.42
Other Financial Assets	44.82	40.77	7.50
Deferred tax assets (net)	67.86	29.01	0.00
Other Non-Current Assets	377.78	229.25	57.98
<b>Total non-current assets</b>	<b>2792.16</b>	<b>2618.92</b>	<b>2265.69</b>
<b>Current assets</b>			
Inventories	1149.98	1486.71	732.13
<b>Financial assets</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Investments	97.64	71.55	205.43
Trade receivables	243.69	259.02	212.91
Cash and cash equivalents	15.36	29.70	9.90
Other bank balances	162.80	91.54	87.95
Loans	15.79	4.18	47.41
Other financial assets	74.23	66.15	68.62
Current Tax Assets (Net)	0.00	4.81	4.24
Other current assets	553.51	571.21	418.16
<b>Total current assets</b>	<b>2312.98</b>	<b>2584.87</b>	<b>1786.75</b>
<b>Total Assets</b>	<b>5105.15</b>	<b>5203.79</b>	<b>4052.43</b>
<b>Non-controlling interests</b>	<b>4.15</b>	<b>4.15</b>	<b>4.43</b>
<b>Non-current liabilities</b>			
Borrowings	182.62	351.31	213.28
Other Financial Liabilities	20.04	19.88	42.32
Provisions	9.78	27.18	5.97
Deferred Tax liabilities (Net)	0.00	0.00	72.69
Other non-current liabilities	209.92	262.69	186.16
Lease Liabilities	5.67	5.95	6.14
<b>Total Non-Current Liabilities</b>	<b>428.03</b>	<b>667.02</b>	<b>526.57</b>
<b>Current liabilities</b>			
Borrowings	682.30	921.13	442.77
Lease Liabilities	0.47	0.49	0.39
Trade Payables – MSME	0.52	3.35	0.00
Trade Payables – Other than MSME	353.29	499.04	310.61
Other financial liabilities	77.12	154.54	101.05
Other current liabilities	222.03	127.54	176.47
Provisions	27.50	0.56	0.49
Other Current Liabilities	24.46	0.00	0.00
<b>Total current liabilities</b>	<b>1387.70</b>	<b>1706.64</b>	<b>1031.78</b>
<b>Total</b>	<b>1819.87</b>	<b>2377.81</b>	<b>1562.77</b>
<b>NET Worth</b>	<b>3285.28</b>	<b>2825.98</b>	<b>2489.66</b>
Net worth represented by:			
Share capital	233.61	233.61	233.61
Other equity	3051.67	2592.37	2256.05
<b>Total Networth</b>	<b>3285.28</b>	<b>2825.98</b>	<b>2489.66</b>

## RANKING METHODOLOGY

<b>WEAK</b>	★
<b>NEUTRAL</b>	★★
<b>FAIR</b>	★★★
<b>GOOD</b>	★★★★
<b>EXCELLENT</b>	★★★★★

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