

Shyam Metals and Energy | BUY



Niche business segments to drive earnings

Shyam Metals (SMEL) reported EBITDA of INR4.4bn, higher than JMfe of INR4bn. EBITDA/ton stood at INR6.4k for 4QFY24, vs INR6.3k/t in 3Q. Sequentially higher realisations helped sustain margins despite the raw material inflation. Company witnessed a ~7% increase in volumes QoQ driven by improved demand scenario. Further, SMEL's strategy to foray into niche business segments - Aluminium foil, stainless steel TMT and colour coated sheets will offer growth optionality, besides improving SMEL's margin profile. Shyam Metals offers a unique play in the Indian metals space, with a combination of a) increasing contribution from finished steel and valued added segments and b) diversified business across the steel value chain. The company has executed capacity expansion plans with precision over the past few years. Capital allocation towards niche business segments augur well for the company. Maintain BUY.

- Volume growth coupled with realisation increase:** Consol. revenue stood at INR36bn (up~9% QoQ), led by higher volumes and higher realisations in stainless steel & pellets. SMEL reported consol. EBITDA of INR4.4bn vs INR4bn in 3Q primarily on account of higher realisations and improved volumes. Volumes stood at 0.69mn tons in 4Q vs 0.65mn tons in 3Q. EBITDA/ton stood at INR6.4k/t for 4QFY24 vs INR6.3k/t in 3QFY24. The Company reported consol. Adj. PAT of INR2.2bn during the quarter, up significantly on lower depreciation during the quarter.
- Fundraising through QIP route:** Company had raised ~INR13.9bn through QIP during Jan'24 against total bid amount of ~INR41bn. Company issued ~24.1mn shares to 38 QIB's at issue price of INR576 per share (premium of INR566 per share) and same has been used to repay working capital loan. Company had net cash position of ~INR12bn post QIP as at last quarter end.
- SMEL progressing well on capex plans:** SMEL continues to progress well on planned capex spends. The capex plan will help increase upstream capacities by 5.2mtpa at a cost of INR12.2bn. This includes a 3mtpa increase in pellet capacity (INR3bn), 0.5mtpa increase in billet capacity for flat products (INR2bn), 0.4mtpa billet capacity for parallel flange beam (INR1.1bn), 0.1mtpa stainless steel billet capacity (INR1.3bn) and 1.2mtpa DRI capacity (INR4bn). Downstream capacities are expected to increase by 1.8mtpa at a cost of INR15.9bn. This includes 0.2mtpa CRM for stainless steel (INR1.5bn), 0.6mtpa DI pipe capacity (INR6bn), 0.5mtpa capacity for hot flat products (INR5.5bn), 0.4mtpa capacity for parallel flange beam (INR2.4bn) and 0.1mtpa capacity for Steel Wire Drawing (INR0.5bn). Further, the company will also incur a capex of INR12.6bn towards enhancing captive power generation by addition of 240 MW of power generation in captive power plant and increasing renewable energy portfolio by 100MW.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	762
Upside/(Downside)	26%
Previous Price Target	725
Change	5.1%

Key Data – SHYAMMET IN

Current Market Price	INR604
Market cap (bn)	INR168.6/US\$2.0
Free Float	31%
Shares in issue (mn)	278.0
Diluted share (mn)	279.1
3-mon avg daily val (mn)	INR450.8/US\$5.4
52-week range	772/292
Sensex/Nifty	73,105/22,218
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	-2.3	27.7	99.3
Relative*	-1.9	14.7	70.0

* To the BSE Sensex

Financial Summary	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	1,03,940	1,26,102	1,31,952	2,09,919	2,37,873
Sales Growth (%)	65.1	21.3	4.6	59.1	13.3
EBITDA	25,997	14,859	15,700	33,282	43,121
EBITDA Margin (%)	25.0	11.8	11.9	15.9	18.1
Adjusted Net Profit	17,245	8,576	10,348	17,923	23,565
Diluted EPS (INR)	61.8	30.7	37.2	64.5	84.8
Diluted EPS Growth (%)	104.5	-50.3	20.7	73.2	31.5
ROIC (%)	37.2	13.5	11.8	16.9	19.6
ROE (%)	36.4	13.2	12.3	17.1	18.9
P/E (x)	9.8	19.7	16.2	9.4	7.1
P/B (x)	2.9	2.4	1.7	1.5	1.2
EV/EBITDA (x)	6.4	11.3	10.7	5.0	3.6
Dividend Yield (%)	0.0	0.0	0.6	0.6	0.6

Source: Company data, JM Financial. Note: Valuations as of 14/May/2024

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Exhibit 1. Consolidated – quarterly financial performance							(INR mn)
Y/E March (INR mn)	4QFY24A	4QFY24E	% Var	4QFY23	YoY %	3QFY24	QoQ %
Net Sales	36,062	36,272	-0.6	33,801	6.7	33,153	8.8
Volumes (mn tons)	0.69	0.71	(2.8)	0.52		0.65	6.9
Realizations	52,264	51,087	2.3	64,938		51,387	1.7
Raw material cost	25,968	26,625	-2.5	24,272	7.0	23,879	8.7
RM costs/t	37,635	37,500	0.4	46,630		37,012	1.7
Gross profit	10,094	9,647	4.6	9,529	5.9	9,274	8.8
Gross margin (%)	28.0	26.6	5.2	28.2	(0.7)	28.0	0.1
Gross margin/t	14,629	13,587		18,308		14,374	
Staff costs	993	1,123	-11.5	976	1.8	1,028	-3.4
Staff costs/t	1,439	1,581	-9.0	1,874		1,594	-9.7
Other costs	4,684	4,555	2.8	4,419	6.0	4,172	12.3
Other costs/t	6,788	6,415	5.8	8,490		6,466	5.0
Total expenditure	31,645	32,303	-2.0	29,666	6.7	29,079	8.8
EBITDA	4,417	3,969	11.3	4,135	6.8	4,074	8.4
EBITDA/ton (Rs/ton)	6,401	5,590		7,943		6,314	
EBITDA margin (%)	12.2	10.9		12.2		12.3	
Other income	510	360		309		399	
Depreciation	1,394	1,850	-24.7	1,259	10.7	1,821	-23.5
EBIT	3,534	2,479		3,184		2,652	
Interest	216	395	-45.4	386	-44.2	396	-45.6
Income (loss) from associates	(34)	15		23		15	
PBT	3,285	2,099		2,822		2,271	
Tax	1,119	563		210		998	
Eff. Tax rate (%)	34.1	26.8		7.4		44.0	
XO items	-	-		-		-	
Reported PAT	2,165	1,536		2,612		1,273	
Adjusted PAT	2,199	1,521	44.6	2,589	-16.3	1,258	72.2
EPS((Rs)	8.5	6.0		10.1		4.9	

Source: Company, JM Financial

Exhibit 2. Standalone – quarterly financial performance (INR mn)

Y/E March	4QFY24	3QFY23	YoY %	3QFY24	QoQ %
Net Sales	17,589	16,008	9.9	17,641	-0.3
Expenditure	15,819	15,166	4.3	15,994	-1.1
Raw materials	13,513	12,575	7.5	13,603	-0.7
Staff Cost	497	460	8.0	550	-9.7
EBITDA	1,770	843	110.0	1,647	7.5
EBITDA margin (%)		5.3		9.3	
Other income	367	251		235	
Depreciation	552	644	-14.3	591	-6.6
EBIT	1,585	449		1,291	
Interest	99	146	-32.3	176	-43.8
PBT	1,486	303		1,115	
Tax	383	63		315	
Eff. Tax rate (%)	25.8	20.8		28.2	
XO items	-	-		-	
PAT	1,103	240	359.2	800	37.8
Adjusted PAT	1,103	240	359.2	800	37.8
EPS (Rs)	4.3	0.9		3.1	

Source: Company

Exhibit 3. Target price (INR mn)

(INR mn)	Multiple (x)	FY26E EBITDA
EBITDA	4.5	43,121
Total EV		194,044
Less: Net Debt		(17,787)
Equity value		211,831
No of shares (mn)		278
Fair value (INR/share)		760

Source: JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	1,03,940	1,26,102	1,31,952	2,09,919	2,37,873	
Sales Growth	65.1%	21.3%	4.6%	59.1%	13.3%	
Other Operating Income	0	0	0	0	0	
Total Revenue	1,03,940	1,26,102	1,31,952	2,09,919	2,37,873	
Cost of Goods Sold/Op. Exp	62,264	89,193	1,02,801	1,36,423	1,49,337	
Personnel Cost	2,721	3,339	5,115	7,347	8,326	
Other Expenses	12,957	18,711	8,336	32,867	37,089	
EBITDA	25,997	14,859	15,700	33,282	43,121	
EBITDA Margin	25.0%	11.8%	11.9%	15.9%	18.1%	
EBITDA Growth	86.5%	-42.8%	5.7%	112.0%	29.6%	
Depn. & Amort.	2,724	4,631	6,560	8,562	10,902	
EBIT	23,273	10,228	9,140	24,719	32,218	
Other Income	600	1,120	1,590	750	600	
Finance Cost	232	931	1,333	577	89	
PBT before Excep. & Forex	23,642	10,417	9,397	24,893	32,729	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	23,642	10,417	9,397	24,893	32,729	
Taxes	6,402	1,934	-892	6,970	9,164	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-2	-91	-57	0	0	
Reported Net Profit	17,245	8,576	10,348	17,923	23,565	
Adjusted Net Profit	17,245	8,576	10,348	17,923	23,565	
Net Margin	16.6%	6.8%	7.8%	8.5%	9.9%	
Diluted Share Cap. (mn)	279.1	279.1	278.0	278.0	278.0	
Diluted EPS (INR)	61.8	30.7	37.2	64.5	84.8	
Diluted EPS Growth	104.5%	-50.3%	20.7%	73.2%	31.5%	
Total Dividend + Tax	0	0	1,005	1,005	1,005	
Dividend Per Share (INR)	0.0	0.0	3.6	3.6	3.6	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	58,347	71,625	96,467	1,13,385	1,35,945	
Share Capital	2,551	2,551	2,780	2,780	2,780	
Reserves & Surplus	55,796	69,074	93,686	1,10,604	1,33,164	
Preference Share Capital	0	0	0	0	0	
Minority Interest	40	3,856	6,713	6,713	6,713	
Total Loans	7,558	11,923	5,874	8,874	1,374	
Def. Tax Liab. / Assets (-)	1,073	712	914	914	914	
Total - Equity & Liab.	67,017	88,116	1,09,969	1,29,886	1,44,946	
Net Fixed Assets	32,229	57,150	76,631	94,168	99,266	
Gross Fixed Assets	41,404	50,949	67,039	95,139	1,21,139	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	16,858	21,489	28,049	36,612	47,514	
Capital WIP	7,683	27,689	37,641	35,641	25,641	
Investments	10,359	14,631	10,091	12,528	12,528	
Current Assets	41,662	40,106	47,155	59,067	70,519	
Inventories	20,570	22,051	21,679	32,207	37,799	
Sundry Debtors	3,761	6,042	7,079	7,189	8,472	
Cash & Bank Balances	3,259	1,719	505	4,143	6,652	
Loans & Advances	14,072	10,294	17,893	15,528	17,596	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	17,233	23,771	23,908	35,877	37,366	
Current Liabilities	16,795	23,552	23,689	35,658	37,147	
Provisions & Others	438	219	219	219	219	
Net Current Assets	24,429	16,335	23,247	23,190	33,153	
Total - Assets	67,017	88,116	1,09,969	1,29,886	1,44,946	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	23,643	10,418	9,398	24,893	32,729	
Depn. & Amort.	2,724	4,631	6,560	8,562	10,902	
Net Interest Exp. / Inc. (-)	0	0	0	0	0	
Inc (-) / Dec in WCcap.	-3,245	2,154	-8,126	3,695	-7,453	
Others	4	92	58	0	0	
Taxes Paid	-6,402	-1,934	892	-6,970	-9,164	
Operating Cash Flow	16,724	15,361	8,782	30,180	27,014	
Capex	-10,767	-15,782	-22,541	-26,100	-16,000	
Free Cash Flow	5,957	-421	-13,759	4,080	11,014	
Inc (-) / Dec in Investments	-7,541	-4,272	4,540	-2,437	0	
Others	-2,460	-1,213	362	0	0	
Investing Cash Flow	-20,768	-21,266	-17,639	-28,537	-16,000	
Inc / Dec (-) in Capital	6,598	0	13,843	0	0	
Dividend + Tax thereon	0	0	-1,006	-1,005	-1,005	
Inc / Dec (-) in Loans	-2,533	4,365	-6,048	3,000	-7,500	
Others	0	0	0	0	0	
Financing Cash Flow	4,065	4,365	6,789	1,995	-8,505	
Inc / Dec (-) in Cash	21	-1,540	-2,068	3,638	2,509	
Opening Cash Balance	3,238	3,259	1,719	-349	3,289	
Closing Cash Balance	3,259	1,719	-349	3,289	5,798	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin		16.6%	6.8%	7.8%	8.5%	9.9%
Asset Turnover (x)		1.9	1.6	1.3	1.8	1.7
Leverage Factor (x)		1.2	1.2	1.2	1.1	1.1
RoE		36.4%	13.2%	12.3%	17.1%	18.9%

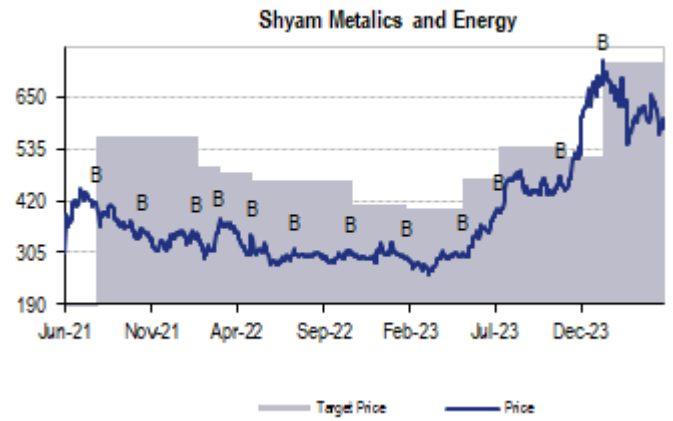
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)		209.0	256.6	347.0	407.8	488.9
ROIC		37.2%	13.5%	11.8%	16.9%	19.6%
ROE		36.4%	13.2%	12.3%	17.1%	18.9%
Net Debt/Equity (x)		0.0	-0.1	-0.1	-0.1	-0.1
P/E (x)		9.8	19.7	16.2	9.4	7.1
P/B (x)		2.9	2.4	1.7	1.5	1.2
EV/EBITDA (x)		6.4	11.3	10.7	5.0	3.6
EV/Sales (x)		1.6	1.3	1.3	0.8	0.7
Debtor days		13	17	20	13	13
Inventory days		72	64	60	56	58
Creditor days		79	77	74	74	70

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
19-Aug-21	Buy	560	
9-Nov-21	Buy	560	0.0
11-Feb-22	Buy	495	-11.6
22-Mar-22	Buy	480	-3.0
19-May-22	Buy	463	-3.5
3-Aug-22	Buy	463	0.0
10-Nov-22	Buy	410	-11.4
16-Feb-23	Buy	400	-2.4
26-May-23	Buy	470	17.4
28-Jul-23	Buy	540	15.0
16-Nov-23	Buy	520	-3.8
31-Jan-24	Buy	725	39.4

Recommendation History



APPENDIX I

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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