BIZZ BUZZ

Shyam Metalics may open 30-50% higher on IPO listing

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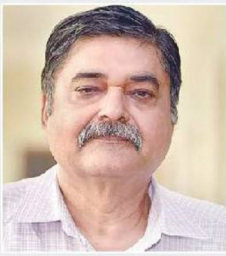

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SHYAM Metalics and Energy Ltd is tapping the capital markets with its IPO to raise Rs 907 crore in a price band of Rs 303-306. The issue consists of a fresh issue of Rs 657 crore and an offer for sale of 252 crore. The issue opens on Monday (June 14) and closes on Wednesday (June 16).

The company as the name suggests is into steel manufacturing and has plants located in Orissa and West Bengal. The company has a capacity of 5.71 million tons per annum or (mtpa) of capacities to make pellets, sponge iron, billets, TMT Bars and ferro alloys. This backward integration helps the company insulate itself with various value addition options. The saleable steel production of the company is 3 mtpa. This is being increased to double by adding various facilities which would make the capacity 11.60 mtpa and saleable steel production 6 mtpa.

The company would also be adding a blast furnace, ductile pipe and aluminium foil mill of 40,000 tons per annum in this expansion which would be ready in a phased manner over the next 36-42 months. The company produces over 80 per cent of the power itself through a combination of waste heat recovery plants and also some thermal power plants. The total power generation capacity is 227 megawatt which would be increased to 357 megawatts.

Shyam has grown its production capacities consistently and been very mindful of the fact that the same is done without any significant borrowings. The current debt equity ratio of the company based on December 20 numbers is a mere 0.27 times. The location of these two plants is very strategic and are close to the raw material sources, ports and customers. This effectively reduces logistic costs and ensure reaching the customer quicker and more affordably. Further the plants have their own railway sidings facilitating easier movement and cheaper logistics of raw materials and finished goods.

The company enjoys healthy margins at the EBITDA and PAT levels as compared to its peers. The EBITDA margins for the year ended March 2020 were at 14.5 per cent while they were at 6.5 per cent at the PAT level. In the first nine months ended December 2020, the same EBITDA has improved to 18.2 per cent and PAT to 11.5 per cent. The total income of the company which was at Rs 4,400 crore for the year ended March 2020 have improved to Rs 4,000 crore in the nine months ended December 2020.

The EPS for the year ended March 2020 is Rs 14.57. The same has increased significantly to Rs 19.53 for the nine months ended December 20. The price earnings multiple based on March 20 numbers is at Rs 20.80-21 times. The same PE multiple, based on nine months annualised numbers for the year ended March 2021 would be 11.63-11.75.

This PE number would in reality reduce even further as almost all steel companies have done exceedingly well in this year, particularly in the fourth quarter. Steel prices have risen sharply and there is an increase in demand globally. While finished steel prices have been rising, raw material prices have also risen across the value chain whether it be iron ore prices or iron ore fines.

It need be pointed out that all the steel companies mentioned as competitors by Shyam Metalics have seen a substantial improvement in performance. Shyam Metalics compared favourably with this group on the parameters with which they are compared. This group consists of Tata Steel, Tata Steel Long Products, JSW Steel, SAIL and Jindal Steel and Power Limited.

The company completed allocation to anchor investors on Friday and the list of allottees is impressive with Nippon India Mutual Fund being given the highest allocation of 9.63 per cent.

The company looks attractively priced and considering the prospects and the performance of the steel industry would offer attractive returns to investors in the medium and long term. For those looking at quick returns, there is an opportunity for the flippers to make between 30 and 50 per cent return on being successful in getting allotment.

(The author is the founder of Kejriwal Research and Investment Services, an advisory firm)