

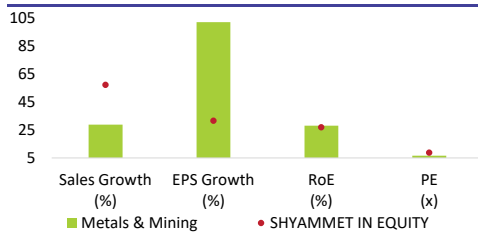
SHYAM METALICS

INITIATING COVERAGE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	406
12 month price target (INR)	580
Market cap (INR bn/USD bn)	104/1.4
Free float/Foreign ownership (%)	31.6/2.4

INVESTMENT METRICS

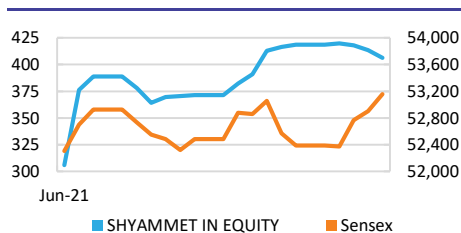


FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	62,971	99,033	1,29,227	1,32,337
EBITDA	13,938	22,381	32,616	26,813
Adjusted profit	8,436	12,113	18,594	15,181
Diluted EPS (INR)	36.1	47.5	72.9	59.5
EPS growth (%)	147.9	31.5	53.5	(18.4)
RoAE (%)	26.1	26.9	29.9	19.6
P/E (x)	11.2	8.6	5.6	6.8
EV/EBITDA (x)	7.6	4.5	2.7	2.8
Dividend yield (%)	0.5	1.2	1.8	1.5

PRICE PERFORMANCE



Explore:



Small is beautiful

Shyam Metalics (SMEL) stands out as a rare combination of enhanced capacity and a net cash position in India's steel market. Its steel/iron making capacity is expected to increase by 2–3x through FY25E and net cash position is likely to sustain profitability in the face of ongoing price volatility. All in all, we estimate SMEL's EBITDA would expand at a 26% CAGR over FY21–24E. Even so, the company might underperform peers in an upcycle given its low leverage.

In our view, SMEL offers substantial value considering its: i) expected RoE/RoCE of 20%/25% on average; and ii) cumulative free cash flow equivalent to 30% of market cap through FY24E. Initiate with 'BUY' at a TP of INR580/share, valuing the stock at 5x Q3FY23E EBITDA.

Capacity expansion complemented by cost efficiency

SMEL is expanding steel/iron making capacity by 2–3x over FY21–25E. We expect EBITDA to expand at a 26% CAGR through FY24E, largely driven by: i) an increasing share of rolled steel products—up to 50% from 40% in FY21; ii) a portfolio of niche products such as low carbon ferrochrome, DI pipes and aluminium foils; and iii) a cost-efficient business model with captive power and railway sidings. Besides, surplus land parcels adjacent to the plant provide ample scope for cost-effective future expansion, resulting in a sustainable competitive advantage over peers.

Sweeteners: Superior cash position and potential returns

SMEL is among the few domestic steel companies with a net cash position (in FY23E). In our view, this is expected to insulate it from any cyclical downturn in prices, at least relative to peers. Hence, despite an estimated cumulative capex of INR20bn, we expect substantial cash accretion equivalent of 30% of market cap through FY24E. We also estimate superior RoE/RoCE of 20%/25% on average through FY24E.

In our view, the company is likely to utilise the surplus for further enriching its product mix or for a prudent, value-accretive acquisition in longs. That said, the low leverage might cause the stock to underperform in a steel price upcycle.

Outlook and valuation: Plenty to cheer; initiate with 'BUY'

SMEL offers a blend of growth and value. Progressive capacity enhancement is likely to drive up both volumes and value—the latter due to a bigger mix of value-added products. As a result, we see a firm possibility of cash accretion—equivalent to 30% of current market cap through FY24E.

We estimate SMEL would post revenue/EBITDA CAGR of 29%/26% over FY21–24E. We value the stock at 5x Q3FY23E EBITDA – similar to large players – owing to its better leverage and returns potential. Our TP works out to INR580/share, implying 40% upside potential. Initiate with 'BUY/SO'. The key risks to our thesis remain price volatility, relatively high dependence on local market vis-à-vis flat steel producers, operational risks and legal proceedings against directors. On top of it, SMEL's low leverage might result in a relative underperformance in an upcycle.

Executive Summary

Opportune capacity expansion — A definite edge in upcycle

SMEL is expanding capacity across the value chain: i) sponge iron (up 2.1x to 2.9mtpa); ii) semis – billets (up 2.2x to 2mtpa); and iii) TMT (up 2.2x to 1.32mtpa) and wire rods (up 3x to 600ktpa). The company is also venturing into ductile iron (DI) with a 200ktpa facility equipped with a 600ktpa mini blast furnace.

Besides, SMEL plans to set up 14ktpa of low carbon (LC) ferrochrome capacity – a niche product that fetches 1.5x higher realisation than regular high carbon (HC) ferrochrome – and a 40ktpa aluminium foil rolling plant. These expansions are expected to be completed in stages by FY25 on land parcels adjacent to existing plants, which should lower the capital cost.

Value enablers: Product flexibility and cost efficiencies

SMEL's operations are well integrated across the value chain. Like other companies in the secondary steel sector, the company sells anything from pellets to steel, depending on prevailing market conditions in order to optimise margins. As a result, its EBITDA margin in past eight years has been 14–21%, except FY16 (10.1%).

Furthermore, SMEL has achieved cost efficiencies by utilising waste materials/by-products as raw material inputs for other products and processes. For instance, utilisation of pollution dust/flu gases, waste heat and dolochar from the sponge iron plants and washery rejects in captive power plants has curtailed the cost of power to INR2.09–2.49/unit over the past three years, much lower than grid power's INR5–7/unit. Besides, the integrated nature of operations eliminates re-heating at multiple points, resulting in savings in power cost to the extent of INR500/t.

Strategic locations – close to raw material sources/ports and captive railway sidings at both Jamuria and Sambalpur plants – lower logistics cost for the company. Plant locations help optimise the sales and marketing cost as both plants cater to different markets.

Sound financial metrics to trigger positive feedback loop

SMEL is among few ferrous companies with a likely net cash position in FY23E. This renders its business model immune to price volatility—relative to peers.

Furthermore, in light of prevailing high steel prices and progressively higher capacity, we expect substantial cash accretion over FY22–24E- equivalent to 30% of current market cap. This provides substantial room for both organic and inorganic expansion, leading to further improvement in operating margin and cash flows. The track record of executing cost efficient and relatively low capex expansion augurs sustainability of its superior RoE/RoCE of 20%/25%.

Outlook and valuation: Plenty to cheer; Initiate with 'BUY'

Despite being a secondary steel player producing steel the through DRI-IF route and having much smaller capacity than major steel players (Tata Steel, JSW Steel, SAIL and JSPL), SMEL's business model is robust and resilient. In our view, two factors stand out: i) a net cash position; and ii) low-intensity, high-return growth capex.

As a result, despite our estimates of moderating steel prices, we estimate SMEL's: i) revenue and EBITDA would expand at a CAGR of 29%/26% through FY24E; ii) RoE/RoCE would be 20%/25% through FY24E with capex likely to be funded from

internal accruals; and iii) cash accretion through FY24E would be formidable, equivalent to 30% of current market cap.

All in all, we are initiating coverage on SMEL with a **‘BUY’** recommendation as a **‘SECTOR OUTPERFORMER’** recognising its three pillars: growth, returns and cash accretion. Our TP of INR580 is based on an exit 5x Q3FY23E EBITDA—similar to other major steel players as we believe SMEL’s leverage ratios and expected returns outscore major players despite its lower scale and less exposure to premium products. Furthermore, SMEL’s peak profitability is yet to kick in once new expansion projects come on stream and capex peaks out.

Key risks

Unlike flats, the long steel market in India is fragmented with top five large players commanding a 35% share; the rest is distributed among more than 850 IF/EAF units. Furthermore, long steel cannot be transported over long distances; hence the market is limited to a radius of 250–350km from the plant location. Hence, any increase in competitive intensity and/or demand disruption in the regional market can impact SMEL’s profitability disproportionately.

There have been instances in the past when the company’s operations have been partially suspended owing to fire, mechanical breakdown and shutdown of captive power plants. Any interruption in production could impact earnings, besides constraining the cash flow owing to unanticipated capital expenditure.

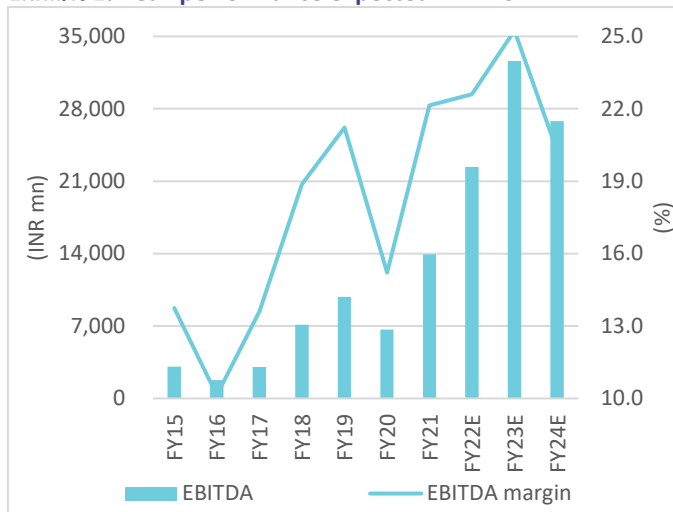
The current expansion plan includes a DI pipe plant, blast furnace and aluminium foil rolling mills. SMEL has limited experience in manufacturing and sale of these products; hence there is execution risk in both capacity ramp-up and performance of these plants.

There are 17 criminal complaints filed against certain directors of the company for alleged offences committed under various acts for injuries sustained by workers, some of which resulted in death, and for certain non-compliances noted upon inspection by the Factories and Boilers Department, Sambalpur. The alleged are presently on bail. Furthermore, there is one criminal complaint filed against certain members of the promoter group under Rule 13 of the Orissa Factories Rules, 1950 for violation of Rule 3(2) of the Orissa Factory rules. The matter is *sub judice*.

SMEL’s low leverage, while it insulates earnings in a downcycle, renders the stock prone to underperformance in an upcycle that typically benefits leveraged players more due to a bigger swings in profitability. From a stock perspective, in a downcycle, we expect midcaps to fare worse than large caps. Hence, the stock performance might be sub-par compared with larger (leveraged) peers, though earnings on the whole might remain relatively resilient.

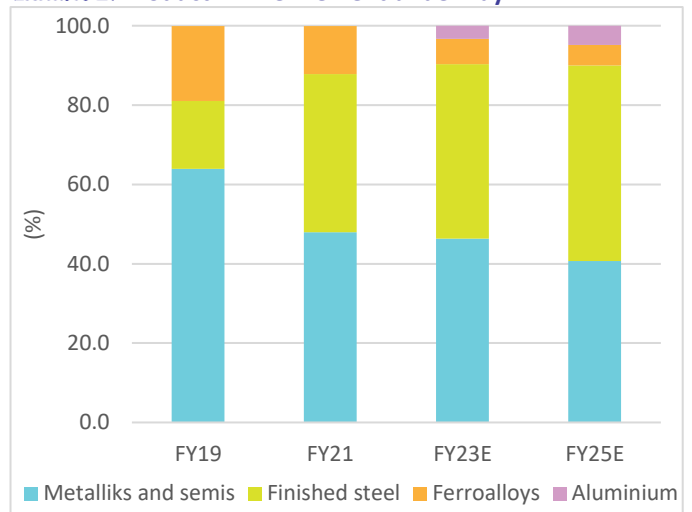
The Story in Charts

Exhibit 1: Peak performance expected in FY23E



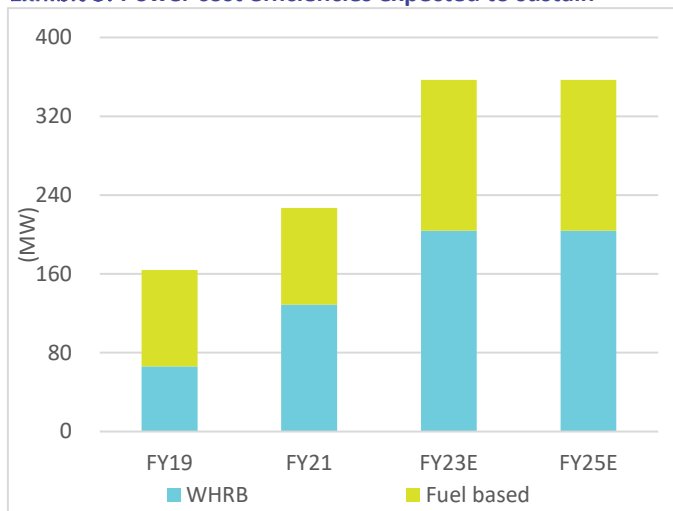
Source: Company, Edelweiss Research

Exhibit 2: Product mix refinement underway



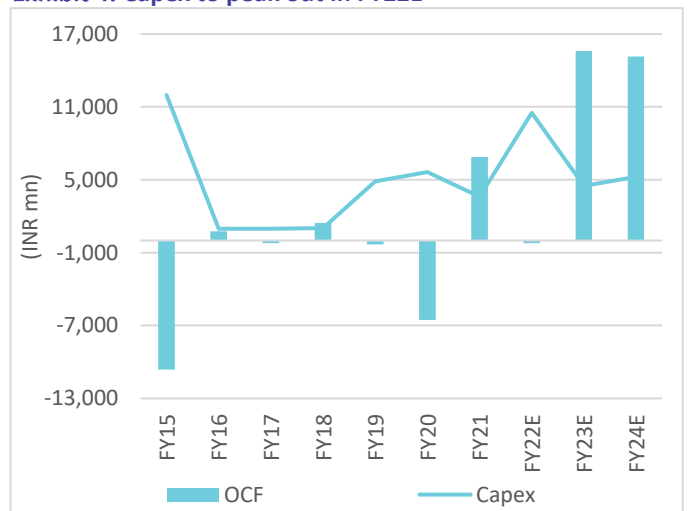
Source: Company, Edelweiss Research

Exhibit 3: Power cost efficiencies expected to sustain



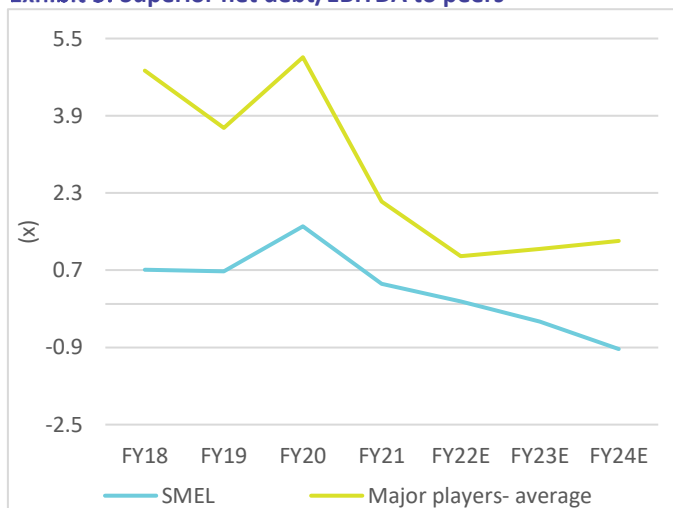
Source: Company, Edelweiss Research

Exhibit 4: Capex to peak out in FY22E



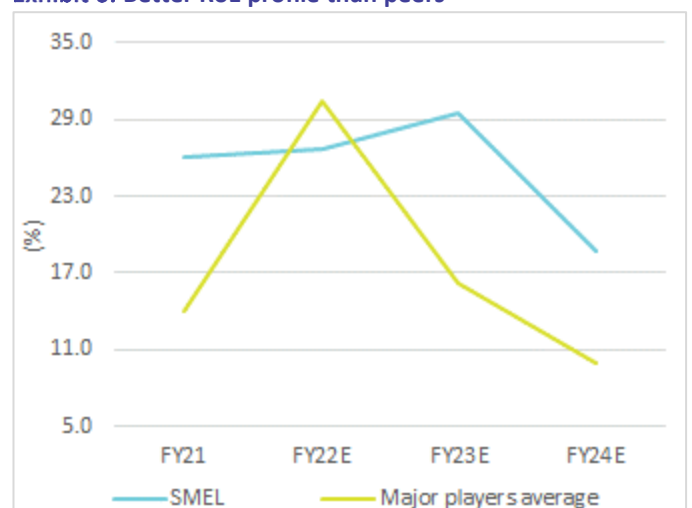
Source: Company, Edelweiss Research

Exhibit 5: Superior net debt/EBITDA to peers



Source: Company, Edelweiss Research

Exhibit 6: Better RoE profile than peers



Source: Company, Edelweiss Research

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	62,971	99,033	1,29,227	1,32,337
Raw Material Cost	38,333	62,394	78,029	83,278
Employee costs	1,881	2,438	3,426	3,654
Other expenses	1,170	1,829	2,739	2,942
EBITDA	13,938	22,381	32,616	26,813
Depreciation	3,004	4,799	6,136	5,762
Less: Interest expense	625	513	561	547
Add: Other income	237	235	644	1,183
Profit before tax	10,550	17,305	26,562	21,687
Prov for tax	2,114	5,191	7,969	6,506
Less: Other adj	0	0	0	0
Reported profit	8,436	12,113	18,594	15,181
Less: Excp.item (net)	0	0	0	0
Adjusted profit	8,436	12,113	18,594	15,181
Diluted shares o/s	234	255	255	255
Adjusted diluted EPS	36.1	47.5	72.9	59.5
DPS (INR)	1.9	4.7	7.3	6.0
Tax rate (%)	20.0	30.0	30.0	30.0

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Realisation (INR/t)	35,000.0	40,767.6	37,817.6	36,017.6
EBITDA (INR/t)	20,555.8	29,225.2	22,962.4	15,181.9
Net Debt to EBITDA (x)	0.4	0.1	(0.4)	(0.9)
EBITDA margin (%)	22.1	22.6	25.2	20.3
Net profit margin (%)	13.4	12.2	14.4	11.5
Revenue growth (% YoY)	43.9	57.3	30.5	2.4
EBITDA growth (% YoY)	109.2	60.6	45.7	(17.8)
Adj. profit growth (%)	147.9	43.6	53.5	(18.4)

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(8.0)	9.0	7.0	7.0
Repo rate (%)	4.0	4.0	4.3	5.3
USD/INR (average)	74.2	73.0	72.0	71.0
Volumes - metallics (mt)	2.4	3.7	4.2	4.0
Volumes - longs (mt)	0.7	0.7	1.4	1.7
Volumes - ferroalloys(kt)	90.8	100.9	77.9	69.1
HRC price - India (INR/t)	45,142.1	59,986.9	52,536.9	46,736.9
Rebar - India (INR/t)	42,816.4	47,918.8	44,968.8	40,668.8
62% Ore Fines (USD/t)	126.5	156.3	100.8	88.8

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	11.2	8.6	5.6	6.8
Price/BV (x)	2.6	1.9	1.5	1.2
EV/EBITDA (x)	7.6	4.5	2.7	2.8
Dividend yield (%)	0.5	1.2	1.8	1.5

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	2,336	2,551	2,551	2,551
Reserves	34,004	51,334	68,141	81,877
Shareholders funds	36,341	53,885	70,692	84,427
Minority interest	44	44	44	45
Borrowings	8,154	6,135	5,947	5,758
Trade payables	3,671	5,975	7,472	7,974
Other liabs & prov	3,650	3,650	3,650	3,650
Total liabilities	54,131	71,961	90,077	1,04,128
Net block	18,022	18,288	22,659	21,406
Intangible assets	0	0	0	0
Capital WIP	5,064	10,508	4,509	5,250
Total fixed assets	23,086	28,795	27,168	26,656
Non current inv	666	666	666	666
Cash/cash equivalent	5,390	7,989	20,972	33,860
Sundry debtors	5,335	8,391	10,949	11,213
Loans & advances	1,037	1,037	1,037	1,037
Other assets	15,695	22,161	26,363	27,774
Total assets	54,131	71,961	90,077	1,04,128

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	8,664	12,113	18,594	15,181
Add: Depreciation	3,004	4,799	6,136	5,762
Interest (net of tax)	625	513	561	547
Others	(450)	73	73	73
Less: Changes in WC	(1,344)	(7,218)	(5,263)	(1,172)
Operating cash flow	10,498	10,279	20,101	20,391
Less: Capex	(3,611)	(10,508)	(4,509)	(5,250)
Free cash flow	6,888	(229)	15,592	15,141

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	26.1	26.9	29.9	19.6
RoCE (%)	26.4	34.1	39.7	26.6
Inventory days	120	79	88	95
Receivable days	20	25	27	31
Payable days	45	28	31	34
Working cap (% sales)	23.3	22.1	21.0	21.4
Gross debt/equity (x)	0.2	0.1	0.1	0.1
Net debt/equity (x)	0.1	0	(0.2)	(0.3)
Interest coverage (x)	17.5	34.3	47.2	38.5

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	147.9	31.5	53.5	(18.4)
RoE (%)	26.1	26.9	29.9	19.6
EBITDA growth (%)	109.2	60.6	45.7	(17.8)
Payout ratio (%)	5.1	10.0	10.0	10.0

Investment Rationale

Opportune capacity expansion — A definite edge

- Iron/steelmaking capacity expected to increase by 2–3x through FY24E
- Foray into LC ferrochrome and aluminium foils signifies aspirations beyond steel

SMEL will expand capacity in a phased manner in order to utilise it optimally. The company is in the process of increasing capacities of existing manufacturing plants and captive power plants. We see the capacity increase in two distinct phases:

- By FY23E, we expect: i) sponge iron and billet capacity to increase 2.1x to 2.9mtpa and 2.2x to 2mtpa, respectively; ii) TMT capacity is expected to increase 2.2x to 1.3mtpa while wire rod mill capacity is expected to treble to 0.6mtpa; and iii) new wire drawing mill capacity of 0.12mtpa.
- By FY25E, we expect DI pipe plant of 0.2mtpa to be set up. Prior to this, blast furnace and sinter plants of 0.6mtpa and 0.85mtpa, respectively, are expected to be set up. The phased distribution of capacities and sales at all levels of production imply that pig iron ore sales are likely to commence from FY24E.

In order to meet the requirement of enhanced steel-making capacity, captive power capacity is also expected to increase by 1.6x to 357MW by FY23E.

Exhibit 7: Capacity road map

Total	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Pellet	9,00,000	9,00,000	24,00,000	24,00,000	36,00,000	36,00,000	36,00,000	36,00,000
Sponge Iron	10,12,800	10,12,800	12,74,400	13,89,900	23,04,000	28,98,000	28,98,000	28,98,000
SMS	5,39,520	5,39,520	7,71,840	8,92,320	8,92,320	20,06,960	20,06,960	20,06,960
Rolling mill (TMT)	2,23,000	2,23,000	5,90,000	5,90,000	5,90,000	13,24,000	13,24,000	13,24,000
Rolling mill (WRM)	0	0	2,00,000	2,00,000	2,00,000	6,00,000	6,00,000	6,00,000
Wire drawing mill	0	0	0	0	1,20,000	1,20,000	1,20,000	1,20,000
Pipe mill	0	0	30,000	30,000	30,000	30,000	30,000	30,000
Blast furnace	0	0	0	0	0	0	6,00,000	6,00,000
Sinter plant	0	0	0	0	0	0	8,50,000	8,50,000
DI pipe plant	0	0	0	0	0	0	0	2,00,000
Power plant	164	164	227	227	227	357	357	357
WHRB	66	66	129	129	129	204	204	204
Fuel based	98	98	98	98	98	153	153	153
Wind turbine	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Ferroalloys	1,92,320	1,92,320	2,06,320	2,06,320	2,06,320	2,20,320	2,20,320	2,20,320
FeCr	98,000	98,000	98,000	98,000	98,000	98,000	98,000	98,000
FeMn	56,592	56,592	64,992	64,992	64,992	64,992	64,992	64,992
SiMn	37,728	37,728	43,328	43,328	43,328	43,328	43,328	43,328
Low carbon Ferrochrome	0	0	0	0	0	14,000	14,000	14,000

Source: Company, Edelweiss Research

The expansion of capacities will result in further integration of the Sambalpur with and Jamuria plants, augmentation of revenue and better cost control, not to mention a presence across the steel value chain. Furthermore, ongoing capacity expansion will enable SMEL to widen its presence in premium products such as wire rods and DI pipes.

Exhibit 8: Capacity by plant

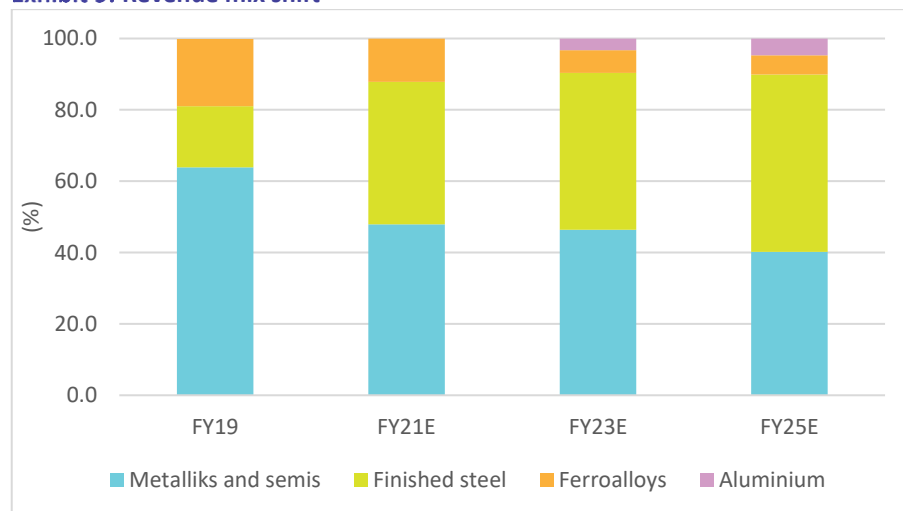
Capacity	Sambalpur		Jamuria		Mangalpur		Total		Proposed total
	Existing	Proposed	Existing	Proposed	Existing	Proposed	Existing	Proposed	
Captive power (MW)	118	40	94	90	15	0	227	130	357
Iron pellets (ktpa)	1,200	600	1,200	600	0	0	2,400	1,200	3,600
Sponge iron (ktpa)	792	561	538	947	60	0	1,390	1,508	2,898
Billets (ktpa)	401	461	491	653	0	0	892	1,115	2,007
Rolled products (ktpa)	410	510	410	744	0	0	820	1,254	2,074
Ferroalloys (ktpa)	98	14	70	0	38	0	206	14	220
Blast furance (ktpa)	0	0	0	600	0	0	0	600	600
DI pipe (ktpa)	0	0	0	200	0	0	0	200	200

Source: Company, Edelweiss Research

Revenue shift towards value-added products

SMEL is progressively shifting towards value-added steel. We expect revenue share of metalics and semis to decline from about 65% in FY19 to 46% by FY23E and further to 40% by FY25E. On the contrary, the revenue share of finished steel products is likely to rise from 17% in FY19 to 32% by FY23E on the back of a capacity ramp-up of rolling mills for both TMT and wire rods; this share would further rise to 50% by FY25E as DI pipe mill and blast furnace begin operations. We also expect aluminium foil's share in overall revenue to be 5% by FY25E.

Exhibit 9: Revenue mix shift



Source: Company, Edelweiss Research

Foray into LC ferrochrome and aluminium foil business is interesting

LC ferrochrome is a healthy market niche with an estimated 3.5% CAGR from CY19–30. This is a sea change compared with the developments of 1990s and 2000s when this market was shrinking drastically as advanced stainless steel melting practices reduce addition of LC ferrochrome grades to the melt during the finishing phase.

These qualities are nowadays mainly applied in certain alloy steels in the foundry industry and for nickel-based alloys wherein qualitative aspects are in the

foreground vis-a-vis quantitative aspects of stainless steel mass production. Stainless Steel producers typically use LC ferrochrome in the last stages of production to add precise quantity of chrome without affecting the carbon levels.

As the number of market participants has been shrinking – India and Zimbabwe exited this market in 2014 – consolidation has had a positive impact on profitability. China accounts for 52% of current production volume; however, LC ferrochrome is not exported from China and hence not an influential factor *per se*. The price of LC ferrochrome is typically 2–2.2x of HC ferrochrome.

SMEL is the first company in India since the country's exit from this space in 2014 to produce LC ferrochrome owing to its in-house expertise. The company's ferrochrome operations have one of the lower power consumption, slag rate and higher ore recovery in the industry. In our view, the foray into LC ferrochrome is a testimony to SMEL's technical competence.

Packaging is a dominant segment globally, accounting for 31% of total aluminium consumption. However, in India, the segment is under-represented, accounting for merely 15% of total consumption. The domestic aluminium packaging market is expected to expand at an 11.5% CAGR from 216ktpa in CY20 to 575ktpa by CY30E. The demand is expected to be driven by growing pharmaceutical, liquor, food & beverage and FMCG industry. The ban on plastic, online food delivery is expected to drive the demand.

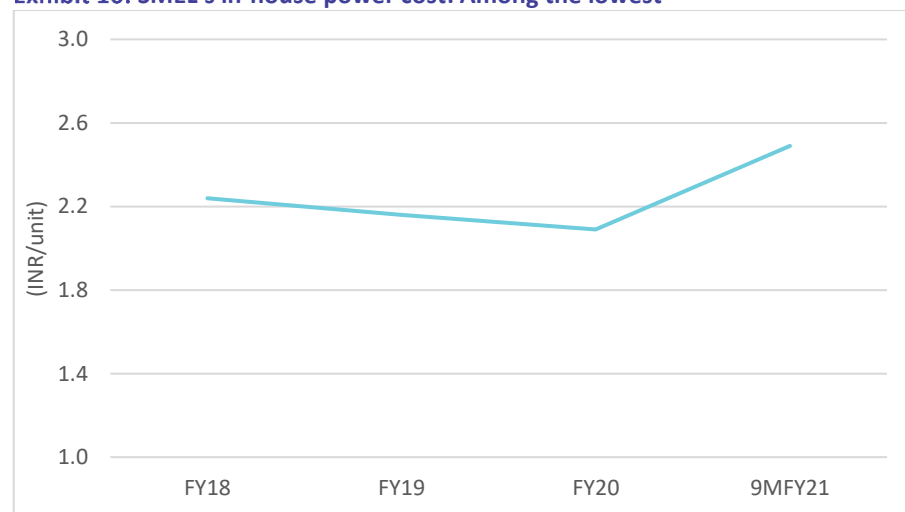
SMEL is commissioning a 40ktpa aluminium foil rolling mill at Pakuria, West Bengal, in FY22. The project is expected to generate revenue/EBITDA of INR6.4bn/INR714mn at full capacity utilisation. This is a high-returns business with a total project cost of INR4.2bn and an expected IRR of 25%

Cost-efficient operations

- Captive power cost of INR2.09–2.49/unit
- Low logistics cost owing to strategic location and captive sidings

SMEL's low power cost is its key competitive advantage. Against grid power that costs INR5–7/unit, cost of in-house power has been much lower at INR2.09–2.49/unit over past three years.

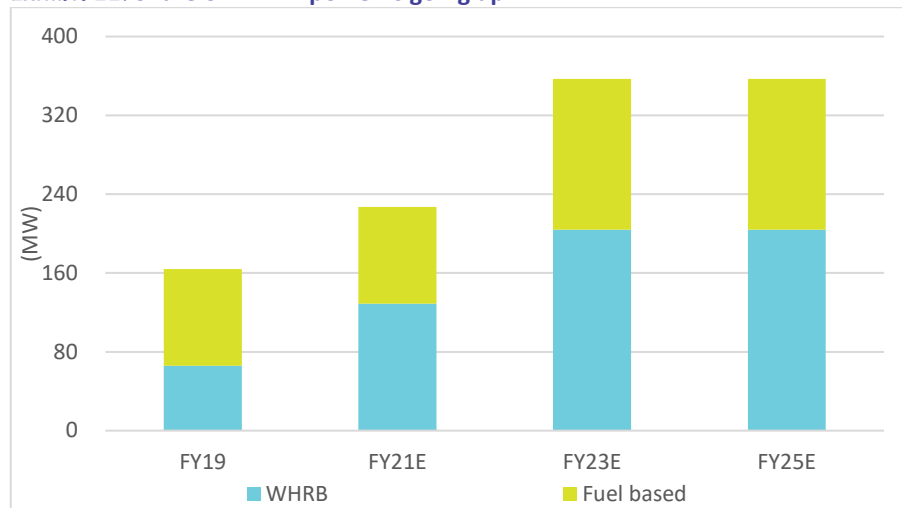
Exhibit 10: SMEL's in-house power cost: Among the lowest



Source: Edelweiss Research, Company

In order to control its cost of power, SMEL utilises pollution dust, char/flu gases, waste heat and solid waste (dolchar) from sponge iron plants and coal washery rejects as raw materials for captive power plants. The proportion of captive power generated from Waste Heat Recovery Based (WHRB) route is expected to go up to 57% by FY23E from 40% in FY19 owing to expansion of sponge iron capacity. This will help the company in maintaining cost of power at the current level of INR2.3–2.5/unit.

Exhibit 11: Share of WHRB power is going up

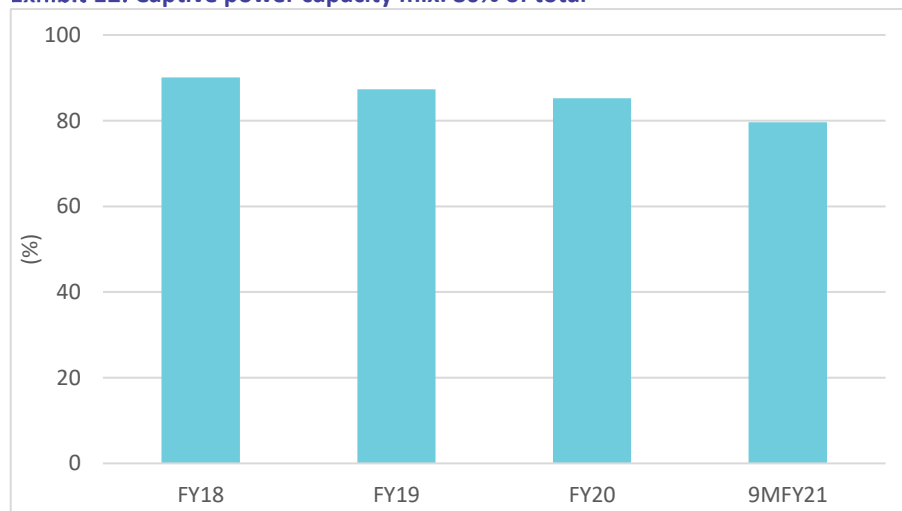


Source: Company, Edelweiss Research

Captive power as a percentage of total was 90% in FY18; by 9MFY21, it came down to 80% owing to new capacity of pellets, sponge iron and steel mills put up in FY20. The company has also ramped up its captive power capacity from 164MW in FY19 to 227MW in FY20. SMEL plans to increase WHRB captive power capacity from 129MW in FY20 to 204MW by FY23E in sync with the increase in its sponge iron capacity. In our view, captive power as a percentage of total is likely to be 85–90% FY23E onwards.

Furthermore, SMEL is able to save on power cost given its integrated operations. For instance, pellets need not be re-heated for feeding into sponge iron kilns. On the whole, this results in savings of at least INR500/t in power and fuel costs.

Exhibit 12: Captive power capacity mix: 80% of total



Source: Edelweiss Research, Company

By virtue of its efficient sourcing practices, the company gets lumps alongside fines. The premium lumpy ore (at the similar price as fines) is utilised for producing sponge iron, resulting in significant cost savings at the sponge iron stage.

Strategic location and captive sidings curtail logistics cost

SMEL's manufacturing plants are located in close proximity to its raw material sources—within 250km of the mineral belt in eastern India. The company has long-term linkages for coal as well as chrome ore with Mahanadi Coal Fields and Odisha Mining Corporation, respectively.

Exhibit 13: Raw materials and key sources

Raw material	Source
Iron ore/Iron ore fines	Mine owners located in Odisha
Chrome ore	Long term linkages with Odisha Mining Corporation, other mine owners and imports
Manganese ore	MOIL, other mine owners and imports
Coal	Fuel supply agreements with MCL, CCL and SECL, and imports

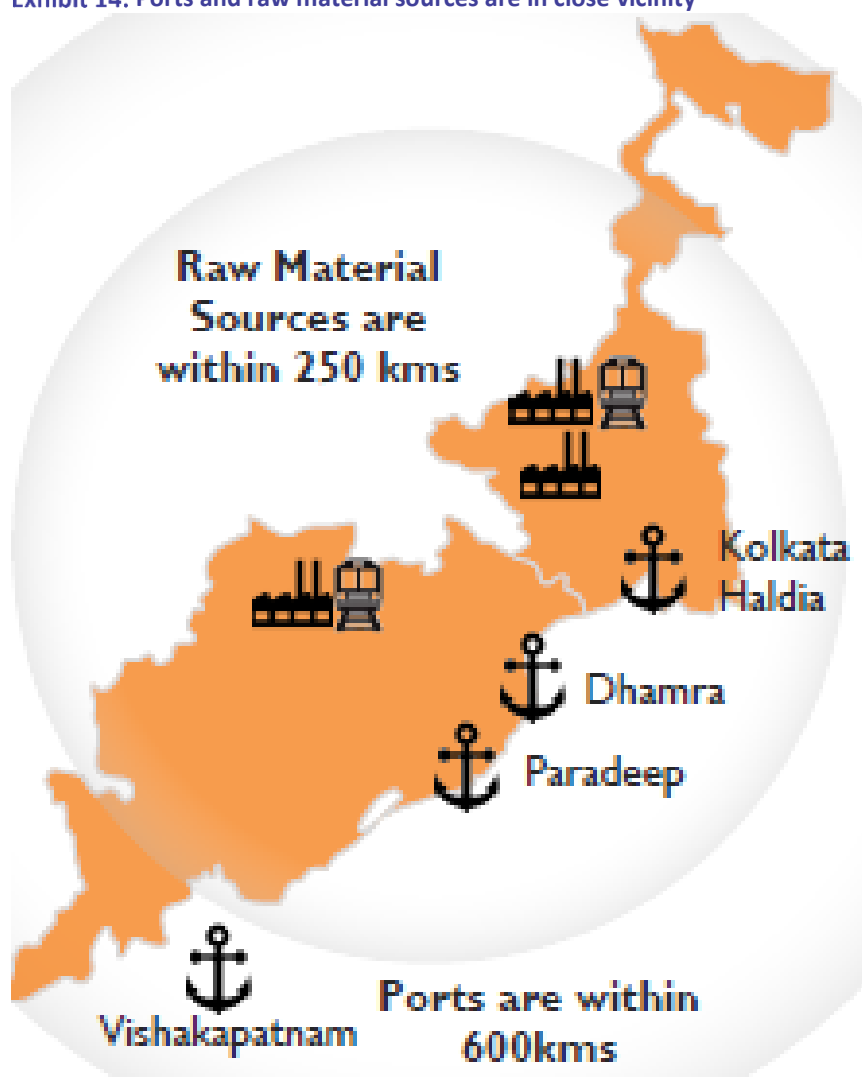
Source: Company, Edelweiss Research

Furthermore, manufacturing plants are well connected by national highways. The plants in Odisha and West Bengal are in proximity to NH 16 and NH 19, respectively. SMEL is one of the very few players in the secondary steel space to have captive railway sidings. The captive railway sidings at both Jamuria and Sambalpur plants are sufficient to cater to the current and future requirements. Transportation by rail has resulted in a reduction of freight cost and turnaround time for both raw materials and finished products. For distances above 500km, railways is 20–30% cheaper than road.

Both the plants are also located in the vicinity of ports. Dhamra and Paradeep ports are located within a radius of 300km from the Sambalpur plant while the Haldia port is located within a radius of 300km from the Jamuria plant.

SMEL utilises both the plants to cater to different sets of markets. The Jamuria plant caters to Eastern and North-Eastern India while the Sambalpur plant caters to South Eastern and Central India. This results in lower selling and marketing expenses.

Exhibit 14: Ports and raw material sources are in close vicinity



Source: Company, Edelweiss Research

Flexibility of sales across value chain underpins optimal margins

- Flexibility to sell intermediate products depending on demand environment
- Diversified revenue mix largely de-risks business model

The product portfolio comprises: i) long steel products, which range from intermediate products such as iron pellets, sponge iron and billets, and final products such as TMT and structural products; and ii) ferroalloys. Forward and backward integration of manufacturing plants allows for multiple points of sale across the steel value chain. This has provided the company with flexibility to sell intermediate products as well as use them for captive consumption, depending on demand. This in turn has resulted in a diversified product mix, which has reduced dependency on a particular product and de-risked income streams.

As the table below shows, SMEL has rejigged its sales mix depending on market conditions and its own capacity ramp-up plans. The revenue share of ferroalloys has gone down from 30% in FY16 to 12% in FY21 as: i) prices of steel products has gone up while the ones for ferrochrome have remained range-bound; and ii) capacity/sales of steel products has increased. Similarly, the share of billets in revenue mix has gone down in FY21, coinciding with the ramp-up in capacity of rolled products.

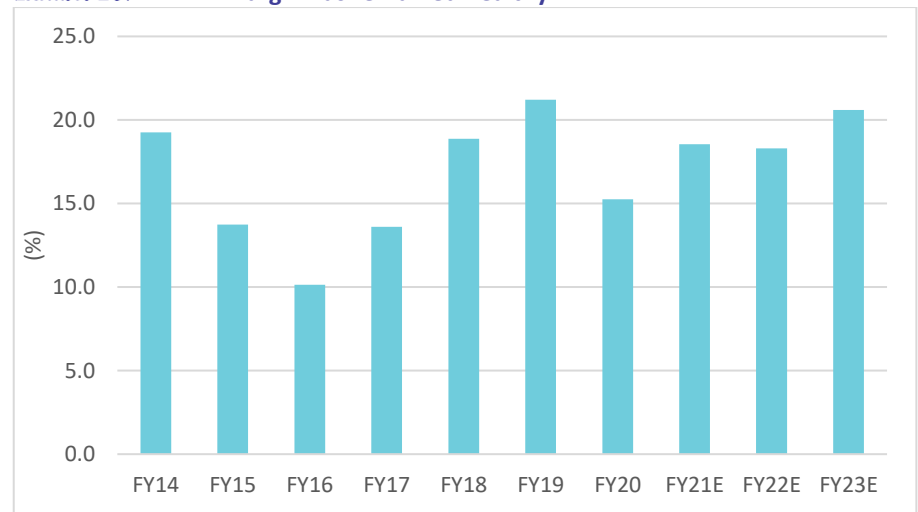
Exhibit 15: Revenue mix

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E
Pellets	12.1	10	9.2	10.8	12.0	23.5	26.2
Sponge Iron	25.9	27.9	25.3	27.6	21.0	22.1	30.1
Billets	8.1	19.6	19.1	25.5	25.6	2.4	1.6
Rolled products	24.3	16.6	15.3	17.2	24.0	40.0	32.9
Ferroalloys	29.6	26.0	31.1	18.9	17.4	12.1	9.2

Source: Edelweiss Research, Company

However, as a result of actively managing the product portfolio, SMEL's EBITDA margin has remained 14–20% since FY14 (except FY16).

Exhibit 16: EBITDA margin has remained healthy



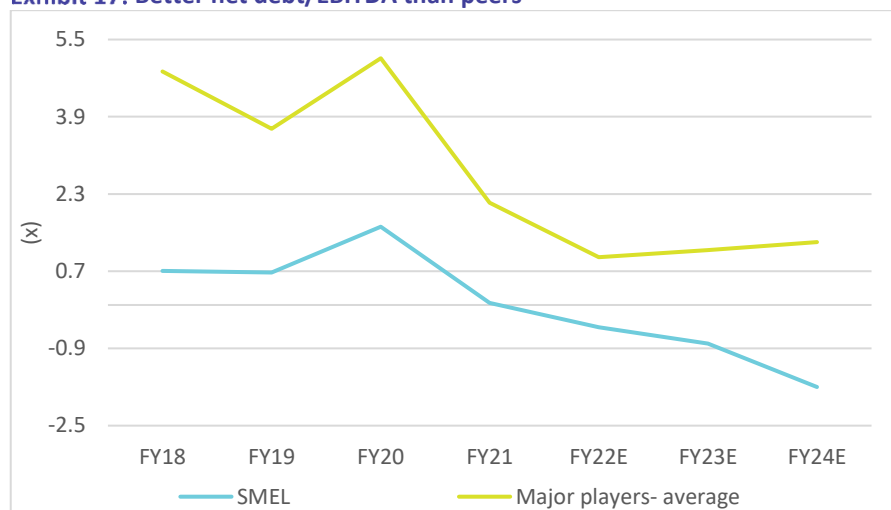
Source: Edelweiss Research, Company

Sound financial metrics

- Unique model of being net cash positive despite capex
- Free cash flow accretion through FY24E equivalent to 30% of market cap

We expect SMEL to be net cash positive by FY23E owing to: i) repayment of a major portion of its debt; and ii) cash generation owing to higher prices and capacity ramp-up. Compared with major steel players such as JSW Steel, Tata Steel, JSPL and SAIL, SMEL's leverage ratio has been always stronger.

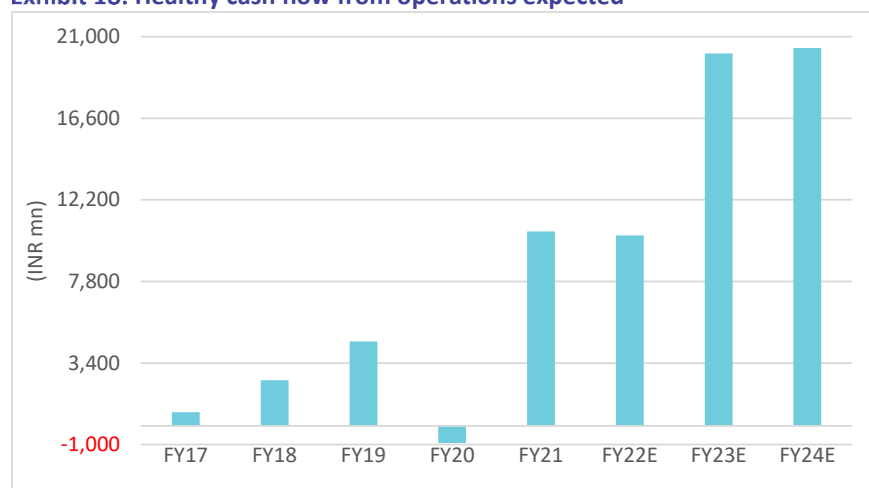
Exhibit 17: Better net debt/EBITDA than peers



Source: Company, Edelweiss Research

Going ahead, we expect SMEL to sustain its net cash position as cash flow from operations is expected to take care of both capex and debt repayment needs. We expect CFO to peak at INR20bn by FY24E owing to capacity ramp-up at rolling mills, higher sales of intermediaries such as sponge iron and pellets, and robust prices.

Exhibit 18: Healthy cash flow from operations expected

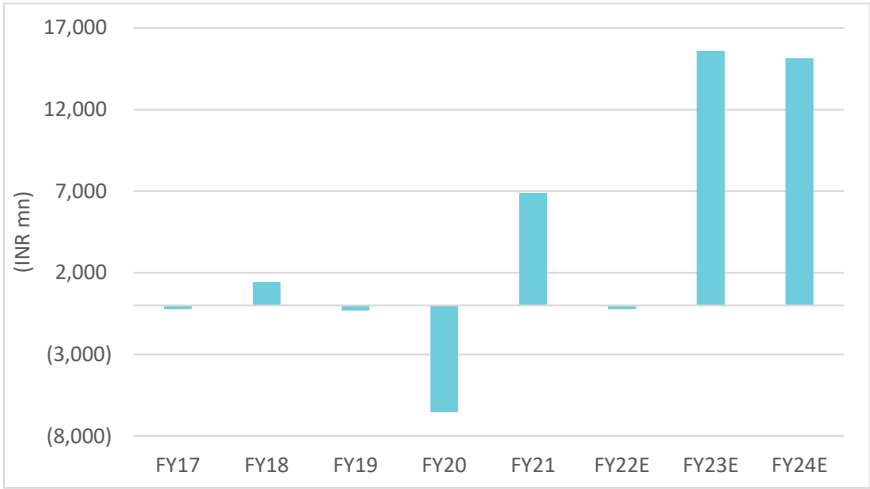


Source: Edelweiss Research, Company

SMEL is a rare business in carbon steel space that's net cash positive despite incurring capex. While gross debt at FY22-end is likely to be INR5.4bn primarily due to higher working capital requirements, we expect peak capex needs of INR10.5bn to be funded fully out of internal accruals. As a result, free cash flow is expected to be a INR (229)mn in FY22. However, IPO proceeds of INR6.5bn are likely to ensure that SMEL ends up with net debt position of INR1.2bn at March-22E.

We expect FCF to improve going ahead as production is ramped up at new capacities and there is a shift to towards rolled products. From FY25E, DI pipes and blast furnace are likely to enhance margins further.

Exhibit 19: Robust FCF expected



Source: Company, Edelweiss Research

All in all, we expect FCF accretion equivalent to 30% of market cap by FY24E.

Valuation

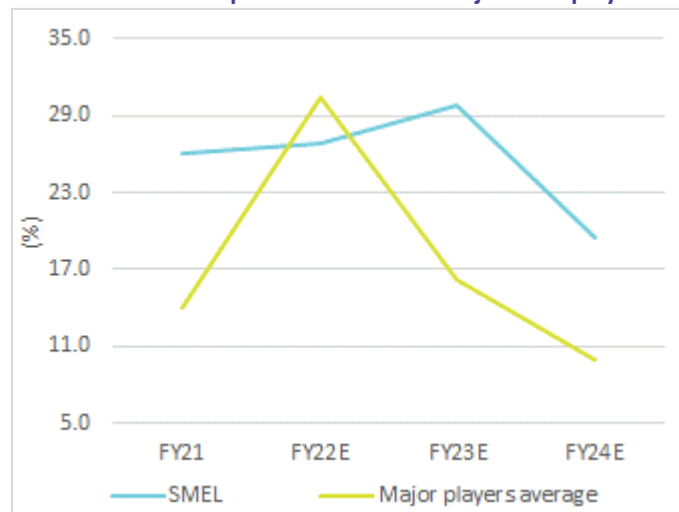
- We are initiating coverage on SMEL with 'BUY/SO' and a TP of INR580, implying 40% upside potential
- Despite better RoCE and RoE potential, SMEL is trading at a discount to major steel players on EV/EBITDA and P/E over FY22–24E
- The stock's trading at a premium to major steel players on P/BV owing to its higher RoE/RoCE potential

We estimate SMEL would fare better than major steel players on both RoE and RoCE in FY23 and FY24. In FY22, we expect steel players such as Tata Steel and JSW Steel to deliver better returns as they are predominantly flats players. HRC price uptick has been much higher than rebars with their price differential rising to almost INR14,000/t compared with historical average of INR4,500/t.

For FY23, we estimate SMEL would deliver an RoE of 30% compared with the average of 16% for major players. In FY24E, RoEs of SMEL and major steel players are expected to fall as we expect underlying prices to normalise. SMEL is still expected to fare better due to a higher proportion of rolled products and capacity ramp-up of intermediate products.

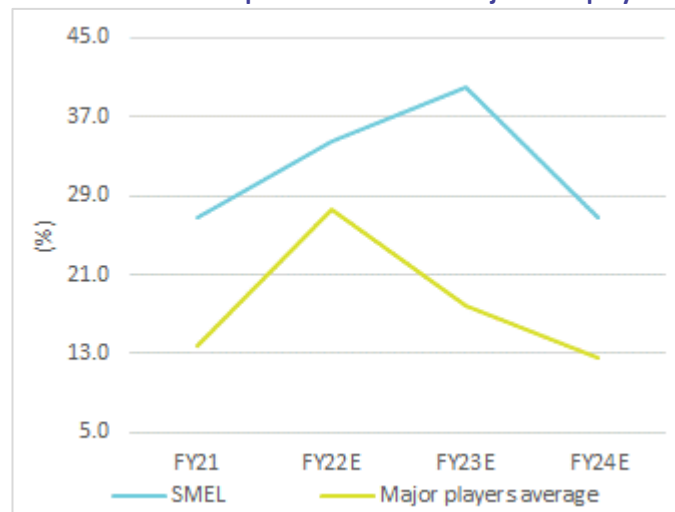
We expect RoCE of SMEL to peak in FY23E at 40%, mirroring peak EBITDA. However, in both FY23 and FY24, it is expected to outdo major steel players'.

Exhibit 20: RoE comparison: SMEL and major steel players



Source: Company, Edelweiss Research

Exhibit 21: RoCE comparison: SMEL and major steel players



Source: Company, Edelweiss Research

On both EV/EBITDA and P/E, SMEL trades lower than the major steel peers on FY23E and FY24E financials despite having a better returns profile than peers. Against the average (major players) of 4.8x and 5.8x on FY23E and FY24E EBITDA, SMEL is trading at 2.7x and 2.8x, respectively.

Exhibit 22: EV/EBITDA: SMEL versus peers

EV/EBITDA	FY22E	FY23E	FY24E
Tata Steel	3.6	4.8	6.3
JSW Steel	5.0	5.6	7.1
SAIL	3.3	4.4	5.1
JSPL	3.8	4.7	5.2
Average	3.8	4.8	5.8
SMEL	4.8	2.7	2.8

Source: Company, Edelweiss Research

Against the average (major players) of 7.7x and 11.2x on FY23E and FY24E EPS, SMEL trades at 5.6x and 6.8x respectively.

Exhibit 23: P/E: SMEL versus peers

P/E	FY22E	FY23E	FY24E
Tata Steel	5.3	9.1	15.5
JSW Steel	6.3	7.6	11.2
SAIL	3.5	5.8	8.0
JSPL	5.9	9.5	13.0
Average	5.0	7.7	11.2
SMEL	8.8	5.6	6.8

Source: Edelweiss Research, Company

Against the average (major players) of 1.2x and 1.1x on FY23E and FY24E BVPS, SMEL trades at 1.5x and 1.3x respectively. The slight premium on P/BV is justified due to the superior returns profile of SMEL as compared to peers. The adjusted RoE of peers is expected to be 16% and 10% in FY23E and FY24E respectively. However, adjusted RoE of SMEL is expected at 30% and 20% respectively.

Exhibit 24: P/BV: SMEL versus peers

P/BV	FY22E	FY23E	FY24E
Tata Steel	1.5	1.3	1.2
JSW Steel	2.4	1.9	1.7
SAIL	1.0	0.9	0.9
JSPL	1.0	0.9	0.9
Average	1.3	1.2	1.1
SMEL	2.0	1.5	1.3

Source: Edelweiss Research, Company

We value SMEL at 5x Q3FY22E EBITDA

We expect SMEL to hit peak profitability in FY23E despite our estimates of declining prices from Q1FY22. By FY23E, new capacities in steel-making such as: i) sponge iron and billet; ii) TMT; and iii) wire rod mill and Wire drawing to ramp up production and boost earnings. Furthermore, by FY25E, we expect DI pipe plant of 0.2mtpa to be set up. Prior to this, Blast furnace and Sinter plant of 0.6mtpa and 0.85mtpa are expected to be set up. Hence, progressively we see sales volume getting enhanced and product mix refined through FY25E, resulting in better returns and cash flow than peers.

We value SMEL at 5x Q3FY23E EBITDA—at the upper end of our valuation range for steel companies owing to: i) better returns; ii) net cash position from FY23E; and iii) our assumption of declining prices. On 5x Q3FY22E EBITDA, our TP works out to INR580/share, implying 40% upside potential.

Exhibit 25: We value SMEL at INR580/share

	Q3FY22E
EBITDA (INR mn)	30,177
Multiple (x)	5.0
EV (INR mn)	1,50,887
Net debt (INR mn)	2,839
Market cap (INR mn)	1,48,048
Number of shares (mn)	255
Fair value (INR)	580

Source: Edelweiss Research

Sensitivity analysis

We have performed sensitivity analysis of target price and RoE, net debt/EBITDA and free cash flow for FY23E to change in realisation and cost. Our analysis suggests that the target price is more sensitive to change in prices than a change in cost. For every 10% change in realisation of key products, the change in target price is 41% while for every 10% change in cost, the change in target price is 17%. Within +/- 10% of change in realisation/cost, target price ranges is INR248–913/share.

Exhibit 26: Sensitivity of target price to realisation and cost

		% change in realisation				
		-20%	-10%	0%	10%	20%
% change in cost	-20%	289	528	767		
	-10%	196	435	674	913	
	0%	102	341	580	819	1,058
	10%		248	487	726	965
	20%			394	633	872

Source: xxx, Edelweiss Research

Our base case FY23E RoE of 30.2% is also more susceptible to the change in realisation than cost. For every 10% change in realisation of key products, the change in RoE is 26% while for every 10% change in cost, the change in RoE is 12%. Within +/- 10% of change in realisation/cost, RoE ranges from 14–41%. It is worth noting that SMEL is unlikely to incur loss even if realisation drops by 20%. Furthermore, even if there is a raw material cost escalation of 20% and steel/intermediary prices remain unchanged, RoE is likely to drop to only 22%.

Exhibit 27: Sensitivity of FY23E RoE to realisation and cost

		% change in realisation				
		-20%	-10%	0%	10%	20%
% change in cost	-20%	15.7	27.8	36.3		
	-10%	9.8	23.7	33.4	40.6	
	0%	2.7	19.1	30.2	38.2	44.2
	10%		13.7	26.5	35.4	42.1
	20%			22.2	32.4	39.8

Source: Edelweiss Research

Our base case FY23E FCF of INR15.6bn is also more susceptible to the change in realisation than cost. For every 10% change in realisation of key products, the change in RoE is 53% while for every 10% change in cost, the change in FCF is 22%. Within +/- 10% of change in realisation/cost, FCF ranges INR3.8–27.3bn.

It is worth noting that SMEL is likely to incur negative FCF only if realisation drops by 20%. Furthermore, even if there is a raw material cost escalation of 20% without any corresponding increase in realisation, FCF is likely to drop only to INR8.7bn.

Exhibit 28: FCF's sensitivity to realisation and cost

		% change in realisation				
		-20%	-10%	0%	10%	20%
% change in cost	-20%	5,929	14,234	22,539		
	-10%	2,453	10,758	19,064	27,369	
	0%	-1,023	7,283	15,588	23,894	32,199
	10%		3,807	12,113	20,418	28,723
	20%			8,637	16,942	25,248

Source: Edelweiss Research

Our base case implies net cash position in FY23E with net debt/EBITDA at -0.34. However, if realisation drops by 10%, net debt/EBITDA would escalate to 0.06. For a +/- 10% change in realisation and cost, we expect net debt/EBITDA to be -0.61 to 0.46—still lower than other major steel peers.

Exhibit 29: Sensitivity of net debt/EBITDA to realisation and cost

		% change in realisation				
		-20%	-10%	0%	10%	20%
% change in cost	-20%	0.09	-0.37	-0.57		
	-10%	0.58	-0.19	-0.47	-0.61	
	0%	1.59	0.06	-0.34	-0.53	-0.64
	10%		0.46	-0.18	-0.44	-0.58
	20%			0.05	-0.32	-0.50

Source: Edelweiss Research

Financial Outlook

- Hitting peak profitability in FY23; peak capex in FY22
- FY22E–24E cumulative FCF at 30% of current market cap

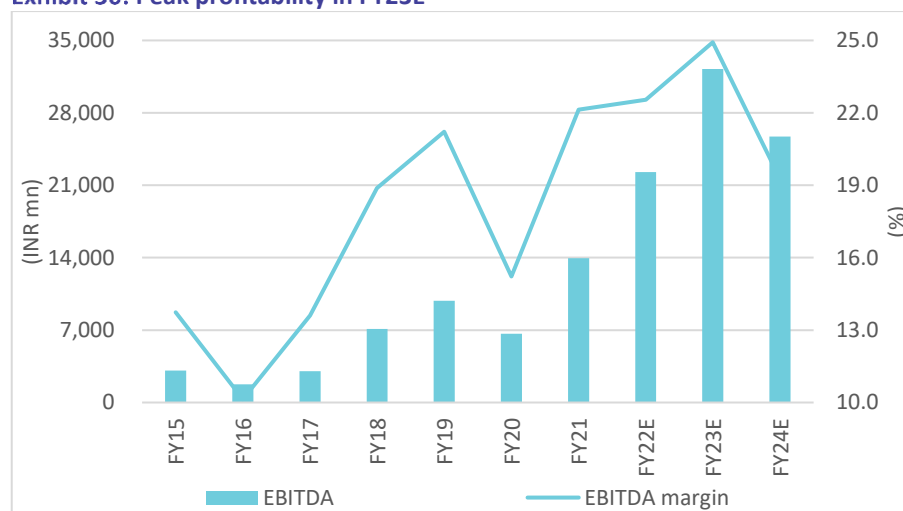
SMEL is a FY23 story rather than FY22 one—unlike its other steel peers. While most steel companies are likely to hit peak profitability in FY22E, we expect SMEL to reach the peak EBITDA margin of 25% in FY23E. Furthermore, its capex cycle is likely to peak out in FY22 itself with benefits accruing henceforth. We expect a structural shift in EBITDA base from sub-INR9bn from FY15–20E to INR25–30bn between FY22 and FY24E. On the returns front, we expect a significant improvement on the back of: i) a refined product mix; and ii) higher capacity.

Peak profitability by FY23E; expected to sustain at 20%-plus

SMEL has had its fair share of EBITDA volatility in the past. However, the company has seen continuous improvement in EBITDA and EBITDA margin from FY16–19. After dipping in FY20 owing to price weakness, EBITDA margin improved to 22% in FY21 and 27% in Q4FY21. Going ahead, despite our estimates of declining steel prices, annual EBITDA margin is likely to peak at 25% by FY23E.

Furthermore, EBITDA is likely to breach the INR30bn mark in the same year. In FY24E, we expect prices to moderate and EBITDA margin to decline to 20%. However, going ahead we expect EBITDA margin to stay above 20% as production of value-added and differentiated products such as DI pipes, LC ferrochrome and aluminium foil ramps up.

Exhibit 30: Peak profitability in FY23E

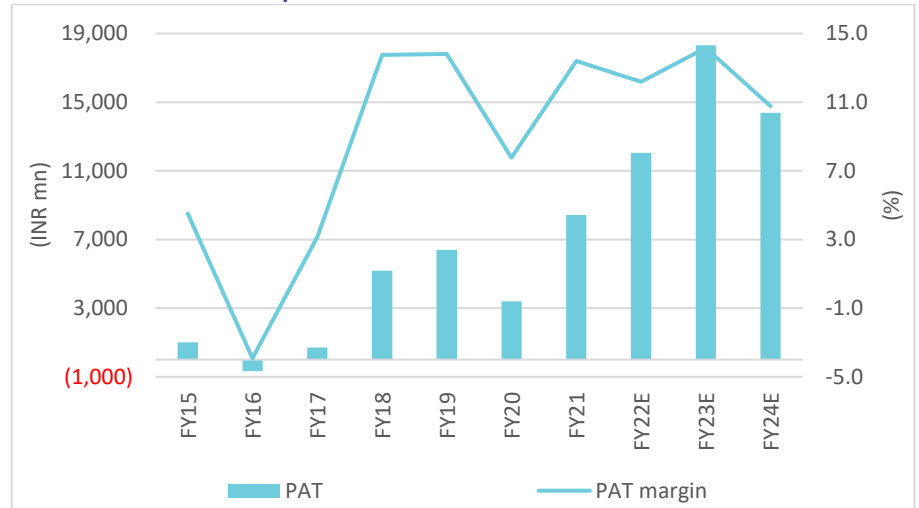


Source: Company, Edelweiss Research

Profitability set to improve

Alongside improvement in EBITDA, we expect PAT to improve. While greater depreciation owing to higher capacity is expected to mitigate, the positive impact of higher EBITDA and lower interest cost due to debt repayment by FY22 is likely to aid PAT growth. We estimate PAT margin would come in at almost 15% by FY23E aided by higher EBITDA and lower interest cost. Going ahead, we expect PAT to sustain at INR15bn-plus owing to enhanced capacity.

Exhibit 31: PAT set to improve



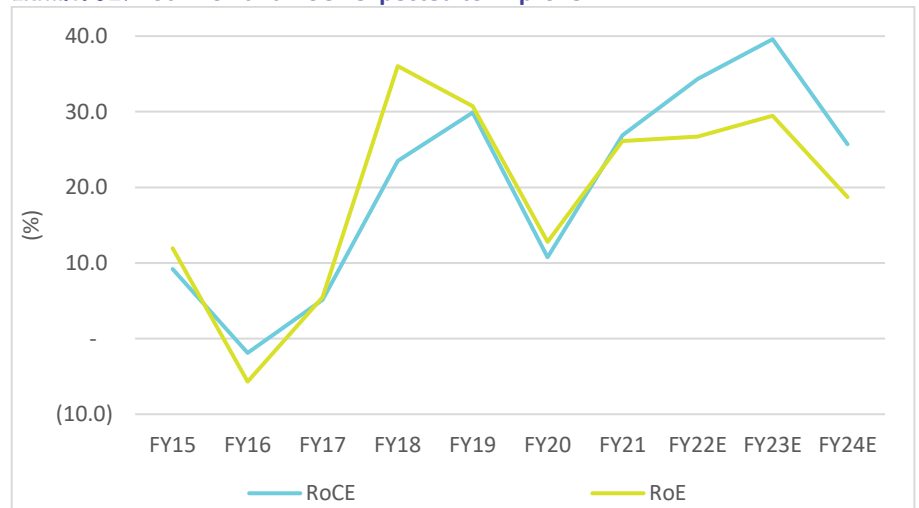
Source: Company, Edelweiss Research

Attractive returns in store

SMEL is a unique case of capacity expansion going hand in hand with debt reduction. The company is expected to hit peak capex of INR10.5bn in FY22. We expect the capex to be funded adequately by internal accruals. In FY22, we expect the bulk of debt repayment from IPO proceeds. Hence, despite a substantial increase in capacity, we do not expect debt to go up.

We expect RoE to sustain between 20% and 25% through FY25E despite the company being in expansion mode. RoCE is also expected to improve given lower intensity capex vis-à-vis peers. Almost all the expansion is brownfield in nature, entailing lower civil/structural cost.

Exhibit 32: Both RoE and RoCE expected to improve

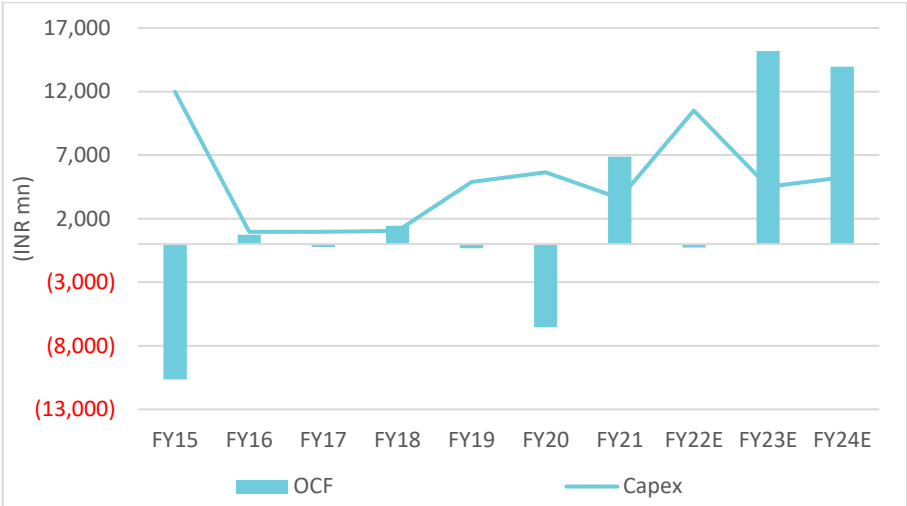


Source: Company, Edelweiss Research

Cumulative FCF at 30% of current market cap through FY24E

As a result of low-intensity capex and EBITDA uptick from a capacity ramp-up, we expect FCF accretion equivalent to 30% of current market cap over the next three years. While we expect a slightly negative FCF in FY22 owing to peak capex, cumulative FCF is likely to be INR30bn from FY22 to FY24.

Exhibit 33: Significant FCF accretion in store



Source: Edelweiss Research, Company

Key Risks

SMEL operates in a very competitive environment with little differentiation in products. Furthermore, longs products cannot be transported over long distances and hence the opportunity to export is also limited. The company does not have long-supply contracts for most raw materials. This exposes it to supply and price risk, particularly pertaining to imported coal.

Besides, the company suffers from two operational risks: i) disruption in existing operations similar to past; and ii) less experience in new products. Lastly, there are ongoing criminal proceedings against directors and promoter group that might impact the stock performance in case of an adverse judgment.

Intense competitive environment

The share of large players (using BF/BOF) has increased to 35% in FY20 from 24% in FY14 in long steelmaking. Long steel manufactured using BF/BOF route is considered to be of better tensile strength (low sulphur and phosphorus content). Over last three years, large players, such as, SAIL, JSPL and RINL have added almost 7mtpa of longs-focused capacities. It is expected the share of large players in longs steelmaking will further increase to 38–40% by FY25. This will intensify competition in the longs steel segment and adversely impact smaller players that produce steel through the sponge iron route.

Vulnerability to raw material availability and prices

SMEL has coal linkages to meet more than half of its requirement and long-term linkage with Odisha Mining Corporation (OMC) for supply of Chromite. However, the company procures some of the primary raw materials from third parties without any long-term contracts, such as: i) iron ore, iron ore fines and manganese ore; ii) imported coal; and iii) Chromite in addition to the sourcing from OMCs. Absence of long-term supply contracts for raw materials exposes the company to price, currency, and international policy and trade risks.

Limited experience in manufacturing and sales of certain products

SMEL's expansion plans include the proposal to establish a new DI pipe plant, blast furnace and aluminium foil rolling mill. The company has limited experience in manufacturing and sale of these products. These products are expected to account for 15% of revenue by FY25. Any delay in commissioning/stabilising these plants might lead to lower profitability or revenue, and hence adversely impact its cash flow.

Material adverse effect from plant-specific shutdowns

Manufacturing plants are subject to operating risks such as equipment breakdown, power supply disruption and other industrial accidents. In the past, SMEL has suffered on account of such incidents. For instance in 2010, one of its ferroalloy plants located at the Sambalpur manufacturing facility was damaged due to a fire that snapped production for nearly six months. In 2015, a transformer for one of the ferroalloy plants located at the Sambalpur facility suffered a breakdown, resulting in production stoppage for more than two months.

As recently as FY21, due to operating restrictions/lockdowns consequent to the covid-19 pandemic, both the Jamuria and Mangalpur plants had to operate with limited workforce and at curtailed capacity. It was only after May 23, 2020 that

production at both the plants could be ramped up in a phased manner. This had material impact on the company's financials.

Besides, there are incidents of coal catching fire in summers. In 2016, there were two instances of spontaneous combustion of coal at the Sambalpur manufacturing plant. Furthermore, the company has faced instances related to shutdown of some captive power plants.

For instance in 2011 and 2014, the turbine for 15MW and 30MW captive power plants at Mangalpur and Jamuria resulted in stoppage of production of power for nearly three months and two months, respectively. In 2016, two fly ash silos connected with the captive power plant at Jamuria manufacturing plant collapsed, resulting in stoppage of power production for nearly three months.

Outstanding criminal proceedings against directors

As many as 17 criminal complaints have been filed against certain directors of the company before the Sub-Divisional Judicial Magistrate, Sambalpur for alleged offences committed under the under the Odisha Factories Act, Factories Act, 1948, the Odisha Factory Rules, 1950 and the Indian Penal Code, 1860, for injuries sustained by workers, some of which resulted in death, and for certain non-compliances noted upon inspection by authorities of the Factories and Boilers department, Sambalpur.

The aforesaid directors of the company are released on bail by various orders, and the matter is *sub judice*. One criminal complaint has been filed against directors Mahabir Prasad Agarwal, Brij Bhushan Agarwal, Sanjay Kumar Agarwal and Dev Kumar Tiwari under Rule 13 of the Orissa Factories Rules, 1950 for violation of Rule 3(2) of the Orissa Factory Rules. The matter is currently pending.

Subsequent hearings and/or an adverse judgment in these matters can impact SMEL's stock price.

Company Description

SMEL is a leading integrated metals producer based in India with focus on long steel products and ferroalloys, and an ability to sell intermediate and final products across the value chain. The company has a track record of generating positive EBITDA since commencing operations in FY05. It is one of the leading players in terms of long steel products and pellet capacity, among the largest producers of ferroalloys in India and the fourth-largest player in India in the sponge iron industry by annual installed capacity.

SMEL operates three manufacturing plants: one in Odisha and two in West Bengal. The aggregate installed metal capacity of the manufacturing plants is 5.9mtpa (comprising intermediate and final products). The plants house captive power plants with an aggregate installed capacity of 227MW.

The Odisha manufacturing plant caters to customers in southern and western India while the West Bengal manufacturing plants caters to customers in northern and eastern India. The company's product offerings cater to a mix of customers (institutional and end consumers) through its distribution network.

Exhibit 34: Capacity snapshot

Segment	Capacity as at Dec '20
Pellets (mt)	2.4
Sponge Iron (mt)	1.38
Billets (mt)	0.89
Long Steel (mt)	0.82
Ferroalloys (mt)	0.21
Captive Power Plant (MW)	227
Wind Power (MW)	5.1

Source: Company, Edelweiss Research

SMEL's manufacturing plants are strategically located in close proximity to the mineral belt in eastern India, which is rich in iron ore, iron ore fines, manganese ore, chrome ore and coal mines. Not only this, the plants are also in close proximity to ports. Thus, the company is able to source raw materials and offer products at cost effective and competitive prices.

Exhibit 35: Sourcing of raw materials

Raw Materials	Sources
Iron Ore/ Iron Ore Fines	Mine owners located in Odisha
Chrome Ore	Odisha Mining Corporation Limited, other mine owners and imports
Manganese Ore	MOIL Limited, other mine owners and imports
Coal	Mahanadi Coalfields Limited and Central Coalfields Limited, auction through government approved auctioneers and imports

Source: Company, Edelweiss Research

The Sambalpur and Jamuria manufacturing plants have captive railways sidings, which help in transporting raw materials and products in a cost- and time-effective manner.

Sambalpur manufacturing plant

The Sambalpur manufacturing plant is located in Odisha and consists of an integrated steel plant with an installed metal capacity of 2.90mtpa (including intermediate and final products) as of December 31, 2020. The manufacturing plant

comprises two pellet plants, seven direct reduced iron kilns for sponge iron (two kilns of 350TPD each, two kilns of 100TPD and three kilns of 500TPD each), 12 billet furnaces (four furnaces of 18TPH each, four furnaces of 8TPH each and four furnaces of 12TPH each), one rolling, structural, wire rod and pipe mill each and seven ferroalloy furnaces (two furnaces of 6MVA each, two furnaces of 9MVA each and three furnaces of 11MVA each).

Exhibit 36: Installed capacities and proposed expansion

(ktpa)	Installed Capacity	Proposed Capacity Expansion
Pellet	1,200	600
Sponge Iron	792	561
Billet	401	461
Rolling mill and wire rod mill	320	510
Structure mill	60	-
Pipe mill	30	-
Ferroalloy	98	14

Source: Company, Edelweiss Research

Note: i) sponge iron (direct reduced iron): capacity of each kiln in TPD X 330 days per year; ii) billet: capacity of each furnace in TPH X (24 hours per day/ heat cycle) X 330 days per year; 1 heat cycle = 3 hours; iii) ferroalloy products: furnace with 1 MVA capacity is equivalent to 1,555.56 TPA. The installed capacity of ferroalloy products may vary depending on the type of ferroalloy produced.

The Sambalpur manufacturing plant has four captive power plants comprising one of 33MW, two of 30MW each and one of 25MW, aggregating 118MW. Any shortfall in the electricity requirements of the manufacturing plant is met with power supply from WESCO. To meet its anticipated power requirements consequent to proposed capacity expansion, SMEL is in the process of adding another 40MW captive power plant on the premises.

The Sambalpur manufacturing plant draws 5.64 cusecs of water annually from the Hirakud reservoir pursuant to an agreement with the Government of Odisha. The manufacturing plant has a captive railway siding and is in proximity to NH16. The nearest ports to the manufacturing plant are Dhamra and Paradip, which are located in Odisha, and Visakhapatnam, which is located in Andhra Pradesh.

Jamuria manufacturing plant

The Jamuria manufacturing plant is located in the state of West Bengal and consists of an integrated steel plant with an installed metal capacity of 2.71mtpa (including intermediate and final products), as of December 31, 2020. The manufacturing plant comprises two pellet plants (600ktpa each), eight direct reduced iron kilns for sponge iron (one kiln of 350TPD, three kilns of 300TPD each, two kilns of 90TPD each and two kilns of 100TPD), 18 billet furnaces (four furnaces of 5TPH each, two furnaces of 15TPH each, four furnaces of 18TPH each and eight furnaces of 8TPH each), one rolling, one wire rod and one structural mill each and six ferro alloy furnaces (two furnaces of 4.5MVA each and four furnaces of 9MVA each).

Exhibit 37: Installed capacities and proposed expansion

(ktpa)	Installed Capacity	Proposed Capacity Expansion
Pellet	1,200	600
Sponge Iron	538	947
Billet	491	653
Rolling mill and wire rod mill	350	744
Structure mill	60	-
Ferroalloy	70	-
Blast furnace	-	600
Ductile pipe	-	200

Source: Company, Edelweiss Research

Note: i) sponge iron (direct reduced iron): capacity of each kiln in TPD X 330 days per year; ii) billet: capacity of each furnace in TPH X (24 hours per day/ heat cycle) X 330 days per year; 1 heat cycle = 3 hours; iii) ferroalloy products: furnace with 1 MVA capacity is equivalent to 1,555.56 TPA. The installed capacity of ferroalloy products may vary depending on the type of ferroalloy produced.

The Jamuria manufacturing plant has three captive power plants (1 X 21MW, 1 X 43MW and 1 X 30MW) aggregating 94MW. Any shortfall in the electricity requirements of the manufacturing plant is met with power supply from India Power Corporation Limited and Damodar Valley Corporation. To meet the anticipated power requirements consequent to the proposed capacity expansion, SMEL is in the process of adding a 90MW captive power plant on the premises.

The Jamuria manufacturing plant draws water from the Ajoy river. Asansol Municipal Corporation also supplies water to the Jamuria manufacturing plant. The manufacturing plant has a captive railway siding and is in close proximity to NH19. The nearest ports to the manufacturing plant are Kolkata and Haldia, both located in West Bengal.

Mangalpur manufacturing plant

The Mangalpur manufacturing plant is located in the state of West Bengal and consists of a steel plant with an installed metal capacity of 0.10mtpa (including intermediate and final products), as of December 31, 2020. The manufacturing plant comprises direct reduced iron kilns for sponge iron plants (three kilns of 100TPD each) and ferroalloy furnaces (one furnace of 4.5MVA and two furnaces of 9MVA each).

Exhibit 38: Installed capacity

(ktpa)	Installed Capacity
Sponge Iron	60
Ferroalloy	38

Source: Company, Edelweiss Research

Note: i) sponge iron (direct reduced iron): capacity of each kiln in TPD X 330 days per year; and ii) ferroalloy products: furnace with 1MVA capacity is equivalent to 1,555.56TPA. Installed capacity of ferroalloy products may vary depending on the type of ferroalloys produced

The Mangalpur manufacturing plant has one captive power plant of 15MW. Any shortfall in the electricity requirements of the manufacturing plant is met with power supply from India Power Corporation Limited and Damodar Valley Corporation. The manufacturing plant is in close proximity to NH19. The nearest ports to the manufacturing plant are Kolkata and Haldia, both located in West Bengal.

The company has proposed a new aluminium foil manufacturing plant in Pakuria, West Bengal, with capacity of 40,000TPA.

Sales, Marketing and Distribution

SMEL's product range is supported by a diverse sales and distribution network throughout India and globally. The company distributes its products in the domestic market by selling through a distribution network comprising wholesale traders, distributors, channel partners and dealers. It also sells directly to institutional customers. As of December 31, 2020, SMEL had partnerships with 42 distributors across 13 states. In the export market, SMEL employs a combination of direct sales to institutional customers and also sales through international trading houses. The TMT and structural products are sold under the 'SEL' brand. Sales contracts are a mix of medium term and spot.

SMEL is focusing on specific markets with room for penetration into high-value projects/ products. The marketing team is also focused on selling products such as customised billet and specialised ferroalloys for special steel applications. The company has created a place in terms of product customization in all major product segments by offering a holistic product solution. For instance, SMEL's cut-and-bend TMT bars are customizable.

Management Overview

SMEL is a promoter-driven company with a cumulative experience of several decades in the steel and ferroalloys industries.

Mahabir Prasad, Chairman

Mr. Prasad has been a Director since April 6, 2018. He is the founder of, and has been a director of Shyam SEL and Power Limited (SSPL) -a fully owned subsidiary - since its inception and is one of the initial shareholders. He has over three decades of experience in the steel and ferroalloys industry. He is actively involved in SSPL's operations and CSR activities.

Brij Bhushan Agarwal, Vice-Chairman and MD

Mr. Agarwal has been a Director since its inception in December, 2002. He is a Bachelor of Commerce from the University of Calcutta. Mr. Agarwal is also the Vice Chairman and Managing Director of SSPL, and has been a director of SSPL since its inception. With over three decades of experience in the steel and ferroalloys industry, he is primarily responsible for strategic planning, future expansion, business development, marketing, human resources and corporate affairs.

Sanjay Kumar Agarwal, Joint MD

Mr. Agarwal has been a Director of the company since its inception in December, 2002. He is a Bachelor of Commerce (Honours) from the University of Calcutta. He has over 17 years of experience in the steel and ferroalloys industry. He is primarily responsible for operations of the manufacturing plants at Sambalpur, Jamuria and Mangalpur, with focus on cost control, production efficiency and competitive procurement of raw material.

Deepak Kumar Agarwal, Whole-time Director

He has been a Director of the company since July 14, 2014. He holds a bachelor's degree in commerce, with honours, from University of Calcutta. He is also an associate member of the Institute of Company Secretaries of India. He has previously been associated with Shyam SEL and Power Limited and has over a decade of experience in the steel and ferroalloys industry. He is responsible for handling finance, risk management and corporate affairs for the company and its subsidiaries.

Dev Kumar Tiwari, Director – Operations

Mr. Tiwari has been a Director since April 10, 2009. He is a Bachelor of Arts (Honours) from Bihar University, Muzaffarpur. Prior to his appointment as Director, Mr. Tiwari worked as a mechanical engineer at SSPL for seven years. He has over 23 years of experience in the steel and ferroalloys industry. He is responsible for project implementation and operations of the Sambalpur manufacturing plant.

Bhagwan Shaw, Whole-time Director

Mr. Shaw has been a Director since March 7, 2013. He has passed the secondary examination conducted by West Bengal Board of Secondary Education. Prior to his appointment as Director, he was manager (store) in the company. He has 12 years of experience in the steel and ferroalloys industry. Mr. Shaw is responsible for management and inventory control of stores and spares at the Sambalpur manufacturing plant.

Venkata Krishna Nageswara Rao Majji, Independent Director

Mr. Majji is an Independent Director. He has been a Director since December 13, 2014. Mr. Majji is a Bachelor's of Science from the Andhra University. He was previously associated with Shyam Century Ferrous Limited, and has several years of experience in the iron and steel industry.

Yudhvir Singh Jain, Independent Director

Mr. Jain has been a Director of the company since January 16, 2018. He is a Bachelor of Science (Honours) from the University of Delhi and also a Bachelor of Law from the same university. Mr. Jain was previously associated with Corporation Bank for 34 years, and retired as a general manager.

Ashok Kumar Jaiswal, Independent Director

Mr. Jaiswal has been a Director since January 16, 2018. He is a Bachelor of Science from the Banaras Hindu University. He is also a member of the Institute of Chartered Accountants of India. Mr. Jaiswal has several years of experience in the finance sector and also passed the limited insolvency examination conducted by the Insolvency and Bankruptcy Board of India, constituted under the Insolvency and Bankruptcy Code, 2016.

Ajay Choudhury, Independent Director

He has been a Director of the company since April 6, 2018. He is a Bachelor of Commerce and a Bachelor of Law from the University of Calcutta, and has been a member of the Bar Council of West Bengal for over 27 years. He is the proprietor of Choudhury Law Offices, providing legal services in the fields of arbitration, corporate, civil and restructuring matters and is a practising advocate in the High Court of Calcutta.

Kishan Gopal Baldwa, Independent Director

Mr. Baldwa has been a Director since May 15, 2018. He is a Bachelor of Commerce from the University of Rajasthan. Mr. Baldwa has been a fellow member of the Institute of Chartered Accountants of India for 36 years and has obtained a certificate of practise from the Institute of Chartered Accountants of India.

Rajni Mishra, Additional Independent Director

She has been a Director since February 12, 2021. She is a Bachelor of Botany from the University of Calcutta, and a Master of Business Administration from the West Bengal University of Technology. She is also an associate of the Institute of Company Secretaries of India and a director on the board of directors of Shyam Steel Industries Limited and Elpee Commercial Limited.

Industry Outlook

Indian steel demand–supply dynamics

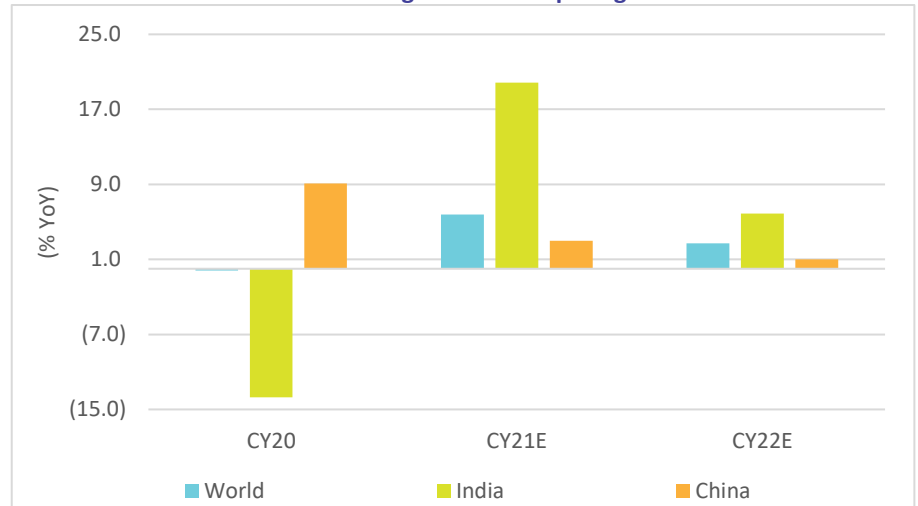
India is among the fastest growing major economies of the world. It is also the sixth-largest economy on a nominal basis. The country's GDP has increased at a 7.1% CAGR from 2012–13 to 2017–18, primarily driven by the services sector, which grew by 8.5% during the period. Steel demand is closely related with GDP growth, with steel demand to GDP growth multiplier varying across phases.

After lagging India's GDP growth since 2012–13, steel demand growth outpaced macroeconomic growth in FY21. With GDP expanding gradually, the rise in incomes led to robust growth in Auto, Consumer Durables, Railways, Affordable Housing and Rural Housing coupled with a low base effect (demonetisation).

Over the last decade, India's steel demand growth has outpaced the world's average, except for a brief period from 2010 to 2013 that was impacted by the slowdown in key end-use segments in the domestic market. However, post-2013, domestic demand has invariably exceeded global demand, which was marred by a 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 the auto and building & construction segments.

According to the World Steel Association (WSA), global steel demand is expected to recover to 1.874bnt and grow 5.8% in CY21. India is expected to outpace global steel demand with growth anticipated at 19.8% in CY21.

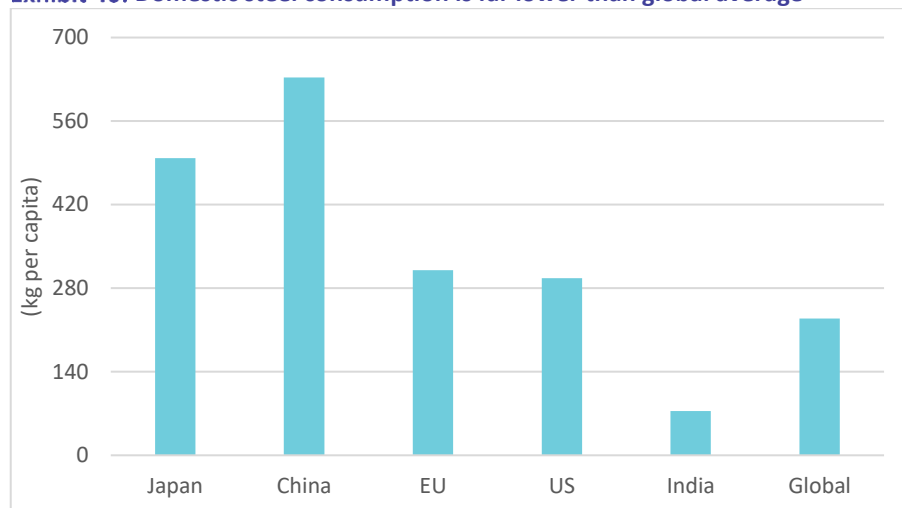
Exhibit 39: Domestic steel demand growth to outpace global and China



Source: WSA Short Range Outlook, April -21, Edelweiss Research

India's per capita steel consumption is very low at a meagre 74kg against global average of 229 kg. Developed economies such as USA, the EU, Japan and China have much higher spending on infrastructure and relatively more steel-intensive housing/commercial establishments, leading to higher per capita consumption of steel. An underpenetrated Indian steel market represents high future growth potential.

Exhibit 40: Domestic steel consumption is far lower than global average

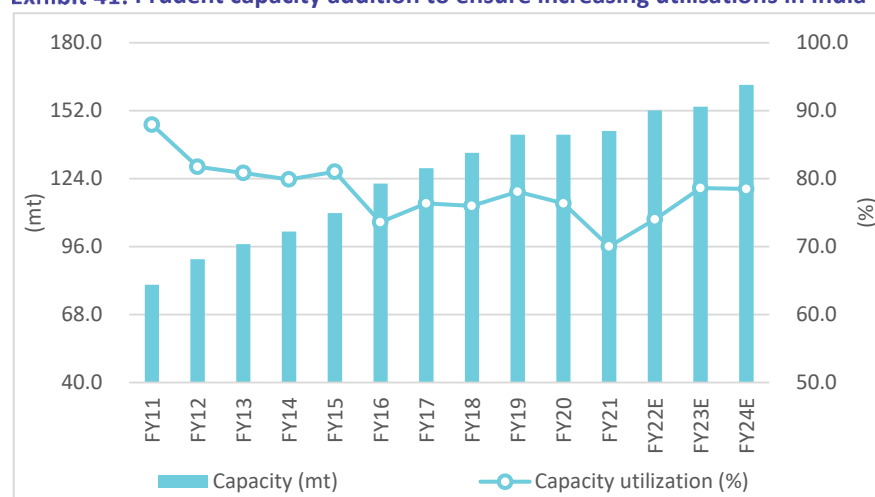


Source: WSA, Edelweiss Research

Given the impact of pandemic and subsequent lockdowns, we anticipate steel demand to rise 12% in FY22, followed by 6% each for FY22–23. In conjunction with healthy demand growth, capacity utilisation levels are also expected to move on an upward trajectory.

India added nearly 22mtpa of crude steel capacity in the past five years (FY16–21) amid tepid demand growth, which led to a declining trend in utilisation level. Another 19mtpa is expected to be added over the next three years (FY22–24). However, prudent additions amid healthy demand growth of 6% will lead to utilisation ramping up to 78.5% by FY24 from 70% in FY21.

Exhibit 41: Prudent capacity addition to ensure increasing utilisations in India



Source: Company, SteelMint, Edelweiss Research

Key growth drivers of steel demand:

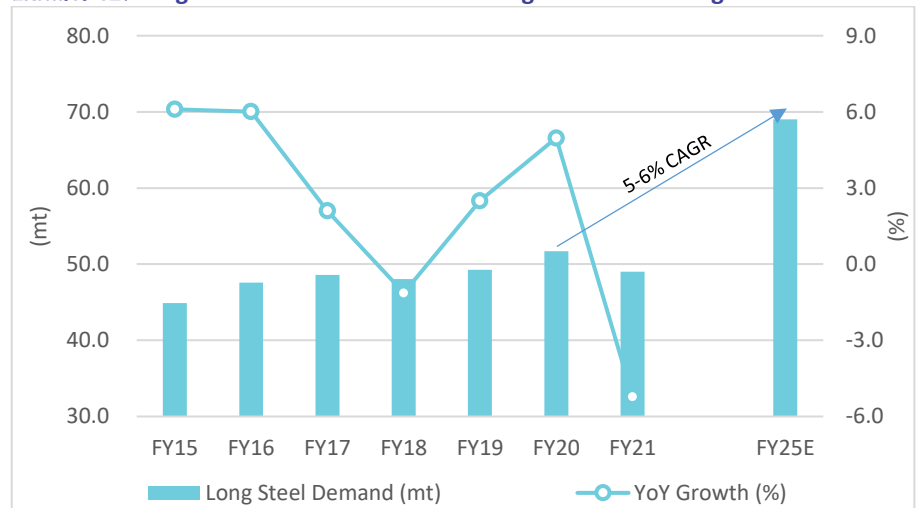
- **Building & Constructions:** Steel demand from building and construction (B&C) accounts for 32–34% of aggregate finished steel demand. While in near term B&C demand is expected to be weak with affordable housing being the only saviour, in medium-term housing market shall witness some soft revival led by rural housing, affordable housing, and commercialization of Tier III/IV cities. On the other hand, realty markets are expected to continue to stay weak amid the covid-19 outbreak. Growth in the industrial segment is also expected to remain muted.

- **Infrastructure:** Infrastructure segment is currently the second largest segment in terms of steel consumption comprising 25–30% share in overall steel demand end use mix. Demand from the sector is expected to be healthy with increasing activities and swift pace of execution in steel-intensive segments such as railways and particularly metros. Demand from the infrastructure sector has also received support in the budget, which laid emphasis on infrastructure development.
- **Automotive:** Steel demand from the automotive sector accounts for 8% to 10% of aggregate finished steel demand. The automobile industry has begun to recover post contraction caused by the covid-19 outbreak. The sector is expected to recover in FY22 across most segments, after sharp declines witnessed in FY21.

Long steel: Demand review and outlook

Finished long steel products are normally produced by hot rolling/forging of bloom/billets/ pencil ingots into useable shape/ sizes. These are normally supplied in straight length/cut length except wire rods, which are supplied in irregularly wound coils. The different types of long products include bar and rods, CTD/TMT, wire rod, angles, shapes and sections. Long steel demand is driven by housing and infrastructure. CRISIL estimates long steel demand to grow 5–6% through FY25 driven by strong demand in infrastructure and housing.

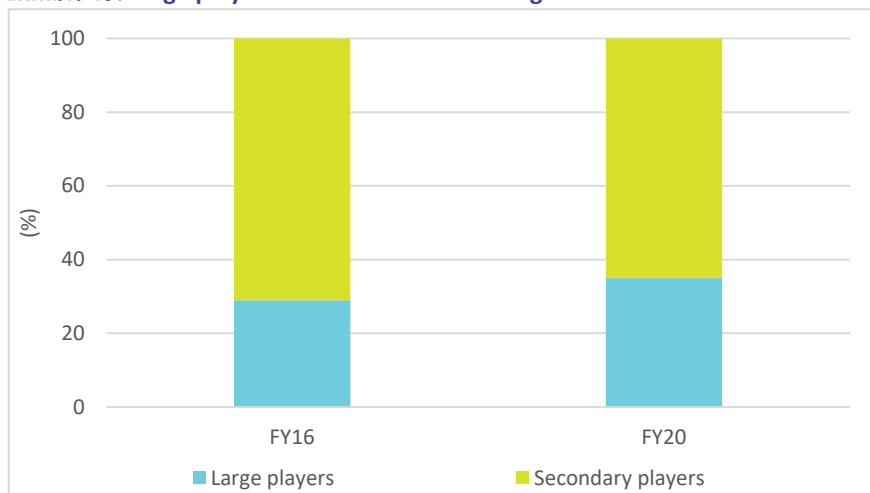
Exhibit 42: Long steel demand is estimated to grow 5–6% through FY25E



Source: Company, CRISIL, JPC, Edelweiss Research

Unlike flat steel, long steel market is fairly fragmented with top five large players constituting about 35% of the market and the rest being distributed among more than 850 IF and EAF units. Further, India also houses 1020 rolling units as of FY20 who are primarily dependent on billet providers. Of these only 116 re-rolling units with nearly 18mt capacity (approximately 23% of overall re-rolling capacity) are situated in East with North and West housing over 690 re-rolling units (around 41mt of re-rolling capacity). This is primarily on back of more integrated long steel players being present in East.

Exhibit 43: Large players constitute ~35% of longs market



Source: Industry, CRISIL, Edelweiss Research

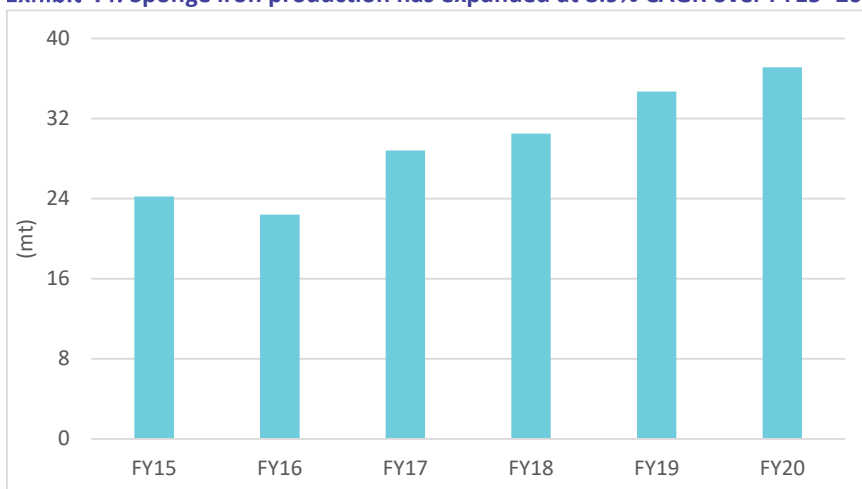
Note: Large players include Tata Steel, SAIL, JSW, JSPL and RINL

Sponge Iron: Demand review and outlook

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; however, the domestic industry is fairly fragmented with around 285 units with an operational capacity of approximately 47.85mtpa operating as of FY20. These units had a gross production of around 37.1mt as of FY20 thereby yielding a utilization level of around 77.5%. The total capacity as well as number of units have decreased between FY18 and FY20. The capacity decreased from 49.6 MT (FY18) to 47.9 (FY20) and the number of working units have reduced by 27 over the same time period, which exhibits large players gaining more traction.

Exhibit 44: Sponge iron production has expanded at 8.9% CAGR over FY15–20



Source: JPC, CRISIL, Company, Edelweiss Research

Coal-based sponge iron constitutes about 82% of India's sponge iron capacity and production. Odisha with 74 sponge iron units and with capacity of 12.6mtpa was the

leading sponge iron producing state in India in FY20. Large players have seven DRI units with a capacity of around 14mtpa. Against this, other secondary players have around 278 units housing a capacity of around 33mtpa as of FY20. CRISIL estimates sponge iron industry to grow at 3.5% to 4.5% CAGR through FY25.

However, sponge iron production remains impacted by:

- **Rising competition from large players:** The share of large players (using BF/ BOF) has increased from approximately 24% in FY14 to 35–36% in FY20 in long steel making. Long steel manufactured using BF-BOF route is considered to be of better tensile strength due to low sulphur and phosphorous content. In last three years, large players, such as, SAIL, JSPL, and RINL have added 7mt of capacity which is primarily long steel/focused. With further capacity addition imminent across large players, share of large players should further rise to 38% to 40% by FY25, thereby, intensifying competition in the long steel segment and adversely affecting small players manufacturing steel through the sponge iron route.
- **Price differential with substitutes (scrap):** Scrap is a direct substitute to sponge iron in steel making and has a higher conversion yield. Scrap prices are expected to soften in medium term led by better scrap availability with industry getting more organised and auto scrappage policy announced. This shall potentially impact sponge iron blending and continues to be a key variable. Regulatory changes in China with respect to production cuts and scrap import policy remain variable for any upside in our forecast.
- **Weak financial position of players to impact operations:** Several players in the long steel segment, which are integrated and manufacture steel using sponge iron, are in severe financial stress. Despite increase in realisations, several players continue to report losses. Further, with rise in raw material prices and limited volume growth, margins of industry players to be under pressure.

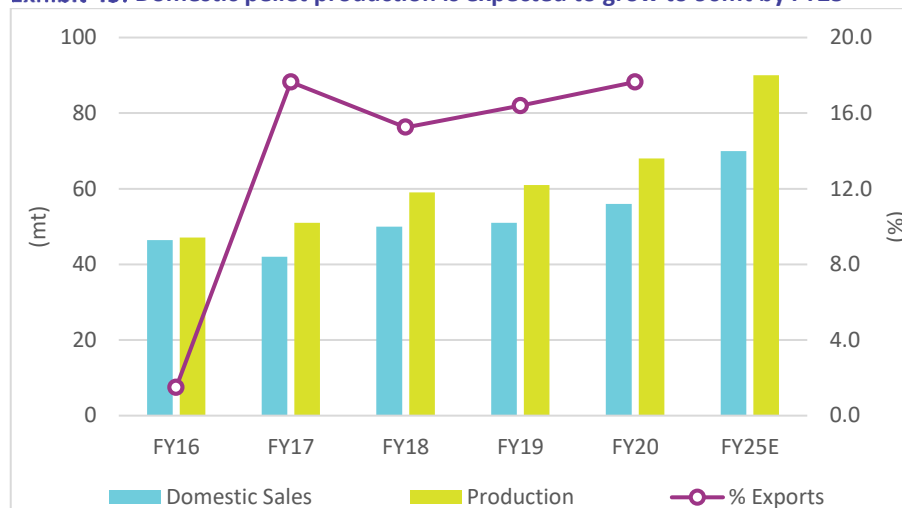
Pellets: Demand review and outlook

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 FY16 to around 18% in FY20. Domestic sales of pellets is estimated to have grown at 9% CAGR against 13% CAGR growth in exports from FY17 to FY20. Subdued domestic demand owing to pandemic related lockdown in the H1FY21 resulted in exports reaching approximately 10mt till December in FY21.

India houses 80–85mtpa of pellet capacity which operates at around 80% of utilization. No significant capacity additions has been done from FY15 to FY20. However ~25mtpa of incremental pellet capacity is proposed to be added by integrated steel producers over the medium term.

Exhibit 45: Domestic pellet production is expected to grow to 90mt by FY25



Source: Industry, DGFT, CRISIL, Edelweiss Research

Going forward, CRISIL foresees the pellet demand to rise at 6% CAGR through FY25 primarily led by:

- Revival in steel production growth thereby yielding an upward bias for pellet demand.
- High preference and usage of pellets led by better efficiency in BF units.
- Ease of transportation.
- Increase in pellet production capacity by approximately 28mt proposed by major integrated steel producers.

Over the medium term the rising domestic demand is expected to push capacity utilization of pellet production to 80% from 78% in FY20.

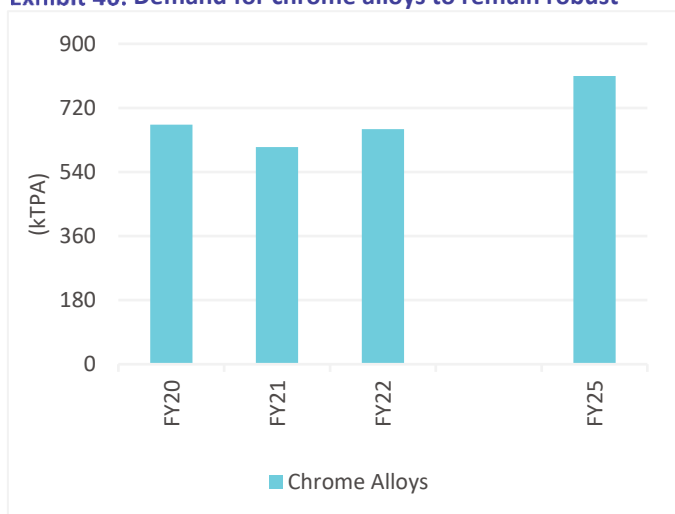
Chrome alloys: Demand review and outlook

Fortune of chrome alloy industry is closely linked to stainless steel industry that is slated to rise at a robust pace primarily led by higher off-take from key demand segments, such as, Architecture, Building & Construction (ABC) and Automotive, Railways & Transport (ART). While India is the world's second-largest consumer of stainless steel, its average per capita consumption is 2.0-2.5 kg – much lower than world average at 5.7 kg and China 14.1 kg. Growth in key infrastructure segments like ABC and ART are expected to drive demand growth for stainless steel. Demand is expected to pick up in Y22 with 8% to 10% growth with improved demand from stainless steel industry and castings segment.

Manganese alloys are used in the steel-making process to increase its toughness and reduce its malleability. It is also added because of its sulfur fixing, deoxidizing and other alloying properties. These alloys are used in varying proportions in manufacturing almost all types of steel. The average consumption of manganese alloy is 7 to 10 kg per tonne of steel produced. Manganese alloys are further categorized into Ferro manganese and silico manganese. Ferromanganese demand has witnessed a muted growth over FY20-21 due to weak domestic steel demand. Going forward, the demand is expected to pick up to 7% to 9% over FY22 as the crude steel production to improve on back of healthy steel demand.

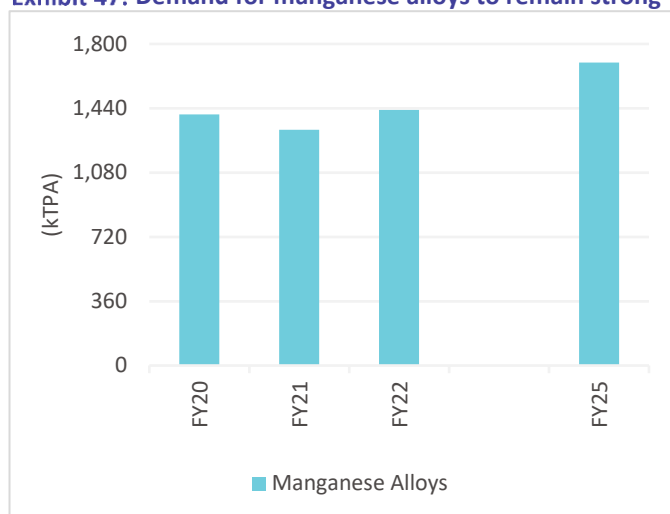
While demand for chrome ore alloys is expected to increase at a CAGR of 6–8%, demand for manganese ore alloys is expected to increase at CAGR of 5–7%.

Exhibit 46: Demand for chrome alloys to remain robust



Source: Company, CRISIL, Edelweiss Research

Exhibit 47: Demand for manganese alloys to remain strong



Source: Company, CRISIL, Edelweiss Research

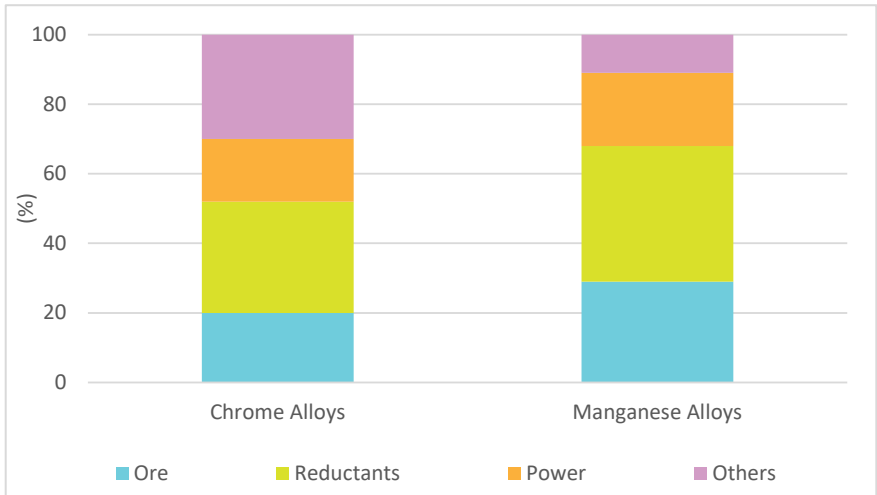
The Indian ferroalloy industry is highly fragmented. Within the chrome alloy segment, the top two players together comprise a market share of 35%, whereas in the manganese alloy segment it is a mere 5% to 6%. As operations are raw material intensive, any fluctuation in raw material prices affects players' profitability. A typical feature of the industry is the interchangeability of production between ferrochrome and ferromanganese by smaller players on the basis of the prevailing market scenario which has largely been responsible for no major capacity addition over the years.

Ferrochrome players utilisation rates declined in FY21 amid falling demand. Moreover, majority of the chrome ore mines production got halted due to lease expiries and re-auctioning and the extended lockdown impacted the existing mine operations, resulting in severe shortage in chrome ore availability, impacting the alloy production and utilization rates. China forms 45% of India's export of chrome alloys. Weak demand amid COVID pandemic and limited production in India due to non-availability of ore to result in 9% to 11% drop in exports.

Capacity utilizations for ferromanganese declined marginally in FY21 due to weak demand led by a decline in domestic crude steel production. However, healthy demand for exports supported the production. In contrast to chrome alloy, wherein India's exports are largely concentrated between China and South Korea (together accounting for approximately 70% of chrome alloy exports), India's manganese alloy export target base is fairly fragmented: UAE, Japan, Italy, Taiwan, Thailand, Iran and South Korea together constitute approximately a 50% share. India's exports are expected to have increase in FY21 on back of weak domestic demand and increased demand from Japan, Taiwan and South Korea as the countries started increasing their crude steel production.

Typically, raw materials constitute a large chunk of the manufacturing cost for ferroalloys. While for chrome alloys the percentage of raw material cost in overall cost of production varies significantly for integrated (access to captive ore) and non-integrated players, manganese alloy producers have similar cost structure owing to the fact that both integrated as well as non-integrated players majorly rely on imported ore for blending as mostly low grade (low manganese content) ore is available in India.

Exhibit 48: Cost structure for ferroalloys



Source: Company, CRISIL, Edelweiss Research

Annexure – I

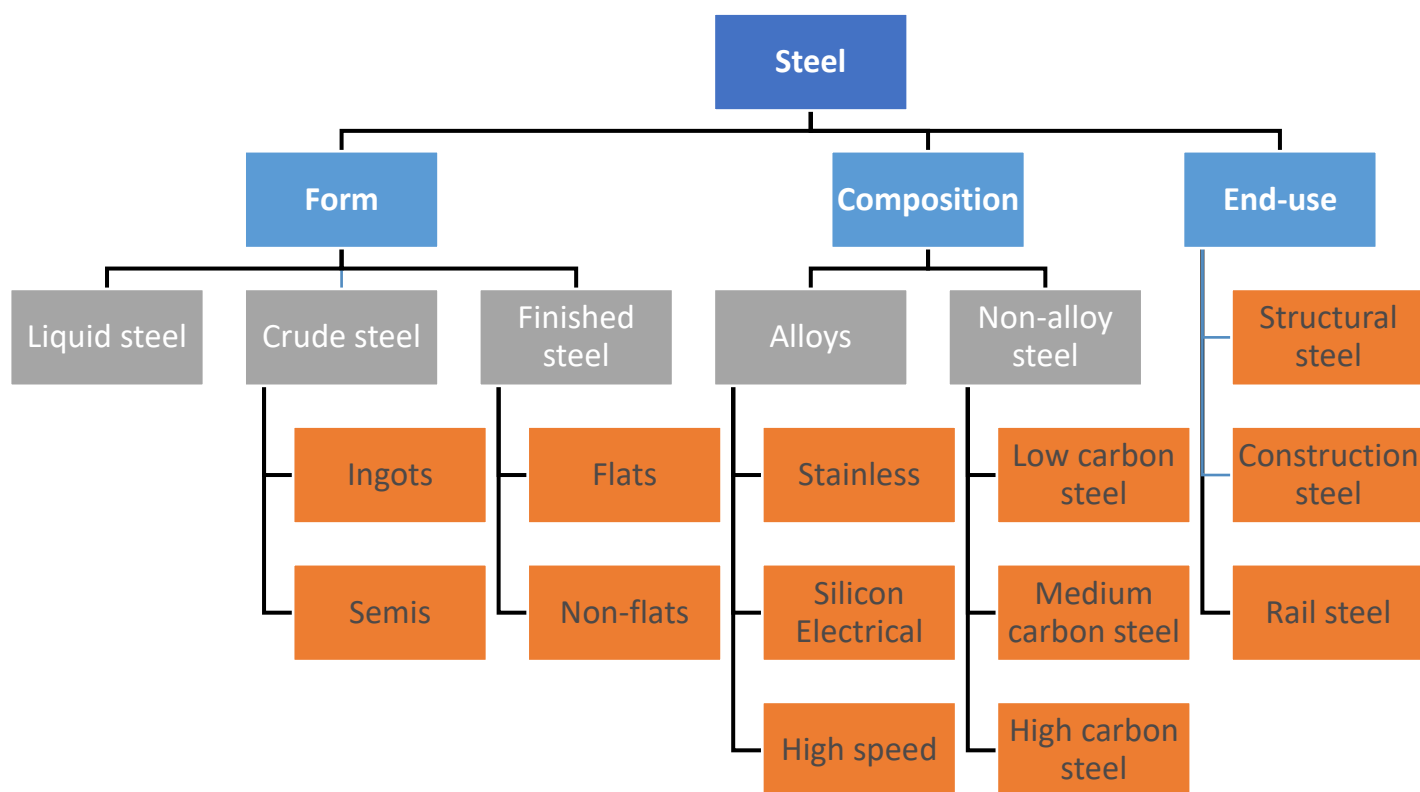
Exhibit 49: Summary of products and end markets

Products	Description	Principal End Usage / Markets
Pellet	<p>Pellets are a type of agglomerated iron ore fines, which has a better tumbler index than that of parent iron ore and can be used as a substitute of lump ore for production of sponge iron and in blast furnaces for production of hot metal.</p> <p>The iron pellets are produced with cold crushing strength (CCS) of 210+ and porosity of 24+ that help to maintain grade in DRI fem - 80+ and the product mean particle size (MPS) is 9.5–10, which assists in reducing oxygen in kiln and maintain consistency in grade.</p>	<p>Iron pellets are used as raw material for sponge iron and blast furnace.</p> <p>Apart from using items as input for finished products, the company also sells iron pellets, an intermediate product, primarily in states of West Bengal, Odisha, Chhattisgarh, Maharashtra and Jharkhand.</p> <p>SMEEL also exports pellets to China.</p>
Sponge Iron	<p>Sponge iron is a spongy mass of iron, which is a metallic product produced through direct reduction of iron ore/ iron pellet in the solid state. It is a substitute for scrap and is mainly used in making steel through the secondary route. The process of sponge iron making aims to remove oxygen from iron ore or pellets.</p>	<p>Sponge iron is used as raw material for billets and as a substitute for scrap.</p> <p>The company sells sponge iron, an intermediate product, primarily in states of West Bengal, Chhattisgarh, Jharkhand, Bihar, Assam, Meghalaya, Madhya Pradesh, Uttarakhand, Rajasthan, Maharashtra and Gujarat.</p>
Billets	<p>A billet is typically cast to a rectangular or square cross section compatible with secondary processing. Billets are created directly via continuous casting or extrusion or indirectly via hot rolling an ingot or bloom.</p>	<p>Billets are used as raw material in manufacture of TMT and structural products.</p> <p>Apart from using items as input for finished products, the company sells billets including customised billets, an intermediate product, primarily in states of Chhattisgarh, Uttar Pradesh, Punjab, Rajasthan and Maharashtra.</p> <p>The company also exports billets to Nepal and Bangladesh.</p>
TMT, Structural Products (Angles, Channels, Beams) and Pipes	<p>TMT bars or Thermo-Mechanically Treated bars are high-strength reinforced bars having a tough outer core and a soft inner core.</p> <p>The very first step of the manufacturing process involves passing the steel wires through a rolling mill stand. Thereafter, these rolled steel wires are again passed through water cooling system. While passing the wires through the water cooling system, the water pressure is optimised.</p> <p>Structural products are hot rolled products of special form such as rounds, angles, channels and beams.</p>	<p>TMT, structural products (angles, channels, beams), wire rods are used in construction of buildings, transmission towers, industrial sheds, structures, roads, dams and other infrastructures.</p> <p>The company sells TMT, structural products (angles, channels, beams), Wire Rods and Pipes, a finished product, primarily in the states of West Bengal, Odisha, Bihar, Jharkhand, Tripura, Sikkim, Assam, Arunachal Pradesh, Manipur, Meghalaya, Uttarakhand, Uttar Pradesh, Punjab and Haryana.</p> <p>The company also converts hot rolled coils to pipes exclusively for an Indian steel conglomerate.</p>
Ferroalloy Products	<p>Ferroalloy refers to various alloys of iron with a high proportion of one or more other elements such as manganese, aluminium, or silicon. They are used in the production of steels and alloys.</p> <p>The alloys impart distinctive qualities to steel and cast iron, or serve important functions during production.</p>	<p>Ferroalloys produced by the company are used as raw materials in manufacture of stainless steel products. The company also sells specialised ferroalloys – low and medium carbon – for special steel applications. They sell ferroalloys of various grades, a finished product, to steel companies primarily in states of Odisha, Jharkhand, Karnataka, Uttar Pradesh, Haryana and Rajasthan.</p> <p>The company exports ferroalloys to South Korea, Indonesia, Thailand, Taiwan, Japan, New Zealand, and the United Kingdom.</p> <p>The company undertakes conversion of manganese ore and chrome ore to silico manganese and ferrochrome, respectively, for an Indian steel conglomerate on a non-exclusive basis.</p>

Source: Company, Edelweiss Research

Annexure – II

Exhibit 50: Structure of Indian steel industry



Source: CRISIL, Company, Edelweiss Research

Exhibit 51: Leading players in sponge iron industry

Player	Sponge Iron Capacity (mtpa)
AM/NS India*	9.53
Jindal Steel and Power	3.2
JSW Steel*	4.2
Shyam Metalics	1.4
Prakash Industries	1.2
Adhunik Group/Liberty Steel	0.5
Godawari Power & Ispat	0.5
Jai Balaji	0.5
Tata Steel Long Products	0.4
Sarda Energy & Minerals	0.4
MSP Steel & Power	0.3

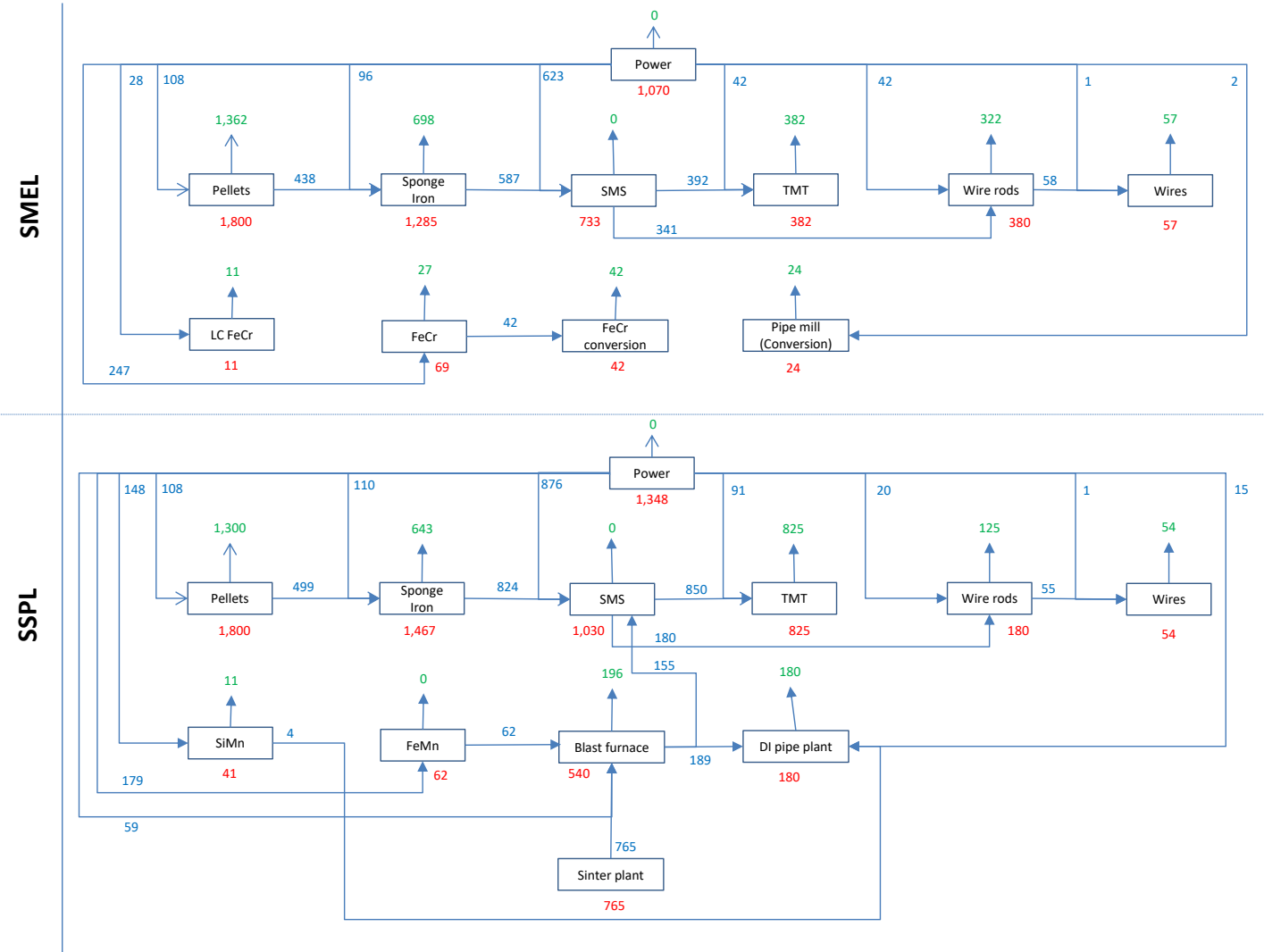
Source: Company, Industry, CRISIL, Edelweiss Research

Exhibit 52: Leading players in pellet industry

Player	Pellet Capacity (mtpa)
AM/NS India	14
Jindal Steel & Power	9
Tata Steel	6
JSW Steel	14
KIOCL	3.5

Source: Company, Edelweiss Research

Annexure – III



Source: Company, Edelweiss Research

Additional Data

Management

Chairman	Mahabir Prasad
Vice-Chairman and MD	Brij Bhushan Agarwal
Joint MD	Sanjay Kumar Agarwal
Whole-time Director	Deepak Kumar Agarwal
Auditor	S K Agrawal and Co Chartered Accountants LLP

Holdings – Top 10*

	% Holding	% Holding
Kotak Mahindra MF	0.68	
ABSL AMC	0.46	
Nippon Life India MF	0.34	
L&T Mutual Fund	0.26	

*Latest public data

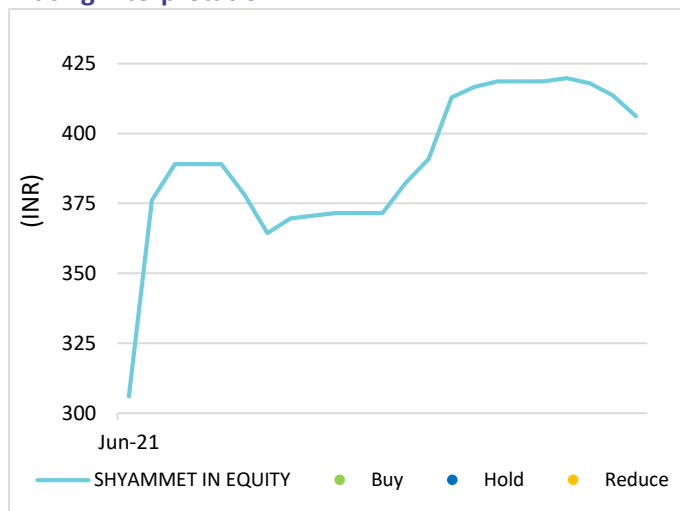
Recent Company Research

Date	Title	Price	Reco

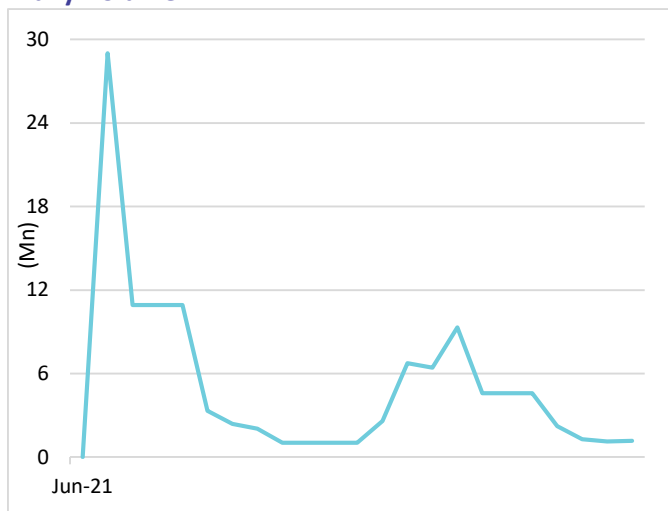
Recent Sector Research

Date	Name of Co./Sector	Title
08-Jul-21	Metals & Mining	Domestic steel prices: On a slippery slo; <i>Sector Update</i>
07-Jul-21	Tata Steel	Annual Report Insights: Stepping up; <i>Company Update</i>
06-Jul-21	Metals & Mining	A record quarter in store; <i>Sector Update</i>

Rating Interpretation



Daily Volume



Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	168	55	19	243
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	214	41	4	259

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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