

SMEL/SE/2022-23/52

November 15, 2022

<p>The Secretary, Listing Department, BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400 001 Maharashtra, India Scrip Code: 543299</p>	<p>The Manager – Listing Department National Stock Exchange of India Limited "Exchange Plaza", 5th Floor, Plot No. C/1, G-Block, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, Maharashtra, India Symbol: SHYAMMETL</p>
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Dear Sir/Madam,

Sub: Transcript of the conference call for Un-audited (standalone and consolidated) Financial Results for the Quarter and Half Year Ended 30th September, 2022

Pursuant to the Regulation 30 read with Schedule III of SEBI (LODR) Regulations, 2015, we forward herewith the transcript of the conference call with investors and analysts held on Thursday, 10th November, 2022 for the un-audited (standalone and consolidated) financial result of the company for the quarter and half year ended 30th September, 2022.

This is for your information and record.

Thanking You,

For Shyam Metals and Energy Limited


Birendra Kumar Jain
Company Secretary



OUR BRANDS:



SHYAM METALICS AND ENERGY LIMITED

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“Shyam Metals & Energy Limited Q2 FY2023
Earnings Conference Call”

November 10, 2022



**MANAGEMENT: MR. BRIJ BHUSHAN AGARWAL – VICE-CHAIRMAN
AND MANAGING DIRECTOR
MR. DEEPAK KUMAR AGARWAL - DIRECTOR
(FINANCE)
MR. TRILOCHAN SHARMA – HEAD (INVESTOR
RELATIONS)**



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Moderator: Ladies and gentlemen, good day and welcome to Shyam Metals & Energy Limited Q2 FY 23 earnings conference call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Trilochan Sharma from Shyam Metals & Energy Limited. Thank you and over to you sir.

Trilochan Sharma: Thank you. Good afternoon, everyone and thanks for connecting with us on our second quarter and first half year financial results. On behalf of Shyam Metals, I am delighted to welcome you all on this call, particularly our shareholders and our industry analysts. Thank you for taking the time to discuss our Q2 and H1 financial 23 earnings. Our results and a detailed investor presentation have been uploaded on the website. I hope everyone had a chance to go through it. To discuss our results, we have with us our Vice Chairman and Managing Director Sri Brij Bhushan Agarwal and our Director Finance Sri Deepak Kumar Agarwal. They will take you through our results and then we will proceed for the question and answer session. Before we proceed formally, a disclaimer: this conference call may contain some forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. The actual results may differ materially. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict. A detailed safe harbor statement is available on page number two of the company investor presentation. Now, I would like to hand over the call to our Director Finance Sri Deepak Kumar Agarwal. Over to you sir.

Deepak Kumar Agarwal: Thank you Trilochan, a very good afternoon to all the participants and thank you for joining us on the call. I will give a quick review of the reported consolidated financial for the quarter under review and for the first half of the current financial year.

On a consolidated basis, the company for the second quarter of the current financial year reported a revenue of Rs.3085 crores, growth of 24% over the last year of quarter two. We have been able to sell higher percentage of volume sales of finished Steel has enabled the company to overcome the rise in the input cost and also decline to the finished Steel prices. As a result, our EBITDA for the second quarter of the current financial year on a consolidated basis is Rs.243 crores, a decline of 61% over the last quarter two of the last financial year.

Just to drive over the point an increase in the raw material cost to operating revenue by 860 bps in quarter two of the current financial year over quarter one of the current financial year. With added increase in the other expenses to operating revenue by 200 bps in the quarter two of the current financial year over the quarter one of the current financial year, has led to the decline. This is the basic reason why our EBITDA has been declined from the quarter one of the corresponding quarter.



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In spite of the headwinds, we have reported a subdued PAT of Rs.110.9 crores in the quarter two of the current financial year on the back of a very strong balance sheet with very low leverage of our company.

Now, I will quickly review the first half of the financial:

For the first half of the current financial year, we reported revenue of Rs.6,308 crores with a growth of 27% over the last first half year. In terms of revenue mix, the higher value-added segment accounted for 41.32% of the first half of the current financial year revenue as against 33.5% in the first half of the last financial year. For the first half of the current financial year, we reported an EBITDA of Rs.850 crores which is declined 35% over the last first half of the last financial year. In the first half of the last financial year, we reported an EBITDA margin of 26.3% and we achieved the EBITDA margin of 13.5% in the first half of the current financial year.

As we are focused on improving the product mix, the improvement to realization, operational efficiency and cost optimization and rationalization efforts enabled the company to still report net profit of Rs.524.8 crores in the first half of the current financial year which is declined 39.6% over the last first half of the last financial year.

We achieved a good improvement to our working capital days for the first half of the current financial year, our working capital days were at 30 days as against the 44 days at the end of the last financial year. At all point of time our gross debt to equity has remained below 0.5x to the total equity. If you see the growth debt to the equity which was at 0.09x at the end of the financial year 2022 is now at 0.12x to at the end of the first half of the current financial year. Our gross debt to equity stands at 0.12x of the equity and the net debt level we are cash positive with a current reported cash equivalent of Rs.1,648 crores as against the gross debt of Rs.841 crores.

In the gross debt of Rs.841 crores which includes the debt of Rs.166 crores towards the debt taken for acquisition of Ramsarup and that the share has been the non-controlling partners' debt. From the cashflow statement, you can make out in the first half of the current financial year; we incurred a capital expenditure of Rs.690 crores for ongoing brown field expansion and against the Rs.1,071.42 crores in the last financial year.

From the net cashflow from the operating activity, we have derived / generating the Rs.1,159 crores in the first half of the current financial year, whereas we incurred Rs.99 crores towards the other capital acquisition expenditure, which was mainly for under GPWIS, wagon scheme for government where we get the benefit of 10% on our logistics costs and also as the same is owned by the company's availability of that can be planned much better in the current scenario.



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I would like to further explain the depiction sale of Ramsarup acquisition in the cashflow statement of the company. The breakup of purchase of plant and machinery (net) figure of Rs.2,130.88 crores is as follows. Out of this Rs.2,130.88 crores, Rs.1,330 crores is for the Ramsarup acquisition asset value, consider net of depreciation and Rs.690 crores towards the existing brown field CAPEX and Rs.99 crores towards other CAPEX in the company. As explained about, we have acquired the asset worth Rs.1,330 crores of Ramsarup at a consideration value of Rs.387.62 crores where the capital reserve of Rs.942 crores has been created for which Rs.558.09 crores shown as acquisition for subsidiary to be read as portion of our capital reserve being 60% share in the same and the balance is shown as Rs.384.50 crores for adjustment of a non-controlling interest of a joint venture partner being 40% their share.

Our strategy has always been to incur the capital expenditure in a smaller doses in piecemeal to ensure that the balance sheet is never stretched. All point of time, we closely monitor the liquidity solvency and capital efficiency ratio.

we would further like to update the floor on the resignation of the Sri S.K. Dujari who has relinquished his post as a CFO of the company for the personal reasons. In this regard, I would like to also share our thought that Mr. Dujari had attained the age of 58 years and his health condition was not too well in the past few months and he has served the company well over the past 16 years and was elevated and appointed as a CFO of the company in the financial year 2016. We wish him the very best and he continued to guide our company on a need-based basis and he is always available till his responsibilities are handed over in the seamless manner to the incumbent CFO to be appointed.

I would like to assure you that the company sustained the healthy financial risk profile despite pursuing capital expenditure plan for the remaining Rs.1,731 crores which will be incurred over a period of three years added by an internal cash generation and sufficient liquid surpluses which will ensure. We take only limited debt in the event of any fund flow mismatch just to reiterate most of the expenses are in the form of improvement to our existing facility and an organic expansion. We are enhancing our pallet capacity from 3.6 million tons to 6 million tons and also increasing the sponge iron capacity from 2.1 million tons to 2.9 million tons. We have already enhanced our steel billet capacity from 0.9 million tons to 1.47 million tons and shall reach to 2 million tons in the current financial year. As far as TMT structure and long product is concerned, we have already enhanced our capacity from 0.8 million tons to 1.47 million tons and will reach 2 million tons in the current financial year.

I would like to assume that the bank in limit utilization at the consolidated level is expected to be remain moderate even going forward also. The annual cash accrual should suffice for the capital expenditure requirement and debt repayment. For the first time in the last six quarters, we have not declared an interim dividend per share, but we hope that we will definitely distribute the dividend as per our dividend policy where we have already implemented our policy. Our



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policy is that the capital allocation policy where our 10% of our total capital generation will be distributed to the shareholder in the form of dividend.

Now, I conclude my portion of the speech and I would request our MD sir to please take over. Over to you sir.

Brij Bhushan Agarwal: Thank you Deepak, thank you Trilochan, a very good afternoon to all of the participants and thank you for joining us on the call to discuss our second quarter and first half of FY 2023 financial and business performance.

I would like to begin the call with a brief interview of the financials and followed by the operational performance and strategic initiative. After that, I will hand over the call to our Executive Director, Deepak Agarwal, to discuss the financial performance and in more the greater detail, if so required. While we saw a sharp rebound in business economic picking up the pace and the recent geopolitical tension in Europe and multi decade high inflation across the world have presented new challenges. India is among the second country where the steel production has grown as against the steel production cut in China and the rest of the world. Despite the global headwind, the Indian economy is well paced to exploit long-term opportunities represented by the realignment in the global supply chain.

Your company, Shyam Metals, our business model is most insulated from the threat of import as we have minimized exposure to the huge fluctuation of the Forex in import of the cooking coal prices. This has been generally facilitated in the consistent performance of our operations. We as a management has always endeavored to have a very diversified product basket, to have a stable range in our performance, but this quarter is more challenging than usual and we accept it as an aberration. We are confident of emerging from these near-term challenges stronger than before.

To curb inflation, the government has focused on bringing the cost of the steel down by imposing the import duty. This led to the reduction, realization of the steel prices by almost 6% over the previous quarter. In terms of specialty alloy, the average realization has gone down by 18.3%. This weak, realization for pallet too continued as they were down by 26% quarter after quarter. Moreover, the cost of energy one of the key components in manufacture of the metal kept spiraling upwards going to the geopolitical situation and the crisis going to the supply chain logistic issues, especially in the power sector in the country. Though we never faced any issue of supply owing to the strategic location of our plants being close proximity to the coal belts.

Our reported EBITDA for quarter is 7.9% almost 11% down over the previous quarter. Mostly in our industry, there is a lag effect of 45 days to 60 days therein during the period which increase the price of the raw material, the price of the finished product to increase and vice-versa. This time it was different where the cost of energy increased simultaneously and the realization was



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lower. We did see a fall in iron ore prices for the present quarter providing some respite of the overall increase in the coal price by almost 25% for the quarter along with the decrease in the average realization, have saved over 6% of our margin. 3% of the margin decrease and ultimately to increase the raw material cost especially coal and 2% decrease in the margin due to the rise in the cost of electricity and power costs. For this first year, our unit cost of the power which was generally hovering around 2.15 units to have increased to around 2.48 per unit.

We have been continuously growing our top-line on the back of the volume growth and better product mix and we have been continuing to implement our CAPEX enhanced new production facilities. We are also penetrating more and more on the B2C space in our long product business. Given the situation, we are pleased with our operating financial performance for quarter two FY 2023. For quarter two, we have achieved the revenue of Rs.3,095 crores growth of 27% over the last second quarter.

In terms of the revenue mix, I am glad to share the higher value segment which has comprised on the long product and B2 businesses account for 41% of Revenues as against 33.7% in Q2 year-to-year performance.

In terms of volume, the value-added segment has grown by 29% year-to-year for the quarter. Overall, our revenue from the steel product now contributes 68.14% to our revenue of H1 FY2023 as against 57.17% as H1 FY2022. In the present quarter, 8% of the revenue come from the export but it is noteworthy that 15% of the export revenue have come from the sale of our new businesses of the aluminum foil product which gives us the confidence in our work ethics, capability of our team and stabilizing the new plant with the world class facility and the world class product. We will be able to sell 4,400 metric tons of aluminum foil products in HY FY2023 and we should be seeing good traction and the business would soon be contributing handsomely to our top-line and bottom-line.

We have a variety of specialty products which contributes to steady of our revenue. We shall soon be announcing the low carbon Ferro Alloy which is special offering and which shall further enrich and endure us to our customers further for the meeting another of their diversified and specialized requirements. With a range of quality structures products sold under the SEL Tiger brand, the company is in the product market and holds its pride of the place as the leading steel manufacturing company. Since the raw materials are manufactured in-house at our plant and we are able to produce higher value long product, in an efficient and cost-effective manner. At Shyam, we have a very disciplined capital allocation policy and the CAPEX expansion are met through internal accruals. We have negative net debt and we are a PAT positive company in 17 years of our operation.

Out of the plan CAPEX of Rs.3,950 crores, we have spent Rs.2,219 crores till September 2022 and a capitalised of Rs.1,058 crores worth of plants. Till , the first half of 2023, we have incurred



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a CAPEX of around Rs.690 crores. We are now almost 8.9 million tons of steel integrated facility with 3.6 million tons of pallet capacity, 2.1 million tons of sponge iron capacity, 1.47 million tons of billet making and 1.4 million tons of our finished steel capacity aided by 267 megawatt of power plants and captive railway sidings. We also have set up a state-of-the-art aluminum foil plant with a capacity of 4414 MT.

Over H2 FY23 we should be commissioning over 90 megawatt CPP, some additional DRI facility, some billet facility and long product steel production facility. Our brown field expansion is ongoing and shall be implemented and completed as per schedule. We have taken control over Ramsarup in the previous quarter through examination of the existing plants and detailed study is being carried out at the plant side.

Once our team is ready with the entire plan on both phase-wise implementation starting from the various products and various costs to be incurred thereof. we shall share our shareholders the complete plan at that juncture where separate meeting to be conducted specially for the same. We keep investing in the new infrastructure at our plants and explore the opportunity to obtain synergies from the existing manufacturing facilities. This enable us to keep our operating costs under control, which we believe is very essential for reporting profitable revenue.

Before I conclude, I want to assure you that we from the management expect a healthy demand in H2 FY2023 in the steel industry. An increased contributions from recently added capacity along with the product diversity and a higher share of value-added product would drive the operating and the financial performance well into the current financial year. We are confident of emerging from these near-term challenges stronger than before. Our expansion plans are well on track. We will strive to grow holistically and generate value for our shareholders. With that I conclude my portion of the speech.

Now, I call upon my team and my Executive Director Mr. Deepak Agarwal to take through all other financial information and would be ready to share all the questionnaire of our respected shareholders family. Thank you so much.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question comes from the line of Prashant Kumar Kota from Emkay Global Financial Services Limited. Please go ahead.

Prashant Kumar Kota: My question is regarding this quarter's result but more inputting into the context what is happening, what has happened, etc. Sir, if you see over the last 10-15 years of closely tracking the sector, we have seen that companies of power size, historically without captive allocation of resources, etc. most of them have now ceased to exist. Now, Shyam is one of the few which has withstood all the cyclical volatility and because of its trading strategy with capital allocation of internal costs and allocation planning production, good product mix, the right technology, the



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right skills strategy, after doing all this now we have become something and we are on the road to getting to big league. But, now even for such a good company with such a good track record what adverse government regulation can do is what we witness this quarter the steep fall in EBITDA per ton to just Rs.5000 per ton. After doing everything right also, this kind of regulation is hitting us hard. So how do you think about it? What do you plan to do, your thought?

Brij Bhushan Agarwal: If we see the numbers where the correction has really happened has happened due to the correction in the finished market price, the sale realization has gone down. And we all know that now we are not talking at very normal demand supply issues, but it's more geopolitical, lot of disruptions is happening in the total eco-cycle. So, if you see all these things, is a very temporary phase foremost important is that we have to run our plant, we are able to sell the material because when we are running such a big conglomerate and it is a complete process driven from the iron ore to the final steel. The good combination and the timely combination and availability of the raw material, a good market and this is a time when we learn more and more and I feel this is a very temporary phase because we are all very optimistic that the government might withdraw export duty anytime. But still, I would not say that it is going to matter very big at this point of time because globally there is a huge correction in metal prices and the consumption worldwide, globally has come down because of the high inflation and other challenges. But these are all very temporary phase because for a country like India, we are not having this kind of a concern where the consumption is going to be affected. So, productivity there is a good volume growth quarter after quarter. From the last second quarter, there is a substantial volume growth. So, we have to remain very optimistic and since we are majorly on the long product businesses and if you see the growth in last 7-8 years has been always in the long product businesses. The flat product businesses growth has been very minimalistic in comparison with the long product and for a country like India a developing economy when we are working with 1.30 billion populations of the people. So, I do not see any point where consumption is going to be a challenge. But, yes there is a pressure from the raw material side, from the carbon side because of this Ukrainian disruption, in the time to come maybe once these things get settled, things will be resumed.

Prashant Kumar Kota: The second question is more to do with the aluminum foil business that you have just started to ramp up volume. I know it is very early day what is the EBITDA percent that you would have generated in H1 and in steady state what do we aspire for? Of course, it could be volatile but what is ...

Brij Bhushan Agarwal: Average I can say, we are one of the companies, which has been able to create a penetration in the market by developing 5 and 5.5-6-microns thick aluminum foil, which is extremely niche and it is the most thinnest and the highest premium material which is very rarely available. Because all these technologies which we have installed, has installed from the world class technology suppliers and we have been able to stabilize. And today I can tell you from the foil whatever we are producing more than 75% is what we are able to export. In spite of the so many



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quality issues, registrations, lot of approvals are required. Your company has been able to overcome all the challenges and have stabilized the product in the international market. From the EBITDA point of view, I would say on average this business must be generating an EBITDA of around Rs.40,000 on an average, I am saying between Rs.40,000-50,000 a ton.

Moderator: Our next question is from the line of Raj Ojha, an individual investor. Please go ahead.

Raj Ojha: I have two questions. While going through the presentation, I noticed that our volumes and realization in iron products are down significantly. But, however, our core business of steel products is doing well with good volume on YoY basis. So, to avoid a hit on our margin of this magnitude what steps are we taking?

Brij Bhushan Agarwal: Presently, if you see if the sale prices go up, we get the better margin. What is under our control is the best process, the best marketing strategy and today since there is some kind of imbalance in the complete system from the global aspect but I would say we are very much dependent on the domestic coal. Number one, we are not dependent on the coking coal business. Number two, the long product growth is happening quarter after quarter. If you see the long product is such a product in our country, which has never been majorly on the construction side and all, it's been never exported. We are very much within that space and this is all we can do at this point of time by creating more and more penetration in the B2C space, number one. Number two, whatever capacity we have added, we have to ramp up to the extent of 90%-95% which we are targeting from this quarter onwards. We will be able to achieve more than 85%-90% of the new manufacturing facility.

Moderator: The next question is from the line of Tushar Shetty from GB Capital. Please go ahead.

Tushar Shetty: My first question is how is the progress on aluminum foil business? It will be helpful if you share it.

Brij Bhushan Agarwal: The aluminum foil plant has been commissioned. We have stabilized our product and we have established our product in the international market. Today, whatever we are producing more than 70%-75% we are able to export in the best of the market of the USA and Europe. We are enhancing more and more market share. We are trying to tap more and more customers and I think by end of this year, we should be able to streamline everything as what we have been processing there.

Tushar Shetty: What are our plans to grow this business? How would our order book be shaping and who might be our customers for the same?

Brij Bhushan Agarwal: These are all the world best packaging companies in America and Europe who are dealing in the food product, who are dealing in the FMCG sector, who are dealing in the healthcare. These are



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the companies who buy the product from us and they sell to the company who are very much in the health care business, in the food businesses and other specialty like industrial applications on the battery spaces and all they require foil, from the insulation point of view, these are the general end customers.

Moderator: As there are no further questions from the participants, I would now like to hand the floor back to Mr. Nachiket Kale from Orient Capital. Over to you, sir.

Nachiket Kale: Thanks everybody for participating in today's concall. I would also like to thank the Management for taking their time off in this schedule. Orient Capital is the investor Relations advisor to Shyam Metals. So, for any queries please feel free to connect. Contact details are already given in the presentation. Thanks, and have a nice day.

Moderator: Thank you. On behalf of Shyam Metals & Energy Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.