

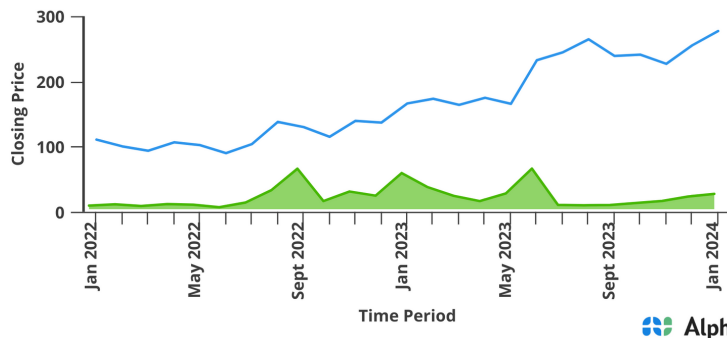
Sarthak Metals Ltd

India's premier cored wire manufacturer

Overview

Incorporated in 1995, Sarthak Metals Ltd (NSE: SMLT) is a part of the Desraj Bansal group and is engaged in the manufacturing of Cored wires (48% of FY23 revenue), Aluminum wire rods (52% of FY23 revenue), Flux cored wires and Wire feeder machines which have wide application in various steel-making processes like steel plants and foundries. Strategically, located near a major steel hub, SMLT is the most diversified company among its peers known for its robust revenue growth, strong clientele network and expanding margins. The company will be the key beneficiary of the steady industry growth (8-10% CAGR in FY23-27), macro tailwinds (PLI scheme, government policies), export opportunities with its strategy of expansion in Cored wires & Aluminium flipping coils. We initiate coverage with a BUY rating and see a potential 15% IRR over the next 3 years.

Sarthak Metals Price & Volume Chart

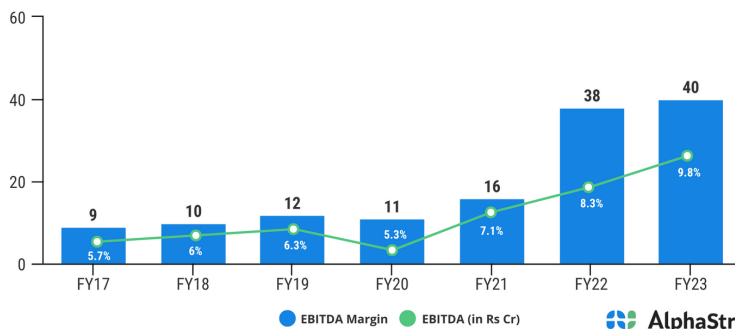


AlphaStreet

Industry consolidation to improve margins

In the consolidated Cored Wires market, SMLT commands a significant 20-30% share. The pandemic-induced industry consolidation and closure of smaller players bolstered SMLT, leading to heightened gross margins. Larger steel players, now valuing reliability, provide SMLT a strategic edge. While the market faces increased commoditization amidst growing competition, there is a silver lining as it has the potential to stabilize profit margins. The larger and fragmented Aluminum segment offers consolidation opportunities, positioning SMLT for substantial growth. The Total Addressable Market (TAM) in this segment, beyond metallurgical applications, promises remunerative prospects. SMLT's strategic foray into newer segments aims to expand TAM, ensuring sustained growth. Overall, SMLT's strategic positioning and exploration of lucrative segments fortify the company for enduring success and stability.

Improving EBITDA Margins

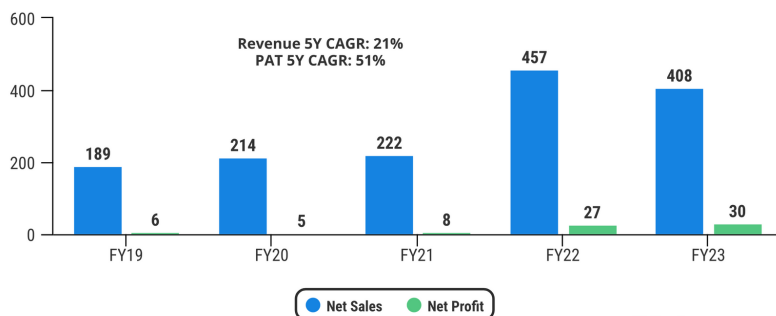


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Surging Revenues, Dominant Market Presence

Exemplifying stellar performance, the company achieved a remarkable 25% CAGR in topline and an impressive 51% CAGR in bottom-line over the past 5 years. The prowess extends as it holds a commanding 30% market share in the consolidated profit pool for Cored Wires, solidifying its market leadership.

Growing Revenue and PAT (in INR Crores)



Net Sales Net Profit

AlphaStreet

Strong history of product addition and scaling up

The management's strategic brilliance is evident as they harnessed Cored Wires stable cash flows to create a new segment - Aluminium Flipping Coils, building a reinvestment moat. This helped them enhance margins and TAM, solidifying their commitment to move up the value chain. Their In-house design and fabrication of 4 lines for manufacturing cored wires and 2 lines for Aluminium flipping coils establish a CAPEX moat, showcasing unique capabilities. This forward-thinking approach distinguishes the company's success in the commodity sector.

Unleashing growth through thoughtful CAPEX

Sarthak Metals has undergone robust CAPEX-led growth, effectively doubling its production capacity for aluminium flipping coil since FY19. Presently, the company's production capacity stands at 10,000 metric tonnes for both aluminium flipping coil and the flux cored wire division. The recent commissioning of a third furnace for Aluminium Flipping coils in Q2FY23 marks a pivotal development, setting the stage for an additional 50% growth, reaching a total capacity of 15,000 metric tonnes.

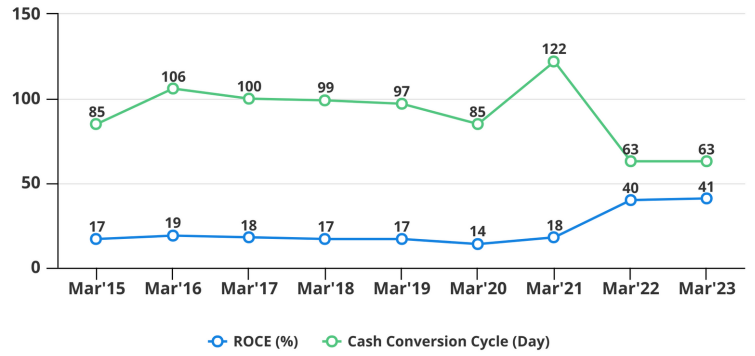
Captivating Flux Core wire Evolution

Sarthak Metals is poised for future growth, building upon recent expansions and strategic initiatives. The Flux Cored Wire market entry, aimed at reducing import dependence and capitalizing on the Flux Core Arc Welding sector, is expected to play a pivotal role in driving future revenue. With a forward-looking approach, the company aims to secure 25% of its revenue from international markets, emphasizing diversification and global expansion. The strategic location of the company, surrounded by large fabrication houses, and its attainment of BIS certification provide a solid foundation for future endeavours. As the demand for flux cored wires continues to rise across various industries like shipping, construction, locomotive and railways. Sarthak Metals is well-positioned to meet this demand, thereby strengthening its order book and solidifying its market position.

Strategic diversification to boost bottomline growth

Valued at \$137 billion in 2023, the Indian Bioeconomy Industry is set to reach \$150 billion by 2025 and an impressive \$300 billion by 2030, commanding a 3% share in the global biotechnology industry. The leadership, optimistic about the sector, has delved into industrial enzymes, forming technical collaborations with the Indian government for valuable technology transfer. This strategic move establishes robust entry barriers, creating a strong moat through technical expertise. Management is also actively exploring opportunities in biotechnology-applied healthcare, particularly nutraceuticals. Recognizing the great potential for small players in the Biotech industry, the company views this as a strategic diversification move in a dynamic and expanding market. It'll be fascinating to observe the company's performance in the field of biotechnology.

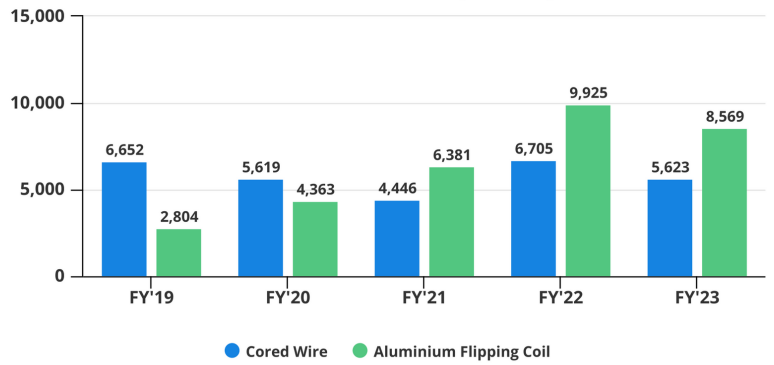
ROCE (%) & Cash Conversion Cycle (Day)



Source: company data



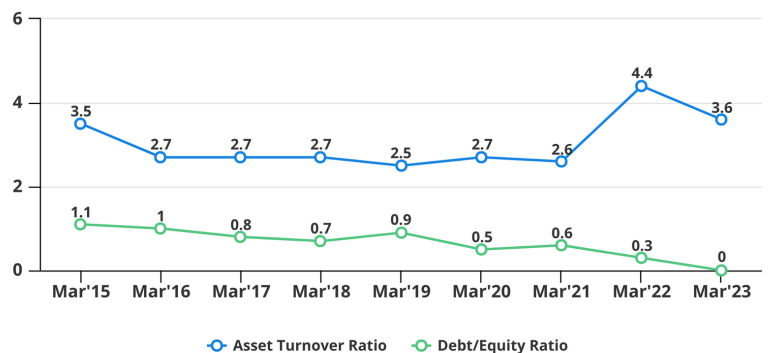
Production Trend (in TPA)



Source: company data



Asset Turnover Ratio & Debt/Equity Ratio



Source: company data

