Arihant Capital
Generating Wealth

Sales Note
3rd September 2024

SG Mart Ltd

Multifold Opportunity

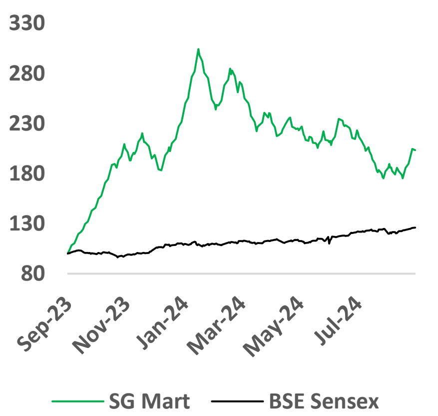
CMP: INR 409	
Rating: NA	
Outlook: Positive	

Stock Info	
BSE	512329
Bloomberg	SGMART:IN
Sector	Building Products
Face Value (INR)	1
Mkt Cap (INR Bn)	45.6
52w H/L (INR)	639/202
Avg Daily Volume (in 000')	298

Shareholding Pattern % *(As on June, 2024)*	
Promoters	40.97
Public & Others	59.03

Stock Performance (%)	**1m**	**6m**	**12m**
SGMART	5	-25	99
NIFTY50	2.3	12.8	29.4

SGMART Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022-42254872

Miraj Shah
miraj.shah@arihantcapital.com
022-67114865

About the company:

SG Mart belongs to the APL Apollo Tubes family. Mr. Dhruv Gupta and Mrs. Meenakshi Gupta acquired SG Mart (erstwhile Kintech Renewables Ltd) in April 2023, and since then, the company has been trading in building products. It has more than 1,700 products in its portfolio, 800+ registered customers and 90+ registered suppliers.

Investment Rationale

1. Bridging the Gap:

SG Mart is positioned with a unique proposition to bridge the gap between Indian Steel manufacturers and consumers. Currently, the marketplace for steel suppliers and buyers is extremely fragmented and hence the company is defining themselves as a marketplace to defragment it. India is seeing a massive growth (~50%) in upstream steel facilities (between Dec 2023 and 2025). Current steel industry capacity is 120 Mn tonnes and is expected to reach 300 Mn tonnes by 2030. At present, there are small distributors and dealers who procure from mills directly and sell to industries down the line. The problem here is that the distributors and dealers are small in size. As per the management, the current largest player (excluding themselves) is doing a volume of just 25,000 tonnes per month.

2. Rich parentage, numerous potential sectors to enter and humongous opportunity of scale:

SG Mart belongs to APL Apollo's Family. Dhruv Gupta and Meenakshi Gupta acquired the promoter stake in July 2023. Subsequently, company raised INR 7.89 Bn in November 2023 from non-promoter entities for functioning of business. APL Apollo has given rights to SG Mart to use APL Apollo brand for non-steel pipe products (at free of charge). Additionally, the company has the advantage to leverage the scale and distribution power of APL Apollo.

To put things in number perspective, the second largest player does volumes of 25,000 tonnes per month while SG Mart did volumes of 100,000 tonnes per month in Q1FY25 (up from 500,000 tonnes in FY24) The company aspires to grow multifold from here. At present, the company is operating mainly in trading of long and flat steel products but has also entered other product categories like tiles, electrical fittings, bath fittings and branded rebars (to name a few). With the rich parentage, company is able to partner with leading companies in the respective industries (eg. JSW Steel, NMDC Steel, Jindal Steel, SAIL, Kajaria Ceramics, Godavari Power, Hindustan Zinc, Havells). There is ample cash balance on the books (~INR 11.25 Bn) which will be of assistance for growth going forward. The cash on books and benefit of parentage explains the company's right to win in the business. An example of this can be seen in the zinc trading business where the company has already become the largest player.

Company is also building up a strong team with various senior professionals from the industry.

3. Business model (3 segments)

Company has three operating segments within trading business

(B2B) Trading of long steel and flat steel products, buying directly from the steel producers and then distributing in the market

Within B2B, processing upstream steel and selling in semi-finished shape to various user industries of steel.

B2C distribution business which will have TMT and other products such as Metal Sheets / Welding Rods / Mesh Net Steel / Binding Wire.

4. Massive Expansion Plans:

Within the second business segment, company operates through service centres. Currently, company has 2 service centres (in metro cities) which are delivering 10,000-12,000 tonnes per month, Company is going to add 2 more service centres in next 2-3 months and 1 in Dubai as well. After reaching 5 service centres, company aims to do volumes of 30,000-40,000 per month. In the next 12 months, company aims to take these service centres to 15 (penetrating in smaller regions like Raipur, Patna, Ludhiana, Jalandhar, Jammu, Kochi).

The capex requirement per service centre would be of INR 200-250 Mn. By 2030, company has ambitions of having 200 service centres (101 outside India and 99 in India)

The service centres will also act as warehouses which will be used for the third operating segment (B2C) business. At present, APL Apollo has given rights to SG Mart to use APL Apollo brand for non-steel pipe products (at free of charge). As per the management, there is a visibility of INR 3-4 Tn in steel non-pipe products (angle channels, rebars, welding rods, etc). At present, company is already doing volumes of 30,000 tonnes per month. This figure will grow as and when the service centres grow. Company will not be conducting trading of steel pipes (since it is being done in APL Apollo).

Tie up with Hindustan Zinc to augur non-steel business growth

The company has a focus to grow business through non steel businesses as well. At present, they are tied up with Hindustan Zinc for trading of zinc. Company procures zinc from zinc producers and is able to reach a large set of distributors at once. The benefit for zinc producers is that the company procures multifold what a distributor would procure. There are several Zinc capacities coming in every quarter. Within 6 months of business, SG Mart has already become the largest zinc trader. Going ahead, with new capacities coming in, company will fluently be able to process more volumes. Besides Zinc, company is focusing on a lot other commodities such as angle channels, rebars, welding rods, etc

Outlook: With just under 1 year of operations, company has positioned itself in the leading position in steel product marketplace. Going ahead, the company has ambitions of reaching topline of INR 180 Bn by FY27 and INR 500 Bn by FY30. The EBITDA margins for B2C business will be ~4-5% but the blended EBITDA margins will be in the range of 2-3%. The high scalability, ample cash balance, strong parentage and opportunity in non-steel segment will be the key factors which will drive growth for the company going forward. We believe the company has potential to deliver EBITDA of INR 5.5 Bn by FY27E. **We are positive on the company and see a multifold opportunity. We are working on detail numbers.**

Income Statement					
V/E Mar, Rs mn	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24
Net sales	**11,370**	**12,775**	**7,483**	**5,062**	**1,509**
QoQ Growth, %	-11.00%	70.72%	47.83%	235.45%	
Raw material expenses	11,125	12,457	7,312	4,950	1,490
Employee expenses	33	21	15	9	5
EBITDA (Core)	**451**	**528**	**267**	**123**	**18**
Margin, %	3.97%	4.13%	3.57%	2.43%	1.19%
Depreciation	2	3	1	1	-
Interest paid	77	79	34	3	1
Other Income	207	209	96	11	0
Pre-tax profit	**372**	**446**	**232**	**120**	**17**
Tax provided	100	109	60	30	4
Profit after tax	**273**	**337**	**172**	**90**	**13**
QoQ Growth, %	-18.99%	95.93%	91.11%	592.31%	

Balance Sheet	
March (INR Mn)	**FY24**
ASSETS	
Non-current assets	
Property, plant and equipment	39
Capital work-in-progress	17
Right of use assets	0.38
Other intangible assets	-
Investment in subsidiary	-
Financial assets	
(i) Loans	-
(ii) Other financial assets	0.04
Total non-current assets	56
Current assets	
Inventories	71
Financial assets	
(i) Trade receivables	86
(ii) Cash and cash equivalents	123
(iii) Bank balances other than (ii) above	1,003
(iv) Loans	0.49
(v) Other financial assets	26
Current tax assets (net)	-
Other current assets	120
Total current assets	1,431
Total Assets	1,487
EQUITY AND LIABILITIES	
Equity	
Equity share capital	11
Other equity	1,076
Total equity	1,087
Non-current liabilities	
Financial liabilities	
(i) Lease liabilities	0.24
Provisions	0.24
Deferred tax liabilities (net)	0.13
Total non-current liabilities	**0.61**
Current liabilities	
Financial liabilities	
(i) Borrowings	182
(ii) Lease liabilities	0.16
(iii) Trade payables	
- total outstanding dues of micro enterprises and small enterprises	2
- total outstanding dues of creditors other than micro and amall enterprises	192
(iv) Other financial liabilities	7
Other current liabilities	11
Provisions	-
Current tax liabilities (net)	6
Total current liabilities	399
Total Equity and Liabilities	1,487

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park	
Building No. 10, 1st Floor	Arihant Capital Markets
Andheri Ghatkopar Link Road	6, Lad Colony, YN Road
Chakala, Andheri (E)	Indore - 452003, (M.P.)
Mumbai – 400093	Tel: (+91-731) 4217100/7101
Tel: (91-22) 42254800	
Fax: (91-22) 42254880	

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800Fax. 022-42254880