SG Mart- Can it successfully create a marketplace?

Akshada_Deo 1 July 10, 2024, 12:28pm

SGMART is a B2B one-stop shop that provides a wide range of construction-related solutions from top brands under one roof. The company aims to establish itself as the trusted and preferred platform for all infrastructural and building material needs in India.

History:

The company used to be Kintech Renewables. The company was earlier engaged in activities relating to the renewable energy sector. The promoters then were Aditya Singhal, Saurav Singhal, Ambala Patel and Jigar Shah.

In April-23, New promoters Meenakshi Gupta and Dhruv Gupta bought out the company for INR 22 crs. The promoters belong to the APL Apollo group family.

Products:

TMT Bar, MESH NET, Binding Wire, Welding Rod, Steel Tube, Sanitaryware, Bath fittings, Laminates, Galvanised Sheet, HR Coil & Sheet, All Ceramic Range of Tiles, Premium Tiles Adhesive & Grouts, Double Charge Tiles division, Home appliances, Lighting for Domestic, Commercial & Industrial applications, LED Lighting, Fans, Modular Switches & Wiring Accessories, Water Heaters, Industrial & Domestic Circuit Protection Switchgear, and Industrial & Domestic Cables and Wires. Looking ahead, the company plans to expand its product line, adding Barbed Wire, MS Bar, Angle, ISMC Channel, ISMB Beam, and Patti Flat.

Brands being sold:

4 large brands- APL Apollo TMT bars, Kajaria Tiles, Havells electricals, SG premium
Other Brand partners- NMDC, JSW Steel, Jindal Steel and Power, Hindustan Zinc, Godawari Power and ISPAT, Triveni Enterprises, etc.

Industry dynamics:

- India is the 7th largest manufacturing hub and the 5th largest retail distribution market globally for construction materials.
- This sector is yet to be disrupted by technology, with the penetration of B2B marketplaces at under 1% today v./s China and USA, where digital adoption is as high as 20%.
- 100-300% annual growth in leading B2B marketplaces since COVID – sustained shift in adoption

Industry issues:

- Fragmented supplier base
- Limited vertical integration between different stages of material transformation and its final usage
- SMEs often have a problem in buying good quality steel due to minimum amount of steel which the manufacturer sells is more than the SME requires
- Long lead time for delivery to distributors
- No standardized prices

Industry size:

Segment Product	Market Size, FY24	FY2027E
Downstream Steel	4.1 Trillion	5.6 Trillion
Fixtures & Fittings (Bath fittings, Electrical fittings)	1.3 Trillion	1.8 Trillion
Tiles industry	0.4 Trillion	0.6 Trillion
Total	5.8	8

Other Investors and fund raising:

In Nov-23, The company raised equity shares worth 878 crs, at Rs 5000 per share, Rs. 10 face value. The top allotees from this were:

Allottees	No of equity shares	Value (in crs)
Kitara PIIN 1103	202,000	101
Plutus Wealth Management LLP	200,000	100
QRG investments and Holdings Ltd	100,000	50
Blue Foundry Advisors LLP	100,000	50
Vallabh Bhanshali	50,000	25
SageOne-Multiple	50,000	25
Turnaround opportunities fund	40,000	20
Abbakus	80,000	40
Rikeen P Dalal	30,000	15
360 One special Opp Fund	30,000	15
Mukul Mahavir Agarwal	30,000	15
Ashok Goel Trust	24,000	12
High Conviction Fund	20,000	10
Madhuri Madhusudhan kela	20,000	10
Top allottes	976000	488

The company also issued warrants at the time, at Rs 5000 per share to non-promoter category:

Particulars	No of shares	Value (in crs)
Rohan Gupta	382,000	191
Marigold Partners	90,000	45

Particulars	No of shares	Value (in crs)
Shivkumar Bansal	75,000	37.5
Rohit Gupta	50,000	25
Deepak Kumar	25,000	12.5
Anubhav Gupta	25,000	12.5
Kanhaiya Sharma	10,000	5
Anjana Bansal	10,000	5
Arun Agarwal	10,000	5
Payal Jain	10,000	5
Ravindra Kumar	10,000	5
Chakram Singh	5,000	2.5
Amit Kapoor	5,000	2.5
Bhanu Singh	5,000	2.5
Utkarsh Dwivedi	5,000	2.5
Ankit Jain	3,000	1.5
Atul Jain	3,000	1.5
Total	723,000	361.5

In February 2024, the company split the stock 10:1, and issued bonus shares on the same.

Financials:

The new company started operations in June 2023, and since has had 4 quarters of operation.

Particulars	Q1FY24	Q2FY24	Q3FY24	Q4FY24	FY24
No. of customers	170	315	426	444	
Net Revenue	150	506	748	1277	2681
Raw Material cost	147	493	728	1238	2606
% of rev	98.00%	97.43%	97.33%	96.95%	97.20%
Gross profit	3	13	20	39	75
GP Margin	2.00%	2.57%	2.67%	3.05%	2.80%
Employee cost	0.5	0.9	0.15	0.21	1.76
Other expenses	0.7	0.2	0.1	0.52	1.52
EBITDA	1.8	11.9	19.75	38.27	71.72
EBITDA Margin	1.20%	2.35%	2.64%	3.00%	2.68%
Other income	0	1.1	9.6	20.9	31.6
Interest Cost	0.1	0.3	3.4	7.9	11.7
Depreciation	0	0.1	0.1	0.3	0.5
PBT	1.7	12.6	25.85	50.97	91.12
Tax	0.4	3	6	10.9	20.3
Tax rate	23.53%	23.81%	23.21%	21.39%	22.28%
Net Profit	1.3	9.6	19.85	40.07	70.82

The company has given a guidance of reaching INR 18,000 crs of revenue in FY27.
In typical APL Apollo group company fashion, it works on negative working capital (-5 days)

Thesis:

- Creating a marketplace for construction materials has a larger purpose to also standardise the industry and move the players to a more organised supply chain.
- The pedigree of the group is certainly to its advantage.
- Creating one more supply channel should also be beneficial to other brands wanting to diversify their supply chains.
- Current valuations although steep, can be justified at the expected 60-80% topline and bottomline CAGR for the next 3 years.

Risks:

- The company's current valuation is steep, 65 PE. However with the assumed growth it may reach a comfortable level.
- There is not enough information out in the open, with the company not conducting concalls so far.
- The company has achieved proof of concept in the last few quarters, however to drive deeper penetration and creating a category is fairly untested.
- Risk of dilution of shares via either warrants or more fund raising.
- Trading business has a lot of competition and thin margins, company may have to go even lower to sustain topline momentum.

Disclosure- Invested

31 Likes

GRP 2 July 10, 2024, 1:13pm

How it's different from Shankara. It also has some stake of apl Apollo

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sougataG 3 July 11, 2024, 6:04am

APL APOLLO MART seems to be in a similar line of business, so what could be the reason for them to start SG Mart, when APL MART was already up? How well are they placed with unlisted players like Market.infra?

2 Likes

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antson_m 4 July 11, 2024, 6:11am

The new promoters are family of APL Apollo.
@Akshada_Deo PE basis FY24 financials wont be the right picture. Major part of revenue & profits for FY24 was made only in Q4 post management change. So forward PE for FY25 will be significantly low assuming if Q4 replicates for 4 quarters of FY25. If the Q4 business is extrapolated for FY24, then earning is 4 time the earning of Q4.

1 Like

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antson_m 5 July 11, 2024, 6:12am

Shankara is primarily expanding into retail, B2C

2 Likes

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ajay81 6 July 13, 2024, 11:50am

Found it strange for such a newly set up company, Promoter is selling shares so frequently; they have sold 1.4 cr shares over last 4 months; and have taken out much more money than what they have invested (incl warrants);

SG Logistic mgmt: buys 25 lakh shares from the Promoter on 27th june @ 440 per share but on 9th july sells 9 lakh shares @ 425 per share so much for long term investing,another weird thing is that this company was formed just two years back with a similar name as sgmart…it looks like a related party entity even though not shown as promoter grp so free to keep on selling shares without any major disclosures . source: **Sg Logistic Management Private Limited - About** (check shared directorship)

2 Likes

Akshada_Deo 7 July 13, 2024, 12:51pm

APL apollo's promoters have a history of buying companies with almost nil revenue instead of opening up new ones. Similar was done with SG finserve as well.

As far as fundraising is concerned, my estimation is theyd rather sit on funds and use them immediately at need rather than do fundraising when the need arises.

3 Likes

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ajay81 8 July 13, 2024, 12:54pm

> Akshada_Deo:
>
> at need rather than do fundraising when the need arises.

Am not talking abt fund raising by company at all. that in my opinion is good for the company. am talking abt promoter individually selling their shareholding: (source: screner)

27 Jun 2024			
Ashish Rameshchandra Kacholia	B	9,10,000	440
Meenakshi Gupta	Sale	24,98,820	440
Sg Logistic Management Private Limited	B	25,00,000	440
Dhruv Gupta	Sale	35,76,772	442
28 Mar 2024			
Dhruv Gupta	Sale	70,00,000	476
Everest Finance And Investment Company	B	9,45,000	476
Veera Gupta	B	12,00,000	476

1 Like

Akshada_Deo 9 July 13, 2024, 12:56pm

yes thats right, if they can continue the momentum valuation is not a concern

1 Like

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antson_m 10 July 13, 2024, 2:26pm

Not sure, but looks like some internal family rearrangement. I could be wrong. Under public, Neera Gupta has acquired 12%.

Shareholding Pattern

Numbers in percentages

Quarterly Yearly TRADES

6 Recently

	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024
Promoters -	**74.80%**	**94.69%**	**94.69%**	**94.69%**	**94.69%**	**89.37%**	**75.00%**	**75.00%**	**75.00%**	**53.79%**	**52.69%**	**40.97%**
Aditya Singhal >		47.35	47.35	47.35	47.35	47.35	37.50	37.50				
Gaurank Singhal >		47.34	47.34	47.34	47.34	42.02	37.50	37.50				
Dhruv Gupta >									56.25	40.34	40.23	30.75
Ambalal Chimanlal Patel >	37.40											
Jigar Jaswantlal Shah >	37.40											
Meenakshi Gupta >									18.75	13.45	12.46	10.22
FIIs -	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.04%**	**3.65%**	**5.62%**
Ohana India Growth Fund >												1.08
DIIs +	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.16%	0.54%	0.54%
Government +	0.00%	0.00%	0.00%	0.90%	0.90%	0.90%	0.90%	0.00%	0.00%	0.00%	0.00%	0.00%
Public -	**25.20%**	**5.31%**	**5.31%**	**4.40%**	**4.40%**	**9.73%**	**24.10%**	**25.00%**	**25.00%**	**42.01%**	**43.11%**	**52.88%**
Neera Gupta >												12.10

4 Likes

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antson_m 11 July 13, 2024, 2:31pm

Another interesting part is that Havell’s promoter group Qrg Investments and Ashish Kacholia has a stake in this company!

Shareholding

	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024
Campus Activewe.																1.87	1.87	1.87	1.38	1.38		
Havells India	10.99	10.98	10.98	10.98	10.98	10.98	10.98	10.98	10.98	10.98	10.98	10.98	10.98	10.97	10.97	41.28	41.28	41.27	41.27	41.26	41.26	41.25
Jana Small Finan																						2.00
SG Mart																				1.79	1.79	1.79

People / Ashish Rameshchandra Kacholia

Ashish Rameshchandra Kacholia

Bulk Deals Block Deals Shareholdings

Bulk Deals

Company		Quantity	Price
SG Mart 27 Jun, 2024	B	9,10,000	440

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antson_m 12 July 13, 2024, 2:55pm

And Neera Gupta is Apl chairman’s wife

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ajay81 13 July 13, 2024, 3:24pm

Neera gupta shareholding is coming from Sahil gupta; Sahil gupta used to own 13.45% in dec shareholding now he owns only 1.34% and 12.1% is ownd by neera gupta in June shareholding

4 Likes

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antson_m 14 July 14, 2024, 7:11am

Not sure, there is gap of 1qtr. The names I'm suspicious of related transactions. After this there is still gap of 24% from the Sept holdings of 94%. Pls note we cant see below 1% transactions. What are they doing
Hope annual report will give better clarity

	Sep-23	Dec-23	Mar-24	Jun-24
Dhruv Gupta	56.25	40.34	40.23	30.75
Meenakshi Gupta	18.75	13.45	12.46	10.22
Sahil Gupta	18.75	13.45	1.34	1.34
Neera Gupta				12.1
Sub Total	**93.75**	**67.24**	**54.03**	**54.41**
Other Related Transactions	**Sep-23**	**Dec-23**	**Mar-24**	**Jun-24**
Kitara Piin 1103		3.62	3.62	3.62
Plutus Wealth Management Llp		3.59	3.59	3.59
Sg Logistic Management Pvt. Ltd				2.24
Qrg Investments And Holdings Limited		1.79	1.79	1.79
Blue Foundry Advisors Llp		1.79	1.79	1.79
Veera Gupta				1.05
Ashok Kumar Gupta				1.02
Sub Total		**10.79**	**10.79**	**15.1**
Total		**78.03**	**64.82**	**69.51**

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dm88 15 July 15, 2024, 6:40pm

Their website is still under development. Where are they selling these products? Isn’t that supposed to be online ? Right now we are not able to view prices of different products that they have. This industry deals with lot of cash and that is one of the biggest reasons why this sector is largely unstructured and unorganized. If you start selling these products online then all the transactions are booked and cash dealings become difficult. If SG Mart is able to sell these products online and change the way this industry works then it could be a game changer but it will have its fair share of struggles and challenges.

3 Likes

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saurabhgupta 16 July 16, 2024, 10:04am

2027 guidance- 180bn= 18,000 cr sales ,
so **PAT** 2% will be **360cr,**
so **EPS** - 360/11.2=**32.14** ,
so **forward FY27 P/E** will be - 400/32.14=**12.4**

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saurabhgupta 17 July 16, 2024, 10:05am

Ratios of this company is better than Shankara buildpro.(Debtor days, receivables etc)

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saurabhgupta 18 July 16, 2024, 10:12am

75% holdings in strong hands ie 11.2 cr ka 75%=8.4cr.

Public float =11.2cr-8.4cr=**2.8cr**.

My query is when there is decent public float available then why this stock trade in circuit to circuit?

[Ketan_Chheda](https://forum.valuepickr.com/u/Ketan_Chheda) 19 July 16, 2024, 10:54am

They have huge cash which is earning them "other income"…so by 2027 that other income may not be there… pls note that operating and net margins cannot be the same…IF at all they have no interest expense and depreciation as well as no other income, they still need to pay tax…so PAT margin will not be equal to Operating Margin.

2 Likes

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saurabhgupta 20 July 16, 2024, 3:10pm

Sir going forward OPM will also not remains the same and shankara buildpro has average PAT margins of 1.5-2% ,but shankara has bad ratios and SG Mart having good ratios (negative cash conversion days) we can give it PAT margins of 2%(if you want to become more conservative then you can use 1.5% as well).If still i am wrong anywhere please feel free to interact.

1 Like

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dm88 21 July 16, 2024, 4:46pm

How are the margins going to improve? What is your thesis behind margin expansion? It is a trading business, right? Something like what Amazon does. Brands come and list their products and consumers would buy and from Amazon and Amazon just gets a commission or a listing fee. It’s a similar model for SG Mart as well, right ? If yes then margins should always be in lower single digits. If No then can you please provide some details about how margin expansion would happen. To me it seems like a volume business more than a margin one and 2-3% margins are not bad as long as the volumes continue to grow with a healthy rate.

1 Like

Akshada_Deo 22 July 17, 2024, 6:35am

There is little chance of margin expansion. At best a 50 bps addition due to some better product mix, but to capture market share and get customers to use their channels there will be discounting done. Commodity trading at the end is a volume game and not margin.

3 Likes

M_Singh 23 July 19, 2024, 6:54am

A classic case of Pump and dump going on.

2 Likes

ShrenikBhura 24 July 21, 2024, 4:56pm

Noticed that Ashish Kumar Kacholia had conpletely exited Shankara and entered SGMart in the last quarter.

1 Like

Krisraji 25 July 25, 2024, 2:27pm

There will be margin expansion, as they are increasing share of revenue from there own mamu tured, white label goods.

EMMANUEL_MANDAVA 26 July 26, 2024, 2:52pm

How is this company different from Mjunction???

imsushant 27 July 26, 2024, 4:39pm

I think its major competitor is L&T SuFin- Integrated B2B Marketplace for SMEs ?

1 Like

kalpesh4430 28 July 27, 2024, 11:39am

Notes

Main promoters:
Dhruv Gupta & Minakshi Gupta are also promoters of Apollo Pipes LTD which manufactures PVC pipes & accessories.

Public shareholders:
Neera Gupta, Veera Gupta & Ashok Kumar Gupta come from Promoter group of APL Apollo Tubes Ltd.

Sanjay Gupta of APL apollo is elder brother of Sameer Gupta of Apollo Pipes
Meenakshi Gupta is wife of Sameer Gupta and Neera Gupta is wife of Sanjay Gupta.

Couldn’t find much about who is Dhruv Gupta.

QRG Investment is promoter group of Havells Ltd.

Ashok Kumar Gupta is also MD of Shalimar paints Ltd.

Sg Logistic Management Pvt. Ltd also seem related party.

Warehouses
Pune
Bangalore
Dujana
Raipur

Dilution
1,44,60,000 warrants yet to convert which will dilute with existing 11.15Cr shares which is almost 13% equity dilution will come in near future.

What I think is APL has merged APL mart idea to SG Mart.
Large market size, huge scope of revenue growth,
valuations seem little stretched, will wait for favourable time to enter.

4 Likes

HarshVijay 29 July 27, 2024, 12:14pm

Dhruv Gupta is the son of Sameer and Meenakshi Gupta. He’s still a high-schooler, that’s why no info about him.

4 Likes

Sauhard_Koolwal 30 July 27, 2024, 7:47pm

HI can you please quote the source of this data? Thanks

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antson_m 31 July 28, 2024, 1:52am

Screener, investor section

Akash3 32 August 1, 2024, 4:00pm

Is sg mart still operate the business of renewable energy? I found this in there annual report.

i. **Steps taken or impact on conservation of energy;**
As the Company is not engaged in any manufacturing activities, it does not use energy. The Company provides the services of installation and commissioning of Renewable Energy Equipments at the sites of their customers. We will continue to focus on the new technologies to reduce the cost and increase generation.

ii. **Steps taken by the Company for utilizing alternate sources of energy;**
Your Company is already engaged in the business of generation of energy using solar energy and thereby using eco-friendly source of generation of energy. Further, the Company is aggressively pursuing cost reduction avenues which will make the sector more cost efficient going forward.

iii. **Capital investment on energy conservation equipment: NIL**

(B) TECHNOLOGY ABSORPTION –

i. **Efforts made towards technology absorption;**
The Company has conducted a detailed study on the technology absorption and experimenting with our value engineering approach to make our projects more economically viable to improve efficiency, plant availability and output and, as a result, profitability.

ii. **Benefits derived as a result of the above efforts:**
Product improvement, cost reduction, product development, optimization of power generation and System reliability improvement

iii. **Information regarding technology imported, during the last 3 years: N.A.**
iv. **Expenditure incurred on Research and Development: N.A.**

(C) Foreign Exchange Earnings and Outgo –

i. Foreign Exchange Earnings: Nil

ii. Foreign Exchange Outgo: Nil

RPORATE GOVERNANCE

per Regulation 15(2) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, mpliance with the corporate governance provisions as specified in regulations 17, 17A, 18, 19, 20, 21, 22, 23, , 24A, 25, 26, 27 and clauses (b) to (i) and (t) of sub-regulation (2) of regulation 46 and para C, D and E of hedule V shall not apply, in respect of the listed entity having paid up equity share capital not exceeding rupees n crore and net worth not exceeding rupees twenty five crore, as on the last day of the previous financial year. erefore, the Company is not falling under aforesaid applicability criteria, prescribed in the Listing regulations d does not required to prepare and attach the report on Corporate Governance and Certificate from the mpany's auditors/practicing company secretary regarding compliance of condition of Corporate Governance th this Annual Report.

ANAGEMENT DISCUSSION AND ANALYSIS REPORT

per the requirement of Regulation 34(2) (e) and Schedule V of the SEBI (Listing Obligations and Disclosure quirements) Regulations, 2015, a detailed Management Discussion and Analysis Report forms part of the nual Report of the Company as **Annexure '3'.**

MPLIANCE WITH SECRETARIAL STANDARDS ON BOARD AND ANNUAL GENERAL MEETINGS

ring the period under review, the Company has duly complied with the applicable provisions of the Secretarial andards issued by the Institute of Company Secretaries of India on Meetings of the Board of Directors (SS-1)

[HarshVijay](#) 33 August 1, 2024, 7:33pm

This must be an older document right?

Akash3 34 August 2, 2024, 12:46pm

Not. it's financial year 2022-23.

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aprameya 35 August 3, 2024, 5:37am

That is, when it was Kintech Renewables. FY23-24 will be the first annual report as SG Mart

1 Like

Akash3 36 August 3, 2024, 1:01pm

It's also mentioned that they trading the building materials.

Concrete, Steel, Wood, and Masonry. Every single material is varied with different parcels like weight, strength, continuity, and cost making it suitable for certain types of operations. The choice of accoutrements for construction is grounded on cost and effectiveness to defying the loads and stresses acting on the structure. Engineers and builders work nearly with their guests and decide on the type of Construction and structure Accoutrements to be used in each design.

Now, the construction assiduity in India fits in a variety of locally sourced accoutrements. This largely depends on the kind of construction, which range from 'Kuccha' slush houses to ultramodern city architectures that use high structure accoutrements. The pressing problem with the assiduity is, still, the way the source accoutrements are attained. Beach mining, open cover ash manufactories, and casualness for sustainability norms have had a huge impact on the terrain over the once decades. While the civil engineering and construction assiduity has boomed over the once decade, the country faces strong challenges from the total and largely contaminating nature of

pg. 24

structure accoutrements. Problems like illegal beach mining have been affecting the swash systems. Densely clustered megacity planning has been leading to climatic disasters like the one our nation's capital megacity has been fighting for over a decade now.

About the Company

Kintech Renewables Limited (KRL) is engaged in the business of trading of Building Material Products. The Company is well-known in the Building products space for its ingenuity and innovative spirit. It maintains a very diverse product portfolio to cater to different segments of end-user industries.

In its effort to reach customers across India, the Company has created a comprehensive and entrenched distribution network across India. To create awareness of its products and solutions, the Company engages with key decision influencers: architects, construction consultants, and fabricators.

Kintech Renewables Limited also exports its products. Corporate office in Delhi-NCR, India, the Company is spearheaded by Shri Aditya Singhal and Gaurang Singhal. A team of experienced and enthusiastic professionals ably supports him. The Company's equity is listed on the BSE.

Our operational performance

The Company's operational efficiency climbed a few notches higher. This increase was owing to improved productivity in the Trading and manufacturing facilities, debottlenecking at some facilities.

The Management is also conversing with several companies for more such projects, some of which should see the light of day in the current year (FY24).

The Company intensified its branding and awareness initiatives to enhance brand recall among decision-makers.

Financial performance

Buoyed by the significant domestic demand and the untiring efforts of the team, KRL reported an excellent all-round performance defying global headwinds.

Sales volumes registered an all-time high. Despite rising inflation, the Company remained hawk-eyed on cost, working untiringly to eliminate wastages and plugging gaps.

The Company's gross revenue in financial year 2022-23 increased significantly by 319% from ₹61.60 lakhs to ₹258.35 lakhs. The EBITDA decreased by 35% from ₹41.30 lakhs to ₹26.71 lakhs for the year under review. The net profit of the Company also decreased by 34% from ₹30.07 lakhs to ₹19.71 lakhs during the year under review.

The Company continued to monitor is working capital closely. Hence despite a significant increase in business operations, working capital remained stable.

Particulars	2022-23	2021-22	Change (%)
Inventory Turnover ratio	2.00	0.02	8032.83%
Current ratio	825.05	8.64	9446.99%
Debt-equity ratio	(0.97)	(0.14)	595.37%
Net Profit Ratio (%)	12.65%	803.85%	-98.43%
Return on Net Worth (%)	69.09%	3.98%	1634.75%

pg. 25

**Reasons for change in Ratios: Due to change in the Business activity of the Company.*

Internal control & its adequacy

At KRL, the internal control mechanism is designed to protect its assets and authorize, record, and correctly report all transactions on time. It conforms to the local statutory requirements and meets the highest global standards and practices to remain competitive in evolving business dynamics.

The internal control framework monitors and assesses all aspects of risks associated with current activities and corporate profiles, including scientific and development risks, partner interest risks, and commercial and financial risks.

While ensuring flawless competition of accounting and financial processes, the internal control mechanism reviews the manual and automated processes for transaction approval.

Human resource

KRL has always believed in the power of its human capital and their invaluable contribution to the Company's journey toward sectoral dominance.

As always, the Company's focus has been on its employees' well-being. Its people-centric policies have facilitated its team members' professional and personal development. The Management has maintained a close connection with its people, increasing their sense of belonging to the organization.

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amit151190 37 August 5, 2024, 4:34pm

Has anyone got the link to register for the concall?

[imurlovish](#) 38 August 5, 2024, 4:45pm

the link is not a hyperlink (not clickable)…

[ebb30e8b-7068-4f02-a619-cdcf4afc8172.pdf](#)

[amit151190](#) 39 August 5, 2024, 4:52pm

Yeh, I saw that, has anyone written to the investor relations for getting the link?

[HarshVijay](#) 40 August 9, 2024, 12:56pm

How do you assess the Q1 Results of SG Mart? Ofc, there’s a massive YoY growth but, QoQ degrowth…

[amit151190](#) 41 August 9, 2024, 3:00pm

not right to compare on the basis of YOY as the base was too low , I believe in Q1 quarter constructions are in full swing, however some of it may have delayed due to elections (management may say the same in concall). But I believe, it won’t be easy to grow multifold revenue for the company on this base. 15% to 20% revenue

growth in a low margin business, so the current valuations are justified or may be stretched.
X- @amitsinghpal

1 Like

HarshVijay 42 August 9, 2024, 3:15pm

considering the next quarter (Q2) remains similar to the current Quarter in terms of the numbers and profitability, the next quarter forward PE would be ~40 (at the current price). On similar assumptions, for the next to next quarter (i.e. Q3 FY 2025) the PE would be ~36.5.

Now the question is what should ideally the PE of such a company be (just trading commodities, low margins etc)?

PS: Also to estimate the above PE ratios I have assumed no growth from the current levels, if growth or margin expansion happens (somehow) then ofc the forward PEs would be lesser accordingly

2 Likes

HarshVijay 44 August 9, 2024, 3:52pm

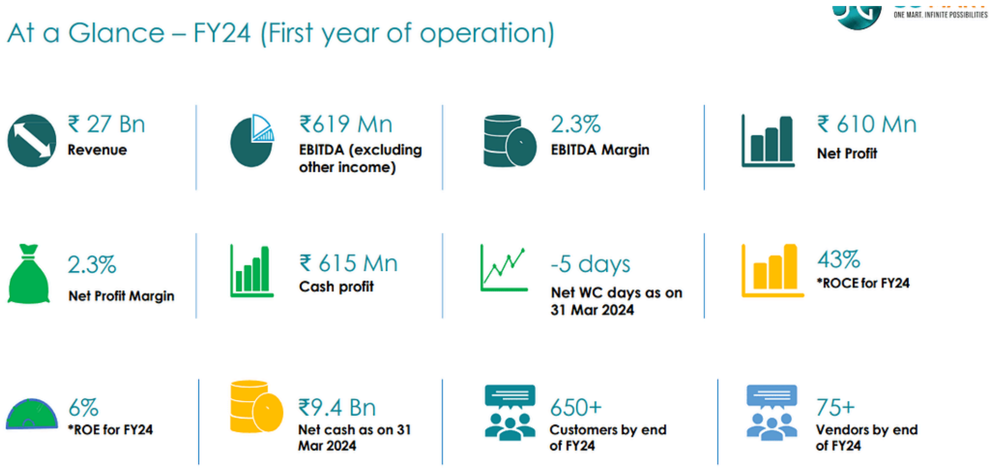
Ah thanks a lot Amit, for the competitor analysis. But isn’t the WCD = 6 for SG Mart?

Ratios

Standalone Figures in Rs. Crores / View Consolidated

	Mar 2013	Mar 2014	Mar 2015	Mar 2016	Mar 2017	Mar 2018	Mar 2019	Mar 2020	Mar 2021	Mar 2022	Mar 2023	Mar 2024
Debtor Days	0	0	0		262	0	46	26	300	0	0	12
Inventory Days	0	0	0						1,385		0	10
Days Payable									0			27
Cash Conversion Cycle	**0**	**0**	**0**		**262**	**0**	**46**	**26**	**1,685**	**0**	**0**	**-5**
Working Capital Days	182	548	68,802		175	-10	-8	7,456	445	46,994	80	6
ROCE %	0%	-0%	-1%	2%	7%	4%	3%	4%	4%	3%	1%	15%

amit151190 45 August 9, 2024, 4:06pm



it was negative till last quarter but turned positive this quarter.

1 Like

HarshVijay 46 August 9, 2024, 4:08pm

Ah okay! I wonder why this disparity would exist between screener and their presentation!!

saurabhgupta 47 August 13, 2024, 4:10pm

Q1 FY25-

The business growth was slightly **impacted in Q1FY25 due to general elections and plant maintenance shut down by steel producers, which impacted the raw material supply.** However, **we expect a strong recovery going forward, from Q2FY25.**

^EBITDA of INR 247 Mn has non-recurring expense of INR 59 Mn for brand promotion

2 Likes

HarshVijay 48 August 13, 2024, 4:21pm

wow that's good news!

---

dm88 49 August 13, 2024, 5:31pm

This is more of a platform based company rather than a trading one. Agreed that the margins are low and will always be low because of the nature of the business but the ROCE will always be very high. I think it is 51% right now. The cash flow should also be very good unless it gets stuck in inventory. So valuation wise I would say it is cheap at a PE of 40 if you were to think of this as a pure platform based company.

4 Likes

HarshVijay 50 August 13, 2024, 5:45pm

You mean like a marketplace model?

dm88 51 August 13, 2024, 5:52pm

Yeah it is an online market place for construction material and its derivatives. The worrying thing for me is that in their current presentation they have specified that the no of active suppliers has gone down from 65 to 38 and the no of active customers has gone up. Customers going up is very good but why would no of suppliers go down so significantly?

I could not join the concall earlier today. If anybody was able to join then please share the details.

Sauhard_Koolwal 52 August 13, 2024, 5:56pm

Has anyone actually looked into their platform? Their website doesn’t work.

HarshVijay 53 August 13, 2024, 6:56pm

Think they have uploaded the recording.

---

imurlovish 55 August 13, 2024, 7:38pm

0:00 / 1:08:26

1 Like

HarshVijay 56 August 14, 2024, 11:04am

@dm88 but if you listen to their concall, they themselves describe themselves a s a trading company.

1 Like

---

amit151190 57 August 14, 2024, 2:02pm

it's a trading company only, none of the platform business works on such thin margins.

2 Likes

HarshVijay 58 August 14, 2024, 3:26pm

so even the heading of this topic is wrong in that sense right? It says 'Marketplace' whereas all they are doing is trading of infra materials.

---

prashant_Singh2 59 August 14, 2024, 3:29pm

Apl already had apl mart , why did they take the hassle of acquiring a company? And do they have a website or all the sales they have been doing is through phone calls?

amit151190 60 August 14, 2024, 4:56pm

it's okay buddy, our focus is to make money not to pic the small mistakes, we all can make some. Whether you call it market place or trading company it doesn't matter till the time you know , how much money it can make and how much money you can make from it …

1 Like

tarun2586 61 August 15, 2024, 10:58am

Below are a few quick points from the 1st concall. Kindly pardon in case of any mistakes

1. Focus is to create a trading company in construction material space.
2. Three Business verticles - B2B (steel trading), B2B (service station/center) and B2C
3. B2B (steel trading): Buy steel from the big manufacturers and supply to the small businesses. Largest trader was doing business or 25K MT/month. Current SG volume 50K MT/month. Trading in HRcoils, pellets. Doing business with JSW, Sail, Tatas. Margin is 1.5-2.0%. Mostly cash and carry business
4. B2B (service station/center): Buy steel from the manufacturer and process it to make ready to use steel for users like automobile, washing machine and some construction industry. Two service station already started, planning to start 3 more incl Dubai. Plan to do 30k-40k/month steel processing. Margin is 4-5%. 15-20 days inventory. 101 service station by 2030 adding 10 per year. Capex of 20-25cr for each
5. B2C: To sell construction materials like TMT, welding rodes etc to customers which are already doing business with APL Apollo. This business will not include steel pipes for which APL will continue to use existing channels. Service centers will be used as warehouses for B2B and B2C. Volume of 13K/month already started, expected margins of margin 2-4%

6. Brand: Family has given brand to SG Mart without any cost for doing business in construction materials other than steel pipes
7. Q1 Revenue Breakup: 500cr B2B steel, 400cr B2B service station and rest B2C
8. Cash: Current cash is 1000cr+ raised last year to start the business. This fund is sufficient to reach 20k MT volume.
9. Guidance 2025: Top line 7k-8k with steel volume is 1.2mn and margins of 2.5% - don’t see any issue/risk
10. Guidance 2026: 13-14k next year
11. Guidance 2030: 50k top line, 10mn ton annual volume, 5k capital requirements, ebidta 1500 CR, ROCE of 30% by 2030
12. Competition: No current listed or unlisted competition in the market.

Not invested. Tracking closely

13 Likes

[sougataG](#) 62 August 16, 2024, 5:08am

No listed peers, true but several unlisted companies are operating in similar markets from big names to new startups. Following are some of them

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3 Likes

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imurlovish 63 August 16, 2024, 8:48am

yes - that’s an unorganized sector.

---

prashant_Singh2 64 August 16, 2024, 11:30am

Do they have a website? Or do they take orders only through WhatsApp and phone calls? Basically, how are they taking orders, And does anyone know their customers?

imurlovish 65 August 17, 2024, 9:23pm

Website - https://sgmart.co.in

Here is some key point from recent concall -

- **Business Model and Strategy**:
- SG Mart Limited aims to become India's largest steel and metal trader. The company's strategy includes buying raw materials in bulk from steel and zinc producers and distributing them to smaller retailers and dealers.
- SG Mart serves as a large distributor, relieving steel producers from managing small dealers directly.
- They are also focusing on setting up high-tech service centers to process steel for industries like consumer durables, automotive, and construction, offering better quality and timely delivery compared to traditional small-scale processors .
- **Acquisition and Financial Strategy**:
- SG Mart was acquired as a listed company to attract investors, as they needed a public structure to raise funds efficiently. The acquisition was not for existing business but for the corporate structure, allowing the company to raise approximately INR 1300 crores .
- **Customer and Market Insights**:
- SG Mart's customers include OEMs (Original Equipment Manufacturers) in industries such as consumer durables and automotive, who require processed steel. By setting up service centers close to major manufacturing hubs, SG Mart reduces logistics costs and improves service quality for these large manufacturers .
- **Market Opportunities and Challenges**:

- SG Mart is positioning itself as a significant player capable of handling the increasing steel production in India, as the country aims to expand its steel capacity significantly by 2030. The company believes that small traders cannot keep up with this growth, providing a business opportunity for larger distributors like SG Mart .

3 Likes

HarshVijay 66 August 17, 2024, 9:51pm

thanks for the insights. Even I had the same question as @prashant_Singh2 about the website. i have already visited the website and know that there exists one but I didn't seem to find any way to place an order or something. Infact the website still says that 'it is still under development'. So how do they take orders exactly?

2 Likes

---

saurabhgupta 67 August 19, 2024, 10:32am

Q1 FY25- First Concall

OPM will be - 2.5 - 3%

What **we have to look is keeping our working capital requirement low, churns 15-20 times in a year, zero creditors, zero debtors, and make 35% ROC, maybe higher. If we are able to do that, then my business model will be very, very sustainable.** And then we will replicate this in the other industries once we are able to create this full model.

We have enough money to take this revenue to **INR20,000 crores in next two to three years. So, a lot of funds are lying in the fixed deposit, which gives us the interest income. So, that's why my PAT may appear higher than the EBITDA. But as we start investing into service centers, as my volume ramps up**

from INR7,000-INR8,000 crores to INR12,000-INR13,000 crores this year and next year, and then eventually INR17,000-INR18,000 crores in FY27, and then INR50,000 crores by FY30.

So just to mention that, the **basic concept of this company is trading. Connecting the manufacturer with the distributor. So, we act like an intermediary between the manufacturer and a wholesaler.**

And **once we establish this business for steel, we create a proof of concept for the steel sector, then we are confident that the other industries will also come to support, to take support from SG Mart. By that time, we will be able to move to other sectors.**

But if you look at the countries outside India **like China, South Korea, Japan, which are actually the manufacturing hubs in the world, they have very large trading giants who are lifting material in bulk from the manufacturers and then distributing those products, whether in the same countries or at the global platform** . This is what we always miss as manufacturers, whether it's in steel tubes or plumbing pipes.

Then the idea came that how do we start? How do we create India's largest trading company? Which product we should start with? Whether it should be metals, non-metals, construction materials, agri-commodities, cement, etc. S**o, then we realized that our strength has been steel. We have spent four decades of manufacturing and buying and selling of steel, upstream, downstream products. So, let's start with steel as the product and then we fully establish ourselves in steel trading, and then we move to other products into whether it could be agricommodities or other construction material products.**

when India is going to see massive increase in the upstream steel capacity because last five years, we have not seen any new capacity addition in steel. **What has happened is the consolidation of the steel sector. But if you see from December 2023 till December 2025, India's steel capacity is going to go up by 50%.** So, it's the right time to start a venture which is into steel trading to take material from steel companies and then distribute for them and create a business model out of it.

I mean you will be surprised to know that **we have become India's largest zinc trader** as we speak today

And then we will distribute the product in the downstream sector. **So today we are doing business with JSW Steel, NMDC Steel, Jindal Steel and Power, Steel Authority as well, and some imports which we are doing in SG Mart.**

Second business in B2B is service centers. **Now here if you look at the industry like auto sector, consumer durables, construction industry, they don't buy raw steel like in coil form or long steel form. They need processed steel, which acts as an input to their factories and then they make washing machines, refrigerators. It is used in automobile bodies, in construction, in bridges, etc.**
So here the business model is that in metro cities as we are talking, **two of our service centers are operational, doing business of 10,000-12,000 ton a month. Two new service centers in India will be starting in next two to three months.** The construction work is underway and we will be starting those service centers in the next two to three months.

And then we have identified 15 new locations, which we will start operations over the next 12 months. **So, the vision here is that by 2030 we should be having 101 service centers, maybe 102 outside India and 99 in India.**

So, the idea is that **every year we keep on adding 10, 20 service centers and by 2030** we should have a network of 101 service centers. Here the capex per service center should be like INR20-25 crores and the working capital requirement **would be another INR10-15 crores at gross level. At net level it will be like INR5 crores. So doing 5,000-ton average volumes should give us ROC of again 30-35% with the capex and working capital combined under capital employment.**

Now if you look at our group dealers **who are doing business in steel pipes, steel pipes are 28% of their total business. Rest 80% they do rebars, angle channels, welding rod, mesh, wires. This is massive consumption but almost like INR3-4 trillion for non-tube products which these distributors buy from small manufacturers.**

Steel Tubes as an industry became formalized. Apollo played a pioneer role in formalizing the steel tube industry but for other products like angle channels, rebars, welding rods, this industry is still highly unorganized. There are multiple, n number of small manufacturers who manufacture these products in an inefficient way and then they sell to the distributors in downstream sector.

So, family has given rights to SG Mart to use APL Apollo brand for non-steel pipe products at free of charge.

So, we are **not going to spend extra money on creating more warehouses. My service centers will act like warehouses plus the processing unit. So, my capex is limited, which is like say INR25 crores per service center.**

We are **reaching directly to the contractors and real estate developers and we are doing the B2B business. That segment is small, but it is ramping up pretty quickly.**

So, other competitions like O-Business. I would say our **nearest competitor is unorganized sector.**

So, after FY27, we will speed up the process of entering into other industries, other sectors. But **till FY27, we have a laser-sharp focus that all the energy, all the resources must be put to build the steel franchise first** and then, we will move to other sectors.

So, then the steel mill will say, okay, **I will stop servicing 5,000-ton dealer on my own, why doesn't that small dealer buy from SG Mart? Okay, so that's the segment in metal trading.**
Plus, what happens is that, a factory in Ludhiana, Ludhiana is a big manufacturing hub, they need processed steel. Now they have to buy from Ghaziabad, for which you have to pay INR1,000 per ton freight. Now the steel which comes, HR coil which comes, whether it comes in Ghaziabad railway siding or Ludhiana railway siding, the freight is the same, the handling cost is the same. But from Ghaziabad to Ludhiana, **the processed steel will carry freight of INR1,000 a ton.** If I open a center in Ludhiana, my raw metal cost will be the same and **my customer will be able to save Rs.1000 per ton freight from Ghaziabad.** So that's how we will acquire customers in service centers.

And thirdly, on distribution side, the B2C business, there the customers are same. What I will do is I will replace a small inefficient manufacturer with a more capable manufacturer who has tie-up with me, and I will push his product under my brand to my dealer.

Then the risk comes on the debtor write-off or inventory write-off. So, we are going to do cashand-carry. We are talking with banks for providing channel financing services to our SG Mart's customers. We have all the national banks with us. We have our own group in NBFC with us. **So, I will not be having debtors more than 3-4 days. So, my risk on debtor write-off is also taken care of by having channel financing services for my clients.**

Then the inventory write-off. **Now, steel is a volatile commodity. It carries a lot of risk and with such a low margin, our risk management has to be very strong, which it is.**

So again, all the three verticals, Alisha, the first vertical, which is metal trading, **here we are doing back-to-back sale, like purchase and sale. So, the risk what we carry is from 0 to 10 days. Which is very limited. Steel prices in India normally are reviewed like once in a month.** On first day of every month, all the steel producers come out with a new revised pricing policy. So, if you are doing business within 10 days, there is no risk as such to carry to your balance sheet.

Second is service centers. **Now, service centers, yes, here the inventory days will be 20-25 days, but then here the margin is high. So even if there are some write-offs, you have to take some write-off, but your high margin does take care of that.**

Then third is distribution business. Distribution business, B2C, is mainly secondary steel, right? Whether it is rebars, secondary, angles and channels, welding rod, which is not a very volatile product anyways . They are sold more as product. And here also, like the inventory days in the system will not be more than 20. So, the fluctuation is manageable easily.

Just to give one example, you can look at the financials of Shankara. **Shankara is a retailer. They carry more inventory than what we will be having on our books at any given day. Now, if you look at their quarterly EBITDA margin, you can look at 20 quarters, like 5 years, you see. Their EBITDA margin has always remained stable between 2.5% to 3.5%, right?** The swing is not like they will erode the profitability and they will close the balance sheet with zero profit or at a loss.

So **Shankara can be our customer, right? Because Shankara is a retailer. We are like wholesalers.**
And this is a concept which is not unique in the world. You look at Japan, South Korea, China, there are players like **Marubeni, Mitsubishi Trading Corporation, Sumitomo Trading Corporation, ITOCHU, Hanwha, JFE Shoji all these players are there who buy raw material from steel producers or other metal producers in bulk and then they distribute further.**

We are hiring right people at right place. **We are already a team of 100 people which will increase to say not more than 200-250 when we touch INR18,000 crores top line by FY27**

17 Likes

[prashant_Singh2](#) 68 August 20, 2024, 4:04am

I think they are using the APL group network. And most probably doing business on calls. Theres no functional website yet…

1 Like

[Arth_Chatra](#) 69 August 20, 2024, 10:29am

On a lighter note, Platform companies dont make profits! Maybe that’s why they call themselves a trading company

2 Likes

[Jiitt007](#) 70 August 20, 2024, 5:07pm

Promoter holding decreased significantly compared to last quarter!!!

1 Like

[antson_m](#) 71 August 21, 2024, 2:08am

Refer to these discussions **SG Mart- Can it successfully create a marketplace? - #11 by antson_m**

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dsaraf 72 August 21, 2024, 6:33am

me too business being created by most large conglomerates (tata, birla, jindal) , alongside existing players like ofbusiness, infra.market etc etc - dont really understand whether there EVER will be any edge that SG Mart can achieve…plus the heady valuations it is already getting it just make it a no go

4 Likes

---

rajpanda 74 August 22, 2024, 3:43pm

> Akshada_Deo:
>
> - The company's current valuation is steep, 65 PE. However with the assumed growth it may reach a comfortable level.
> - There is not enough information out in the open, with the company not conducting concalls so far.
> - The company has achieved proof of concept in the last few quarters, however to drive deeper penetration and creating a category is fairly untested.
> - Risk of dilution of shares via either warrants or more fund raising.
> - Trading business has a lot of competition and thin margins, company may have to go even lower to sustain topline momentum.

Company held it's first con call. Some of the risks are now non-risks based on the explanation from Mgmt.

1. "valuation is steep, 65 PE". PE won't be appropriate measure at this stage because major part of the earning is from interest out of 1200 odd cr. in the bank. This money and what they make next few years will get utilized in the service centers which they want to setup. A back of the envelop calculation of their core earning for FY25 would be (going by their guidance) 7000-8000 cr. topline and 2.5% EBITDA margins. So, 175-200 Cr. EBITDA, They plan to spend about 400-500 cr. in setting up these service centers per year

@ 25Cr. per center and 20-30 centers per year. So some appropriate depreciation and the most of the EBITDA + interest income should should go to PBT. 3400 cr. of EV for 175-200 cr. of EBITDA looks decent ?

2. With a call behind us, the 2nd risk is now taken care.
3. Risk to expansion and question on business model - This should be monitored.
4. Risk of dilution : Mgmt. clarified this point in the call. They don't need much additional money for nearly 20x growth in next 5 years. In fact that's what makes this an exciting opportunity.
5. Thin Margins : Most often inventory losses & operating deleverage are the enemy of thin margin business. Mgmt. tried to argue against the possibility of inventory losses in this business. It will be a very interesting battle to learn form.

Disc: Invested after the concall.

11 Likes

HarshVijay 75 August 22, 2024, 5:12pm

The calculations in point 1 are correct but didn't quite understand the logic behind why you said that the steep valuation of 65 PE is an invalid argument at this stage (Even though after the results from the current quarter it is ~50 now and is only going to reduce further but still??). If the interest income is a significant component of the earnings currently, then it is only going to reduce with time (The interest income as percentage of the OP is going to decrease and even the absolute value of the interest income is also going to reduce due to utilization of the funds, which is going to lead to an even greater drop to the contriubution of the int income to the PAT, so it is only going to reduce with time). So just curious did I miss something in that argument?

PS: Ofc there are massive expansion plans etc but by the above logic how can we say that the PE of 65 won't be an appropriate measure

rajpanda 76 August 22, 2024, 5:39pm

> HarshVijay:
>
> didn't quite understand the logic behind why you said that the steep valuation of 65 PE is an invalid argument at this stage (Even though after the results from the current quarter it is ~50 now and is only going to reduce further but still??).

The company started a new business from ground zero in Q1 FY24. Even then, it always gave positive EBITDA nos. That it self is a big deal, most business will fail this criteria at that stage. As it scaled over next 3 qtrs. it slowly got very close to it's desired margins. Normally Since PE is a historical measure it will make sense to use it when history is normal. Clearly it isn't the case when a business is just born. That's reason no.1.

2nd like you also mentioned, since interest income is a BIG part of the PAT and we know that the cash that's giving that income is going to get used, then no point including that in eps and getting to PE. EV/EBITDA helps to get over this problem. and forward looking EV/EBITDA ratio is a better measure to see if it makes a case for investment or not. These are MHO, others can help more in theoretical concepts. I am not a purist when it comes to valuation and investment theory related topics

7 Likes

Souresh_Pal 77 August 25, 2024, 5:46am

> rajpanda:
>
> Thin Margins : Most often inventory losses & operating deleverage are the enemy of thin margin business. Mgmt. tried to argue against the possibility of inventory losses in this business. It will be a very interesting battle to learn form.

Thin margin can be a moat if they manage it. But what I understood from concall is they don't hold inventories long enough. So just like a sabji wala as long as you are selling your inventories fast you are safe. Falling comodity price can be bad thing for the manufacturers. Just like a farmer if vegitable price goes up it's good for them and vice versa. For a trader falling price will work against the top line growth but margin will remain same.

Here they have explained about how they can tackle against inventory losses

> saurabhgupta:
>
> So again, all the three verticals, Alisha, the first vertical, which is metal trading, **here we are doing back-to-back sale, like purchase and sale. So, the risk what we carry is from 0 to 10 days. Which is very limited. Steel prices in India normally are reviewed like once in a month.** On first day of every month, all the steel producers come out with a new revised pricing policy. So, if you are doing business within 10 days, there is no risk as such to carry to your balance sheet

7 Likes

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antson_m 78 August 26, 2024, 6:53am

For this kind of business, key is inventory management, If they are able to actually manage inventory turnaround max 10 days, its really amazing! The price fluctuations will be averaged out and chances of maintaining margins improve.

4 Likes

---

rajpanda 79 September 5, 2024, 6:29pm

Very crisp one page summary of what Mgmt. is trying to do. Source: FY24 AR

OUR DIFFERENTIATED REVENUE MODEL

SG Mart has curated multiple revenue models suited to their customer needs.

SG Mart – Revenue Model

	No of registered customers – 650+	No of registered suppliers – 75+	SKUs – 1,750+	
	B2B business		B2C Distribution business	
	Metal Trading	Service Centres	TMT	Non-TMT
Products	HR Coil / Steel Billets / Zinc Ingots	Cut To Length / Slit / Chequered	TMT / Light Structurals / Metal Sheets / Welding Rods / Mesh Net Steel / Binding Wire	
Industry Gap	• No large distributors currently associated with metal producers. • Difficult for metal producers to push sales with rising production capacities.	• No organised steel processing centers. • No steel processing centers in Tier II and Tier III cities. • Steel end-users pay 2% - 3% freight cost to procure processed steel from metro cities.	• No B2B platform to connect fragmented demand and fragmented supply. • Multiple SME manufacturers in the market, mostly unorganised / informal. • Very few PAN India brands in TMT bar.	
SG Mart's Right to Win	• Group's strong relationships with steel producers. • SG Mart's trading capacity is 20 times more than current largest steel trader.	• Availability of funds to open a vast network of organised service centers PAN India. • Ability to source raw steel from steel mills. • Group's lengthy experience in steel downstream sector.	• Strong distribution presence for the group in steel downstream products. • Demand visibility worth ₹4Tn from group distributors who deal in steel downstream products.	
Potential revenue FY27	₹60 Bn	₹60 Bn	₹30 Bn	₹30 Bn
	Total ₹ 180 Bn			

11 Likes

Chirayu_Shah 80 September 7, 2024, 12:12pm

What I think is the name of APL Apollo will stand out here, as we have known this group and the management is also looking clean and as they are maintaining such healthy EV/EBITDA growth then I guess the PE will shrink down. Here we should look for Forward PE according to their guidance like FY25 is projected at ₹7,000-8,000 Cr, with expectations to ramp up to ₹13,000-14,000 Cr in FY26 and ₹18,000-20,000 Cr in FY27. This guidance will shrink down their PE and one concern about is their OPM which I think a good management knows how to handle.

3 Likes

Akash3 81 September 21, 2024, 1:09pm

I read the S Mart concall. It's very fantastic, but didn't understand few part of the concall. Can anyone elaborate this.

Aastha: Okay. My last question would be, so we have bought SG Mart rather than starting a new one. So, what was our thought process? Why did we buy a company rather than starting a new one?

Management: So, the idea was that we wanted to emerge as India's largest steel or any trader. We wanted to emerge as India's largest trader. So how do you become a largest trader? You don't have business, but how you can make a statement in the industry is by showing your money power. So, we wanted to raise those INR1200 crores which we raised. Now the family, the promoter family had INR400 crores to invest, INR350 crores to be precise, which they infused the capital, around INR350 crores. Now rest INR850 crores, INR900 crores we wanted to raise.

Now on an idea, if I were to pitch this to a private equity fund or a venture capital fund, they would take at least one year, two years to understand the business model and no one will give me money just based on the idea. So, we wanted to raise funds and we had our own set of investors who were ready to invest in this business model.

And those funds, those investors did not have mandate to invest in a private limited company. So that's why we acquired a listed company which was not having any business, right? We started the business from scratch in that company. So, we did not acquire any business. What we acquired was just the structure. And then we started the business from scratch in that company.

And that made that structure attractive for our investors to put in money. So, when we raised INR350 crores from the promoters and INR900 crores from the investors, so with INR1,300 crores money in the kitty, then I went to the steel traders and steel manufacturers and I said, okay, now I'm ready. With INR300-INR400 crores, I would be looked at like any other steel trader. I hope I clarified your question.

hardik_shah1 82 September 21, 2024, 4:06pm

Their business model is to dwarf any steel trader in the Indian Market.

They needed money. As promoters of APL Appolo, they had goodwill in the investor community for their execution prowess. They bought out a non-active or zero-revenue old listed company valued at almost so that they could do a primary capital raise.

Why do u need that much capital. Simple u can do Pan India trading and Value added services. Steel Trading is high value low margins with the largest city based or regional based players at 400 Cr Turnover and 8-10 Cr profits.

Scale has benefits on operational performance, buying price and logistics. But all this is still at embryo stage. Can they execute will be multi billion dollar MCap question.

7 Likes

Akshada_Deo 84 September 24, 2024, 3:51am

Update:

I'm pretty bullish about the prospects. For a trading company at the end I believe FY27 it's available at forward 8 EV/EBITDA, so not completely cheap. But a potential distribution market leader is available at 4000 crs EV. It technically is a market leader already however I would consider a company market leader when they gain meaningful % of market share.

And if things go right they should make 4000 crs Cumulative EBITDA in the next 7-10 years

As upstream steel capacity comes up, steel itself market will grow 14% annually for next couple of years.

Execution is not the problem here, and WC is also not a problem which is generally the issue with distribution companies. Margins however will remain paper thin.

Value proposition comes from consistent pricing for small players as well as larger ones.

8 Likes

Ajijmortaza 85 September 24, 2024, 5:20pm

In this segment anyone can be a market leader.it's a steel distribution company don't have any pricing power or any advantage of ,if I sell jsw and tata steel in my areas anyone can do that also so I'd think they've any advantage.its not a value adding like steel tube business.if u want seen same thing plz rent a car a go AURANGABAD TO JALNA HIGHWAY you can seen maybe 10 big warehouse shop just selling steel and sheet.i think it's a bull market stock.if margins are volatile than …

3 Likes

---

ashish_agnihotri 86 September 25, 2024, 3:36am

Steel service centre are like big retailer, they slit and supply as per customized requirement.

Highly unorganised industry with only local players i.e not even state level players. The bigger you are the better terms you get from manufacturer.

With a highly capitalized company with experience in steel there definitely is a case.

The growth in 1 yr is testament to their model.

3 Likes

rinkupranjan 87 September 25, 2024, 3:56am

> Ajijmortaza:
>
> if u want seen same thing plz rent a car a go

Answer is already in your question.

For rent a car , where we have to go? I will go to Ola or Uber because it is easy and convenient. Ola or Uber is a brand and we know it. Similarly, APL Apollo is a brand and SG Mart is going to do same thing like Ola or Uber in its field.

3 Likes

---

amitvohra 88 September 25, 2024, 6:44am

I tend to agree with Ajij that this business does not have any moat and a serious risk on margin front.
APL trademark and liquidity can help to grow in the beginning but things can change rapidly considering wafer thin margins.
Reviewing this stock for some time but unable to invest at current PE levels of 57.
I will prefer to wait on sidelines as market already valuing the company based on management commentary and APL management

3 Likes

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rinkupranjan 89 September 25, 2024, 7:03am

> amitvohra:
>
> this business does not have any moat and a serious risk on margin front.
> APL trademark and liquidity can help to grow in the beginning but things can change rapidly considering wafer thin margins.

It is true that a trading company has no moat.So, as per my view, wafer thin margin is the actual moat. Low margin keeps away the competitors to enter in the business. High margin attract competitors and competition erodes margin.Best way to value this business through analysing ROCE and Growth in earnings.

7 Likes

Ajijmortaza 90 September 25, 2024, 1:14pm

Apl Apolo buy steel and makes value addition pipe and tubes .but what are need in steel distribution company does they add value or they can ? I didn't think so , it's not a brand related things.you don't need any brand for steel distribution. So it's not make any sense

1 Like

Ajijmortaza 91 September 25, 2024, 1:23pm

Wafers thin margins are there moat are you kidding me! Did you know who is there real competitors the local traders are more cheap than sg mart.cause i am working in civil construction business so our clients never paid full amount of steel or others material or they relying on local traders so they used their black money also.or something I can't tell you in …

1 Like

Ghonarbochon 92 September 25, 2024, 1:52pm

Have you read the entire thread ? The person who has set up the business has much more pedigree in his field than we have . Surely ,he can also see with his eyes that the sector is unorganised and margins are thin . He is trying to do something that has not been done at this scale and apparently many canny investors and industrialists have faith in the business model to put in money when there was no business at all . While it's true that they did so at 250 per share , it's also true they did it based on even less data to go on . While the business can run and be profitable consistently in future is something that no one knows , it's surely foolish to look for moat in a business that's only taking baby steps . It surely won't pass the Buffet copycats scrutiny but there are many ways to invest and make money .Only thing is that one must not not expect to hear opera music in a rock concert .

16 Likes

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rupaniamit 93 September 25, 2024, 3:45pm

It's a completely new business model which only time will tell, if the management is able to walk the talk. Although the management seems confident to fill the gap due to their decades of experience in the industry, but they are still being humble and confirmed in the last con-call that this business model is yet to be proven (even after doing 85cr of EBITDA from just a 1-1.5 year old business). Below please see the humble lines underlined:

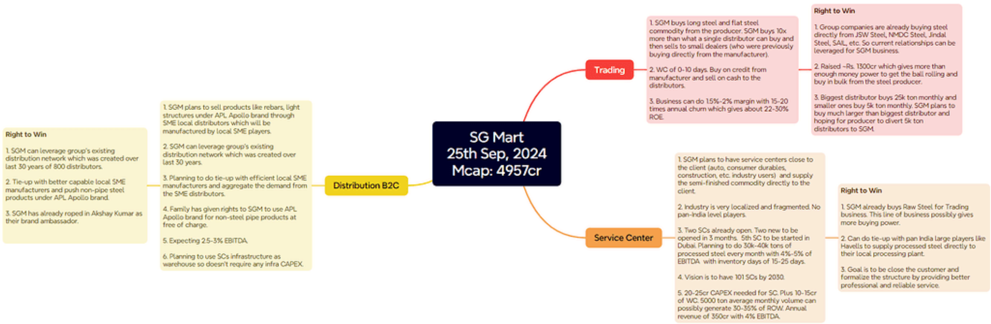
So, we are not being very miser, to earn extra bucks, which makes my business unsustainable. Earning 2.5%, 3% margin makes my business pretty sustainable. What we have to look is keeping our working capital requirement low, churns 15-20 times in a year, zero creditors, zero debtors, and make 35% ROC, maybe higher. If we are able to do that, then my business model will be very, very sustainable. And then we will replicate this in the other industries once we are able to create this full model. So, this is about the business model. I will have questions when I finish this.

We all will have our opinions based on our past experience and mental models. I can see that the story of SG Mart can go either way as I can put up enough points supporting both bull and bear thesis. We are not helping this thread by simply sharing our one-line opinion without backing it with concrete facts and data. Story is currently half baked with lot to prove and huge execution risk ahead of it.

But I felt good after listening to the first concall and lean towards the bull camp to get my foot in the door. Current gaps that management shared on the concall seem to be big enough for a capable player to create a business and benefit out of it. Similar pitch has already gotten support from some of the respected investors and family offices (that doesn't mean we don't need to do our due diligence). While the company's ambitious plans for a futuristic moat are intriguing, it remains to be seen whether decades of industry experience and Rs.1300cr kitty will yield a competitive advantage or simply become a costly folly.

I fully understand that we don't need to have all the answers today (unless one is deploying 50% of their portfolio in SG Mart). Such stories with huge size of opportunity can have long run way of growth (many times very lumpy and bumpy along the way) and one can scale up along with the successful quarterly execution of the business and as confidence increases. In fact, I would feel much safer to average up at appropriate valuation in SG Mart 3 years down if they do Rs. 15000cr topline with 2.5-3% EBITDA.

Below I am sharing my understanding of each line of business and its "right to win" as shared by the management.



Disc: invested in last 7 days and managing execution risk with appropriate starting position size which will be kept on a very tight leash. Not a recommendation and do your own due diligence.

32 Likes

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greengoblin 94 September 28, 2024, 8:01pm

Did anyone attend the AGM? Can you please share notes?

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rinkupranjan 95 September 29, 2024, 11:28am

Summarization and interpretation of Nature and Business model of SG Mart, compiled from Concall, Investors Presentation and Annual Report.

Which types of problems SG Mart is going to solve for the industry?
As you all know that, we have been running two manufacturing companies for many years now. One is APL Apollo Steel Tubes, and the second is Apollo Pipes, which is in the plumbing segment. What happens is that as manufacturers, we always struggle to push our material with the large distributors. The countries outside India like China, South Korea, Japan, which are actually the manufacturing hubs in the world, they have very large

trading giants who are lifting material in bulk from the manufacturers and then distributing those products. This is what we always miss as manufacturers, whether it's in steel tubes or plumbing pipes. So, we thought let's start a trading company.

The business version of a contrarian question: what valuable company is nobody building? Every correct answer is necessarily a secret: something important and unknown, something hard to do but doable. If there are many secrets left, there are probably many great companies yet to be started. The best place to look for secrets is where no one else is looking. If you find a secret, your face a choice: Do you tell anyone? Or do you keep it to yourself? Answer is: whoever you need to, and no more. In practice, there's always a golden mean between telling nobody and telling everybody- and that's a company. The best entrepreneurs know this: every great business is built around a secret that's hidden from the outside —Peter Thiel.

(Peter Thiel is an entrepreneur and investor. He co- founded PayPal and Palantir, made the first outside investment in Facebook, funded companies like SpaceX and LinkedIn).

Is it the right time to start the business?
When India is taking a leap forward to become the world's manufacturing hub, China plus one policy actually being played out in the minds of global consumers, we thought it's the right time that we should support the manufacturing sector by becoming one of the largest traders in the country. From December 2023 till December 2025, India's steel capacity is going to go up by 50%. So, it's the right time to start a venture which is into steel trading to take material from steel companies and then distribute for them and create a business model out of it.

Which products to start with?
We have spent four decades of manufacturing and buying and selling of steel, upstream, downstream products. So, let's start with steel as the product and then we fully establish ourselves in steel trading, and then we move to other products into whether it could be Agri commodities or other construction material product.

Example: - Amazon shows how it can be done. Jeff Bezos's founding vision was to dominate all of online retail, but he very deliberately started with books.

What is the business model?
SG Mart comprises three business models:

• **First** - B2B Trading of long and flat steel products, buying directly from the steel producers and then distributing it in the market.
• **Second** - Creation of a vast network of service centres, where upstream steel is processed and sold in semi-finished shape to various steel user industries.
• **Third** - B2C Distribution of products like TMT, Light Structures, Metal Sheets, Welding Rods, Mesh Net Steel etc. which are sold as branded products.

What gap the company has identified?
In B2B metal trading:
The industry gap that we identified here was that steel mills are dependent on very small size distributors and dealers who lift material directly from steel mills and then distribute it to their customers who are like user industries down the line. The largest distributor which we could identify in the industry was doing a volume of 25,000 ton a month. Now, that's like ridiculously low if you look at India sitting at 120 million tons of steel capacity today, and we are talking about a 300-million-ton capacity by 2030. So, there is no way that this incremental capacity can be consumed or can be absorbed by these small SME traders.

In B2B is service centers:
Now here if you look at the industry like auto sector, consumer durables, construction industry, they don't buy raw steel like in coil form or long steel form. They need processed steel, which acts as an input to their factories and then they make washing machines, refrigerators. It is used in automobile bodies, in construction, in bridges, etc. So, there are small service centers, very unorganized service centers, which are run like mom-and-pop stores. There is no Pan-India national level organized chain of service centers which can ensure the quality steel availability to the user industry. So, this is a gap we thought we should work upon. And anyways, the steel, the input for these service centers will be the raw steel, which I'm buying anyways, for my trading business. So, I can divert some of the steel to my service centers and I can process it and earn extra profit on that.

In B2C
Here we want to leverage the distribution network in the downstream sector which the group created for the steel tubes over the last 30 years. Now if you look at our group dealers who are doing business in steel pipes, steel pipes are 20% of their total business. Rest 80% they do rebars, angle channels, welding rod, mesh, wires. This is massive consumption but almost like INR3-4 trillion for non-tube products which these distributors

buy from small manufacturers. Apollo played a pioneer role in formalizing the steel tube industry but for other products like angle channels, rebars, welding rods, this industry is still highly unorganized. we have a visibility of demand for INR3-4 lakh crores in multiple products. We aggregate the demand from our distributors and against that we do tie-ups with efficient, good quality manufacturers and we bridge the gap between the SME manufacturer and an SME trader.

Benefits of service centers cum warehouse:
The network of service centers which we are creating can act as a warehouse for either metal trading or for B2C distribution products. So, we are not going to spend extra money on creating more warehouses. My service centers will act like warehouses plus the processing unit.

Diversification:
Once we establish this business for steel, we create a proof of concept for the steel sector, then we are confident that the other industries will also come to support and to take support from SG Mart. By that time, we will be able to move to other sectors. we have already started seeding some of the non-steel products like we have done tie-ups with industry leaders in tile segment, in electrical fitting segment, in bath fitting segment, in branded rebars to support the construction sector. We are reaching directly to the contractors and real estate developers and we are doing the B2B business.

Win-win situation for everyone:
What I have to offer is the power to buy in bulk, right, multiple products, offer the same product at much lower cost than what that trader would be getting from the manufacturer. And we are only looking for 2.5%, 3% EBITDA spread, which is not very high for my services. And this also I will be generating by two sources, one is improving the efficiency in the manufacturing process, right? Because if I am doing a business with a manufacturer who is doing, say, 50% utilization rate as of now, and I take his utilization rate to 70-80%, so his cost of production will come down and he will pass on that benefit to me, which I will keep 50% myself and 50% I will share with my customer. Plus, I will use APL Apollo brand, right, to get the premium from the market, from the customer, that will add to my EBITDA.

All good companies make profit by solving a unique problem. Creative product means new products that benefit everybody and sustainable profits for the creator.

Sustainability of Earnings:
Earning 2.5%, 3% margin makes my business pretty sustainable. What we have to look is keeping our working capital requirement low, churns 15-20 times in a year, zero creditors, zero debtors, and make 35% ROC, maybe higher. If we are able to do that, then my business model will be very, very sustainable. And then we will replicate this in the other industries once we are able to create this full model.

Sequencing markets correctly need discipline to expand gradually. The most successful companies make the core progression - to first dominate a specific niche and then scale to adjacent markets.

Focused approached:
See, as a group, we always like to work on our core strengths first. Our strength or right to win was in steel sector. That is why we started with steel sector. Unless we see this company making INR500 crores EBITDA. We don't want to invest into sectors where we don't have much expertise.

Competition:
If you see, there is no national level player, who has a network of service centers. They are all, like I said, mom-and-pop stores. Steel traders, the distributors who are attached with the steel producers, there are also SMEs, multiple end number of unorganized players. And any unique company which has access to downstream traders in the steel sector who are doing these steel pipes, rebars, angles and channels, that also no one has except our group. So, in that way, I mean, difficult to name anyone who could be our nearest competitor. I would say our nearest competitor is unorganized sector.

**There is a sweet spot when any industry migrates from unorganised to organised and India is going through a classic phase of unorganised to organised. If you find the companies in that sweet spot, the time to buy is now. I don't care timing. — Ramesh Damani.*

Solving problems:

For steel mills to focus on production:
Steel Mills like to work with large distributors. So, SG Mart comes in and acts like a large distributor, so they sell the material to us and then that metal, we either sell to the retailers or their own small dealers. Because like I said, the largest one was doing 25,000-ton monthly volume. But the smallest one was doing 5,000 ton as

well. So, then the steel mill will say, okay, I will stop servicing 5,000-ton dealer on my own, why doesn't that small dealer buy from SG Mart? Okay, so that's the segment in metal trading.

For OEM industries:
In our service centers the customers are OEM industries like consumer durable companies, automobile companies, construction companies who are buying processed steel. Earlier, what happened is that a small mom-and-pop processing center. They don't have enough steel supply from behind and the quality of machinery what they have installed like cutters and slitters, etc., that also is likely outdated. So here we are trying to address the problem that, I am a service center with high-tech machinery. My quality of my processed steel will be better. For example, Havells. at head office level, I do a tie up with Havells that for all your factories, we will be supplying from my service center near to your factory. Right now, they don't have any national level players. So, each of the factories is buying steel from the local mom-and-pop processor. So that's the value proposition I'm going to offer to large manufacturers.

Risk of bad Debts:
we are going to do cash-and-carry. We are talking with banks for providing channel financing services to our SG Mart's customers. We have our own group in NBFC with us. So, I will not be having debtors more than 3-4 days. So, my risk on debtor write-off is also taken care of by having channel financing services for my clients.

Risk of inventory loss:
first vertical, which is metal trading, here we are doing back-to-back sale, like purchase and sale. So, the risk what we carry is from 0 to 10 days. Which is very limited. Steel prices in India normally are reviewed like once in a month. On first day of every month, all the steel producers come out with a new revised pricing policy. So, if you are doing business within 10 days, there is no risk as such to carry to your balance sheet.

Second is service centers. Now, service centers, yes, here the inventory days will be 20-25 days, but then here the margin is high. So even if there are some write-offs, you have to take some write-off, but your high margin does take care of that.

Then third is distribution business. Distribution business, B2C, is mainly secondary steel, right? Whether it is rebars, secondary, angles and channels, welding rod, which is not a very volatile product anyways. They are sold more as product. And here also, like the inventory days in the system will not be more than 20. So, the fluctuation is manageable easily.

Strength:
The Group has long experience in the steel downstream sector. Its strong relationships with steel producers strengthen the Company's ability to source raw steel from steel mills. The Company has a strong distribution presence for downstream steel products. Its trading capacity is 20 times more than the current largest steel trader. Moreover, the availability of funds allows it to make strategic investments for business growth. SG Mart offers a one-stop solution for all construction needs, making it convenient for builders to source materials from a single platform. Solving the problem of minimum purchase requirements allows small builders to procure necessary materials without the burden of bulk buying. Offering standardised quality and prices ensures reliability and trust among customers, helping to build a strong brand reputation.

Management should have great competencies, passion for growth and above all unquestionable integrity. When you find a top-class business run by top class management, you get a top-quality company. —Ramdeo Agarwal.

Opportunity:
The addressable market for the B2B construction material industry alone is huge – it is currently estimated at INR 6 trillion, moving to about INR 8 trillion in three years. The bottom-line is that even if a fraction of these estimates transforms into reality, demand for building products will remain robust.

Weakness:
Being a new player in the field, awareness of the Company's presence and operating model will need to be achieved to generate growth. Economic downturns can affect the construction industry, reducing demand for construction materials. Also ensuring timely delivery to remote or hard-to-reach areas can be challenging and may affect customer satisfaction if not managed efficiently.

Disclosure: - took small position after reading concall and willing to add more in future if management walk the talk. It is not a buy or sell recommendation.

22 Likes

[Krishca Ltd : A SME offering steel strapping Solution]()

[HarshVijay]() 96 September 29, 2024, 12:10pm

The group NBFC they are talking about, is that SG Finserv?

[rajpanda]() 97 October 1, 2024, 5:10pm

Arihant Bharat Connect call…many of the points reiterated and some new points clarified. Overall good call to hear **https://www.youtube.com/watch?v=iDJ4kDjuqiY**

4 Likes

[hnk_so]() 98 October 4, 2024, 7:52am

> rajpanda:
>
> rihant Bharat Connect cal

The YouTube link is not working. Can you repost it

[rajpanda]() 99 October 4, 2024, 8:10am

> hnk_so:
>
> YouTube link is not working

Seems like Arihant has removed the video. We have to wait. hopefully they will upload again.

Agni 100 October 4, 2024, 6:30pm

I have tried to compare the scale that the management is claiming to achieve by 2030 to other trading giants from Japan and EU.

Japan is especially renown for having a trading dependent economy because it lacks many raw materials needed for industry and energy such as oil, coal, iron ore, copper, aluminum and wood. Japan must import most of these goods.

Peers	Country	Latest Sales (in Cr)	EBITDA (in Cr)	EBITDA Margin	PE (TTM)	Remarks
Stemcor	UK	16,600	423	2.6%	NA	steel trading
Marubeni (metals and minerals)	JP	29,880	4,150	13.9%	8.09	not like for like
Mitsubishi (Materials) annualised	JP	58,696	3,337	5.7%	4.29	not like for like. Gross profit in place of OP profit
JFE Shoji	JP	84,531	2,806	3.3%	7.71	steel trading

Most of these trading companies especially Japanese ones are decades old and are fairly large with buying offices in a large number of countries. This is what helps them with scale.

From glancing through their financials, a few questions come to my mind:

1. How come SG Mart would be able to achieve 30,000 Cr in sales when half of these giant companies barely reach that number. Even if their growth trajectory sustains, some competition would inevitably enter the market like Japan. Having 1000-1500 Cr capital is not that big of a moat
2. Sales realizations of a lot of these companies fluctuate along with steel prices year-on-year even though they have the advantage of having much larger reach and hedging capabilities. Once SG reaches a certain scale, it would be much harder for them to sustain their 5-10 day working capital cycle and their margins might also fluctuate.

Another question I have with investing in SG Mart is with respect to valuations. Here, you're clearly paying for insane sales growth but since there's no big moat, what is the exit multiple you would consider and how much of that is currently account for in the current stock price.

Shankara Building Products is also in trading business (more white label one compared to SG) and is in a sector with tailwinds (infra) but it hardly gets a PE of 16.

The valuations make sense if company is able to reach its 2030 vision and then it can give some outsized returns.

	FY24	Jun-25	TTM	FY25 (E)	FY26 (E)	FY27 (E)	FY30 (E)
Sales	2,683	1137	3,669	7000	12,000	18000	50,000
Growth YoY				161%	71%	50%	41%
EBITDA	62	24	85				
%	2.3%	2.1%	2.3%	2.1%	2.1%	2.1%	
PAT	61	27	87	140	240	360	1000
%	2.3%	2.4%	2.4%	2%	2%	2%	2%
Mcap	4400	4400	4400	4400	4400	4400	4400
PE	72.1		50.6	31.4	18.3	12.2	4.4

14 Likes

Ajijmortaza 101 October 5, 2024, 5:29am

I know that their business is so fast growing.but i want to know that how much they are able earn money.what is their ROE -5.6 just.you can earn 7% if you do bank fixed deposit .if your growth is high and ROE is low then you have to raise capital every time for your business.and margins are very low but their assets turnover is good .

So guys did I miss anything.plz tell me if I am wrong.

HarshVijay 103 October 5, 2024, 7:04am

Nice points, but to compare a company's potential in India (where no such big aggregator like SG Mart currently exists) to those of Japan and Eu where this has been a norm since a long-long time now in such a simple and straight-forward way would not be the most accurate thing to do, in my opinion.

Both the countries are at much different stages of growth and development in terms of infrastructure. Even the mere sizes of both countries are vastly different (both in terms of land area and population).

So to answer your 1st question: **How come SG Mart would be able to achieve 30,000 Cr in sales when half of these giant companies barely reach that number?**

1. Growth in India's Infrastructure Market:

India's infrastructure market is growing at a significant pace compared to developed nations like Japan and the EU. According to the **National Infrastructure Pipeline (NIP)**, the Indian government plans to invest **₹111 lakh crore (~1.5 trillion USD)** by 2025. This massive investment spans sectors such as energy, railways, roads, urban infrastructure, and water supply.

- **Construction & Steel Industry Demand**: India is expected to become the second-largest steel consumer in the world after China by 2025, thanks to rapid urbanization, industrialization, and government projects such as **Bharatmala** (road construction), **Sagarmala** (port development), and the **Smart Cities Mission**.
- **GDP Growth & Market Potential**: India's GDP is projected to grow at a rate of 6-7% annually, while Japan and the EU are expected to have lower growth rates (Japan's GDP growth has been stagnant at 1% or lower).

2. Scale of Indian Companies vs Global Competitors:

Indian companies, especially infrastructure-focused entities, have room for significant scale-up. For example, the **Indian steel industry** is growing steadily, with companies like **JSW Steel** and **Tata Steel** seeing substantial growth in production and exports. **JSW Steel's revenue** crossed ₹1.46 lakh crore in FY23, showcasing that Indian firms can indeed achieve a scale of 30,000 Cr or more in sales.

- Japanese companies like Mitsubishi and Marubeni operate in mature, saturated markets, which explains their relatively lower growth rates. SG Mart, operating in a fast-growing market like India, has a competitive advantage in capitalizing on the infrastructure boom.

3. Competitive Landscape in India vs Japan:

While competition would inevitably enter the market, India's infrastructure needs are massive and still evolving, offering much more headroom for growth compared to Japan, where growth is limited by market saturation. New entrants or competitors in India would face high barriers to entry, including large capital investments and government approvals. On the other hand, India's infrastructure growth plans suggest that existing companies can still absorb significant growth before market saturation occurs.

Question 2: Sales realizations and fluctuating margins (especially with steel prices) – how can SG Mart sustain its working capital cycle?

1. Steel Price Fluctuations:

Steel prices are inherently volatile and are influenced by global supply-demand dynamics. In the case of India, though, this fluctuation can be mitigated by:

- **India’s Hedging Mechanisms**: Indian companies are increasingly adopting hedging strategies to protect against the volatility of steel prices and global market fluctuations. The Indian government has also been imposing tariffs and anti-dumping measures to stabilize the domestic market.
- **Internal Market Demand**: Domestic demand for steel and other raw materials is expected to grow substantially, driven by the urbanization and infrastructure boom. The **internal consumption buffer** means that Indian companies like SG Mart would not be solely dependent on export markets or fluctuating global prices.

2. Efficient Supply Chain Management & Capex Spending:

Many Indian infrastructure companies have optimized their working capital cycle by leveraging better supply chain management, cutting lead times, and improving logistics. SG Mart can also take advantage of this by streamlining its operations and reducing unnecessary costs. Moreover, as infrastructure projects get prioritized (e.g., dedicated freight corridors), companies will benefit from faster project completions, reducing the strain on working capital.

3. Infrastructure Improvement Opportunities in India:

India’s underdeveloped logistics and transportation sectors provide a strong case for improvements in efficiency. For example, investments in roadways, ports, and airports are expected to **reduce transportation costs** significantly, which is currently much higher in India than in developed countries.

Scope of Improvement in India vs Developed Nations:

- **India**: Huge opportunities exist in building new infrastructure (transportation, energy, etc.), creating room for significant sales growth in construction materials, including steel. With a younger population, economic growth, and substantial government support, India’s infrastructure needs are far from being met.
- **Japan and EU**: These regions are in a stage of infrastructure renewal and maintenance rather than new development. This leads to lower growth potential in the construction materials sector, which is why companies like Marubeni and Mitsubishi have slower revenue growth.

So, long story short:

1. **SG Mart's 30,000 Cr target is achievable**, given the growth trajectory of India's infrastructure market and the increasing demand for materials like steel.
2. **Sustaining margins** will require strong hedging strategies, improved supply chains, and benefiting from India's internal market, which provides resilience against global price fluctuations.

India's **underdeveloped infrastructure** presents far more opportunities for growth than the saturated markets in Japan and the EU, giving SG Mart a solid base for scaling up.

7 Likes

[Agni](#) 104 October 5, 2024, 5:07pm

1. To some extent I agree that Indian steel demand is greater than Japan and will outpace it easily. The core problem is that any company can enter into this sector and cause competitive margin erosion. I disagree with the company's claim that there's little to no competition - see Ofbusiness, Infra.market, Shankara, etc who have the money and can easily enter into this market
2. Japan trading companies are the biggest customers for steel manufacturers. SG suddenly doesn't become the biggest client. They're hoping that being an Indian player would give them bargaining power since Marubeni (biggest steel trader) for example has the luxury to buy in 50 countries and buy from the lowest priced provider
3. There's no govt approval needed for trading in steel. **I hope you're not just copy pasting from chatGPT**
4. Even biggest steel manufacturers aren't safe from steel fluctuations. Any issues in credit lines, working capital shortage will lead to inventory costs. India has become a net importer of steel, even with tariffs imports are cheaper - **https://www.reuters.com/markets/commodities/indian-steelmakers-seek-higher-tariffs-chinese-imports-surge-2024-09-26/**
5. Demand is definitely there in India and SG can grab a huge chunk of the pie and I am bullish on their prospects. My major concern is valuations here → no margin of safety and no barriers to entry.

Table 2. Top 10 Steel Using Countries 2023
SRO April 2024, finished steel products

Countries	million tonnes			y-o-y growth rates, %		
	2023	2024 (f)	2025 (f)	2023	2024 (f)	2025 (f)
China	895.7	895.7	886.7	-3.3	0.0	-1.0
India	133.4	144.3	156.0	14.8	8.2	8.2
United States	90.5	92.2	94.0	-4.2	1.8	2.0
South Korea	54.7	54.3	54.4	6.7	-0.8	0.2
Japan	53.3	53.3	53.9	-3.0	-0.1	1.1
Russia	44.6	46.4	46.4	7.0	4.0	0.0
Türkiye	38.1	41.5	39.4	17.2	9.0	-5.0
Mexico	28.5	28.8	29.3	14.0	1.2	1.6
Germany	28.0	28.9	31.8	-13.7	3.2	10.0
Brazil	23.9	24.1	24.5	1.5	1.0	1.6

f - forecast

2 Likes

[rajpanda](#) 105 October 5, 2024, 6:13pm

> Agni:
>
> see Ofbusiness, Infra.market, Shankara, etc who have the money and can easily enter into this market

Mgmt. keeps saying that they are into 3 diff. lines of business. Yet most discussions keep gravitating towards the segment (metal trading) which they claim will only give them 1/3rd of their goals.
Even in metal trading, is the infra.market , for instance, really a competitor ?
Infra.market claims to be a house of brand. But it has (taken from it's corporate video on it's site)

- 10 Milion cubic meters of RMC mfg. capacity - worth 4k-6k cr.
- 2.5 Million AAC Block capacity - Again 1k cr. worth of
- MDF and laminate plants.
- Has it's own brand of plastic pipes and fittings.
- Operates the shalimar paints brand and owns 24% of it.
- has a electrical and appliance vertical and manufactures them.

- Tiles Mfg… unit
- Modular kitchen mfg. unit etc etc…

  Even with all this, it had a ~12k cr. topline and ~150 cr. PAT in FY23. Take a look at their **corporate video**.

  Do you still feel SGMart is competing with them ?

Should we compare this with SGMart just because there is online connection ?

Comparison with Shankara is already addressed by Mgmt. in the call

> Just to give one example, you can look at the financials of Shankara. Shankara is a retailer. They carry more inventory than what we will be having on our books at any given day. Now, if you look at their quarterly EBITDA margin, you can look at 20 quarters, like 5 years, you see. Their EBITDA margin has always remained stable between 2.5% to 3.5%, right? The swing is not like they will erode the profitability and they will close the balance sheet with zero profit or at a loss.
>
> So, a trader, whether a wholesaler or a retailer, if we are churning our inventory quick, the inventory risk can be easily managed. So, whatever you buy, you should be able to sell under 30 days. Shankara sells in 50 days. Their inventory churn is like 40, 50 days. But still, we don't see any write-off in their balance sheet, even on a quarterly basis. So, we don't see much of a risk of any inventory write-off.

Alisha Mahawla: Okay. And last question, like you were mentioning, the parent of the group has some investment in Shankara. What is the kind of overlap with Shankara? While you've explained the three businesses, is there an overlap? Can they eventually fit into the SG Mart ecosystem at some point?

Management: So Shankara can be our customer, right? Because Shankara is a retailer. We are like wholesalers. We are in the upstream. Shankara is in the downstream. So, there is no business overlap, except the fact that Shankara can be my customer. Shankara can buy raw metal from me if they want to create that. Shankara can buy processed steel from me if they have the market for themselves. Shankara can buy rebar, etc., from me in my private label, which we are doing business anyways. So Shankara can be our customer. There is no business overlap.

Alisha Mahawla: And are they already part of our ecosystem or are they already customers?

Management: We are doing some business with them, but it's small as of now, it should grow.

mgmt. has given their logic of how they are playing to their strength by entering the specified segments.

OfBusiness operates in a market which offers **7.5% EBITDA margins**. I doubt steel trading can give this kind of margins.

Also can we try and find some competitor in the rest 66% segment which SG is targeting ?

> Agni:
>
> Japan trading companies are the biggest customers for steel manufacturers. SG suddenly doesn't become the biggest client. They're hoping that being an Indian player would give them bargaining power since Marubeni (biggest steel trader) for example has the luxury to buy in 50 countries and buy from the lowest priced provider

Can you help to give more clarity on this point. Do the Japanese trading company(like Marubeni) operate in India ? In the sense that they buy from Indian manufacturers and sell them to Indian distributors, like what SG is aiming to do ? If not then how is relevant to SGM ? They are not competing with Marubeni's of the world in the world market, right ?

5 Likes

---

rajpanda 106 October 5, 2024, 6:17pm

The headline and the limited content visible without subscription caught my eye. hence putting it here as it belongs to similar line of industry

Why do so many OfBusiness employees run other companies?

Senior employees at OfBusiness operate several companies that trade with the B2B startup and its subsidiaries. These trades may be inflating the company's revenue through double counting.

Both OfBusiness and infra.market are rumored to be preparing of IPO. So interesting times ahead for the industry.

1 Like

[HarshVijay](#) 108 October 6, 2024, 4:56am

> Agni:
>
> There’s no govt approval needed for trading in steel. **I hope you’re not just copy pasting from chatGPT**

I totally second with Raj but even if the discussion is about the steel/Metal trading part of their business, I’d like to clarify what I meant by regulatory oversight in my prev response. Look, It’s true that basic trading in steel (e.g., buying and selling steel products) does not require any special industry-specific government approval in most cases. Any business can trade in steel as long as it is registered under GST, and follows regular business compliance procedures. But at the same time it’s important to have clear distinction between **general trading** and **trading at scale** in **regulated commodities** like steel.

Your statement is only true for someone who’s **trading on a small scale** or when the trading does not involve import, export, or large-scale infrastructure projects where regulatory frameworks come into play.

The scenario changes drastically when steel trading reaches a large scale or is linked to **key infrastructure projects (such as Bharatmala, Sagarmala, Smart cities to name a few like I also mentioned above)**, **export-import**, or **strategic sectors**. In such cases, the steel used must meet the specifications set by relevant ministries, such as the **Ministry of Road Transport and Highways** or **Ministry of Shipping**. So for a large-scale supplier like SG Mart, they’ll certainly face additional regulatory oversight.

Also recommend reading about quality certifications like BIS registration, IEC, DGFT etc. **Hope you too take the help of GPT to understand these concepts better**

https://www.dgft.gov.in/CP/
https://www.bis.gov.in/

1 Like

MHS 109 October 6, 2024, 10:02am

> HarshVijay:
>
> The scenario changes drastically when steel trading reaches a large scale or is linked to **key infrastructure projects (such as Bharatmala, Sagarmala, Smart cities to name a few like I also mentioned above)**, **export-import**, or **strategic sectors**. In such cases, the steel used must meet the specifications set by relevant ministries, such as the **Ministry of Road Transport and Highways** or **Ministry of Shipping**. So for a large-scale supplier like SG Mart, they'll certainly face additional regulatory oversight.

SG Mart is not manufacturing - The manufacturer (Tata/JSW/NMDC/Jindal) will provide all required certificates as per grade of Steel.
They are only facilitating large scale "buying/selling - Trading of Steel, Logistical and warehousing", may be in future other Construction material, once they scale Steel business.
An example of this can be seen in the zinc trading business where the company has already become the largest player _ Refer Concall.

They identified one key service missing in the steel (Construction) infra space and setting up building blocks - Similar services/companies in large scale exists in other parts of the world, as shared above in one of the post.
Execution and commodity price are the major risks here.

5 Likes

[Prathamesh_Adhikari](#) 110 October 6, 2024, 12:51pm

super thread till now, I wrote down a thesis on this, nothing new apart from whatever has been mentioned here. I think it is a 4X opportunity from here, just plainly going by guidance on the call. I also feel, there is no Margin of Safety to buy at the current prices. A lot depends on the Promoter`s intent and execution skill

https://open.substack.com/pub/prathameshadhikari/p/sg-mart?r=267vgk&utm_campaign=post&utm_medium=web

4 Likes

[saranshbagdi](#) 111 October 15, 2024, 5:20pm

Management guidance is to reach Rs. 18,000 Crs revenue by FY27, against that of around 3,000 Crs in FY24 (their 1st year of operation). A CAGR of 80%+.
With a 2.5% PAT margin, forward PE for FY27 at CMP (430) is ~ 7.

In FDs, interests are earned on the base we keep with the bank. No bank is going to double it up for us to earn extra bucks.

But with business it is not like that, profits can grow and when equity remain constant (as they have already raised enough money for their need), ROE will grow in future.

5 Likes

[ripzc09](#) 113 October 16, 2024, 1:01pm regarding promoter holding being down, based on previous comments on this post itself, some of the promoter holding has shifted to the public where these public shareholders are somewhat related to the promoters itself like family members

4 Likes

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ar9abn 114 October 22, 2024, 8:52am

SG Mart: Disrupting the steel industry

Understand the business of SG mart which is guiding to grow at 50%+ CAGR

6 Likes

Dhan77 115 October 22, 2024, 11:01am

Shankara can be their customer, they are into retail while SG Mart is more like a wholesaler. This is mentioned in the concall

2 Likes

Dhan77 116 October 22, 2024, 11:08am

but Sahil Gupta used to own ~18% till Sep2023 accroding to screener

Dhan77 117 October 22, 2024, 11:12am

management has guided ~2-2.5% on steel trading, and ~4% margin on service centres. So margin will stay in this ballpark. But the play is on high volumes

2 Likes

rajpanda 118 October 22, 2024, 4:05pm

very well summarized post on the opportunity.

> ar9abn:
>
> **https://www.investingstoics.com/post/sg-mart-disrupting-the-steel-industry**

2 Likes

Dhan77 119 October 23, 2024, 9:41am

Also, in the concall someone raised the point about JSW1, which management said is not a competition, but I do feel it's not all as rosy as they say. Other among competition can be mjunction, Ofbusiness which is already mentioned in the thread

2 Likes

Pchandrapal 120 October 23, 2024, 12:18pm

Levelling the playing field: The future of MSMEs with JSW One Platforms

JSW One Platforms is transforming the material procurement process for MSMEs by enabling access to quality materials across brands to support India's manufacturing ambitions.

4 Likes

ShrenikBhura 121 November 6, 2024, 11:32am

But this is just all the JSW offerings through a single window, isn't it?

Bhupendra_Dubey 122 November 11, 2024, 12:31pm

Not able to understand there buisness model. Ebitda of only 0.8 percent. Can there be a buisness model here? Why can’t they pass increased cost to customer.

Souresh_Pal 123 November 11, 2024, 1:05pm

Concall notes. Concall happened from 5:30 pm to 6:30 pm.

1. Monthly volume of 120 M ton this month and for the rest of the year, next year 150 and next to that 250 2.18000 cr revenue with 2-2.5% by fy27 guidance is maintained
2. 330 Mton volume in Q1FY25 (yes Q1)
3. Now comes the margin part:

> Bhupendra_Dubey:
>
> Not able to understand there buisness model. Ebitda of only 0.8 percent. Can there be a buisness model here? Why can’t they pass increased cost to customer.

Inventory loss was there in Q2 due to volatile steel price. Inventory day was around 8 days. Steel price there was a very sharp fall of 15% in 3 months… It has eroded 1% margin. There were 6 time price corrections happened in 3 months. This type of sharp fall is a once in a decade situation. Last time this much steel price fall seen was in 2007-8 period. Inspite of having 8 days of inventory days their margins suffered. Any other inefficient player would have reported loss.
6. 6500 cr guidance for fy25. This is reduced due to steel price going down. So based on steel price they give guidance. It was 7-8000 cr in earlier concall based on steel price at that time. Volume guidance is maintained.
7. In Bharat conference call was done 28th September they mentioned they will maintain margin 2-2.5 % margin for full year. no quarterly margin guidance was given
8. No transaction with sg finserv as of now.

13 Likes

GauravT 124 November 11, 2024, 9:11pm

A gentleman named Raj pointed out how guidance might be missed for the year in the concall. He was thorough and had sharp line of questions. If anyone has that transcript please paste here. How can the management continue with guidance of 2% for the year when margins collapsed to 0.8% this quarter.

Disc: Invested

5 Likes

Narendarpurohith 125 November 12, 2024, 7:16am

An analyst, Vivek Patel, asked a question regarding the risks involved in the business.

1. **The question was**
   First is, would there be any broad guidance that you'll be sharing at this time for FY25? what would be your key assumptions to this guidance and the key risks of not meeting them?.
   Management said
   if you look at FY25, we are looking at around INR7000 to INR8,000 crores of revenue, right, which will translate into like 1.3 million ton of steel business put together. And margin should be around 2.5%, The risk to this guidance, I think now that we are in the fifth month of the year already, we don't see any challenge as of now to achieve this number.

Another question asked by Alisha Mahawla

2. **The question was**
   what is the kind of inventory risk that we carry? Because these are commodities at the end of the day, and while you have highlighted the working capital cycle, is it an inventory gain, inventory loss kind of situation that we have to keep making adjustments for every quarter?.
   Management said

> So, because our margins are low, around 2.5%, right? So, ***we have to ensure that that 2.5% is protected, okay? There is no threat, there is no risk to that margin, to that thin margin.*** Then the inventory write-off. Now, steel is a volatile commodity. It carries a lot of risk and with such a low margin, our risk management has to be very strong, which it is. So again, all the three verticals, Alisha, the first vertical, which is metal trading, **here we are doing back-to-back sale, like purchase and sale. So, the risk what we carry is from 0 to 10 days. Which is very limited. Steel prices in India normally are reviewed like once in a month. On the first day of every mont**h, all the steel producers come out with a new revised pricing policy. So, if you are doing business within 10 days, there is no risk as such to carry to your balance sheet.

Management said they purchase in bulk, so they get a discount and maintain inventory days of 10 days. They mentioned that the volatile steel price won't affect the margin. I think management is too optimistic about the business. If they can't pass the increased cost to the customer, that won't benefit the business.

Disc: Invested

2 Likes

[MHS] 126 November 12, 2024, 7:31am

SG Mart Concall Notes:

Volume:

- Done 330k Ton in Q2 - around 110k Ton/month
- Now doing 120k Ton/month Sales and guidance 1.2 Million Ton per FY25
- Guidance of 150k Ton/month in FY26 and 250k Ton/month in FY27

Service Centers:

- 3 (Gaziabad, bangalore & Pune ??) operating now and another 2 (Raipur & Dubai) by this year

- Working on Solar Profile Structures (40k Ton/month ??) and PEB Segment (Pre Engineered Buildings) - Purlins & Deck Sheeting
- 10 New centers planned next year across India, Will deploy cash.

Steel Prices:

- Sharp decline in steel prices in Q2, around 15% per month, unprecedented situation, once in a decade, Still came out EBIDTA positive in the Quarter.
- Inventory Loss of around 1% sales (18Cr??), Have to protect customers also
- Steel Prices Stable now.
- Inventory days around 8 to 10 days

Margin Guidance:

- 2% is for the year, Not for quarter, will stick to 2%

Business Segment Sales:

- Now Trading 65%, Service Centers 20% and B2C 15%
- In Future with new Service centers it should reach 40 to 50%
- Inventory days will increase to around 20 days with new service centers and around 20 times inventory turn around
- Cash and carry - No credit given

Disc: Invested

4 Likes

[Deven](#) 127 November 12, 2024, 10:45am

In conference call, in reply to query, management said that there 3 segments (B2B metal trading, Service centers and Distribution of steel products) have same margin, the margins are "similar for each one of them".

Is this so? I assumed they have better margin for service center business.

Dis: Invested and views are biased.

1 Like

Akshada_Deo 128 November 12, 2024, 12:16pm

SG mart as well as APL has struggled this qtr with lowering steel prices. Biggest concern that I see here is maintaining margins and the additional discounts they like to give.

On the call the management explained, 0.8% ebitda, incase of no inventory loss would've been 1.7%. In falling pricing environment they still resorted to discounted pricing.

SG mart is still new its good the business model is being tested early during volatile pricing environment and they can work the problems out.

I don't doubt volume capability but I believe they should fiercely defend their target margin.

Disclosure: invested with keen watch on its discounting + margin trend

5 Likes

GauravT 129 November 12, 2024, 12:25pm

Curious: since stock took some beating after the result, what would be the ideal price to avg/enter into this?

I think they might miss the yearly target margin due to heavy beating in Q2. Margins are already razor thin.

Disc: invested.

1 Like

Anshul_Yadav 130 November 12, 2024, 12:42pm

So to summarise, following are the risks:

1. low steel price, means lower revenue
2. high fluctuations in steel price in short period like Q2FY25 where they are not able to clear inventory without discounting.

I think their FY25 perf will depend on steel price fluctuations moving forward.
Disclaimer: not invested, inclined to invest at much lower levels.

2 Likes

MHS 131 November 12, 2024, 12:44pm

My 2 cents, with lots of salt:

The problem with (So called) investors, so impatient, they build a lot of things in their analysis models, even a slight disappointment is looked with microscope. But hardly businesses run in that way.

If this is a Start up or Tech company or E-commerce company, with the sales growth, volumes they achieved in last 5 quarters, no margins questions would have asked.

Lots of Billion dollar sales businesses still burning lots of CASH.
Yet they are profitable at both EBIDTA and PAT. Such is the Business they started with decadal experience from APL, in Steel manufacturing.

SG Mart Chart Analysis Peers Quarters Profit & Loss Balance Sheet Cash Flow Ratios Investors Documents Notebook

Quarterly Results

Standalone Figures in Rs. Crores / View Consolidated

PRODUCT SEGMENTS

	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023	Mar 2024	Jun 2024	Sep 2024
Sales +	-0	0	-0	-0	-0	2	-0	151	506	748	1,278	1,137	1,787
Expenses +	0	0	0	0	0	2	0	149	495	731	1,246	1,112	1,772
Operating Profit	**-0**	**-0**	**-0**	**-0**	**-0**	**-0**	**-0**	**2**	**11**	**17**	**32**	**24**	**14**
OPM %		-400%				-8%		1%	2%	2%	2%	2%	1%
Other Income +	0	0	0	0	0	0	0	0	1	10	21	21	21
Interest	-0	-0	-0	-0	-0	-0	-0	0	0	3	8	8	13
Depreciation	-0	-0	-0	-0	-0	-0	-0	-0	0	0	0	0	0
Profit before tax	**0**	**0**	**0**	**0**	**0**	**-0**	**-0**	**2**	**12**	**23**	**45**	**37**	**22**
Tax %	25%	25%	25%	19%	35%		-24%	26%	25%	26%	25%	27%	25%
Net Profit +	**0**	**0**	**0**	**0**	**0**	**-0**	**-0**	**1**	**9**	**17**	**34**	**27**	**17**
EPS in Rs	0.02	0.02	0.10	0.11	0.06	-0.00	-0.06	0.64	1.12	1.53	3.02	2.44	1.49
Raw PDF													

Not every thing to be looked into microscopic view.

> MHS:
>
> They identified one key service missing in the steel (Construction) infra space and setting up building blocks - Similar services/companies in large scale exists in other parts of the world, as shared above in one of the post.
> Execution and commodity price are the major risks here.

It takes years, if not decades, to build **“PROFITABLE”** businesses.

9 Likes

---

as0067 133 November 12, 2024, 2:01pm

They mentioned “2% plus” estimate for the year and not 2%

GauravT 135 November 12, 2024, 3:39pm

> MHS:
>
> If this is a Start up or Tech company or E-commerce company, with the sales growth, volumes they achieved in last 5 quarters, no margins questions would have asked.

But the investors did not emphasize on the margins in the first place. Management has time and again pointed to the robustness of the business due to margins being razor thin. They say margins are protected for the year which only time will ascertain. If margins can collapse due to a grey swan event then question must be asked, what are other such events we should look out for?

Disc: Invested

3 Likes

---

nishant_ram 136 November 12, 2024, 4:18pm

Demand reduction can be another black swan event. China is dumping a lot of steel and our domestic production is also going up so steel prices may continue to be under pressure.

3 Likes

Dhan77 137 November 12, 2024, 6:48pm

The 2nd question and answer you've mentioned - one from Ms Alisha - is from the previous concall. But the answer management has given is extremely relevant in this quarters results. The entire pretext of preserving the thin margin under all situations has been shaken. They said inventory days is 8, even if two price revisions happen each month - roughly 15 days each - how does this affect margins so severely is hard to understand. One minor point was that during stressed periods they have to offer more discounts to their customers, which had lead to fall in margins. But this again points to weak pricing power. Overall disappointed with commentary

2 Likes

[MHS](#) 138 November 13, 2024, 5:00am

> Dhan77:
>
> One minor point was that during stressed periods they have to offer more discounts to their customers, which had lead to fall in margins. But this again points to weak pricing power. Overall disappointed with commentary

This is exactly what happened.
Good Management will understand the unprecedented situation and play a long game rather than short term gains. They have to protect their customers/distributors.

what pricing power we r talking here - This is a commodities trading business with razer thin margins - Period. They are trying to build business - a **"organized service"** in these commodities.

2 Likes

[Dhan77](#) 139 November 13, 2024, 5:35am

Understand this maybe the effect of long term vision rather than short term profits, which is a great thing for longevity of business. But I believe they should have been more transparent about these scenarios in last

concall where they clearly stated that 2.5% margin is low, but it’s very secure.
As for “pricing power” - it may not be the correct operative term here, lack of knowledge on my part, but it does convey the core idea - “if you have to lower prices to sell off your product, you don’t control the price you will sell at, hence no pricing power”. Commodities have no differentiation, so the lowest price seller will sell - agreed. But the entire point is that management should have put forth these constraints more transparently

2 Likes

MHS 140 November 13, 2024, 8:56am

It was clarified in the Concall the margin guidance is for the Year and not for the quarter.

As the steel prices move up in the subsequent quarters they may have some inventory gains also, which should nullify this quarter inventory losses.

Businesses to be tracked on yearly basis.

As I written my earlier post not everything to be looked into microscopic view at this stage of this business as they r putting building blocks.

I rest my case.

8 Likes

---

prashant_Singh2 141 November 13, 2024, 5:08pm

is this true? earlier they say that their service business makes around 4-5% margin.

nishant_ram 142 November 13, 2024, 11:29pm

That business is yet to scale up. Just compare it to OLA electric/Swiggy kind of company. They have just started. It is all about execution.

Target Addressable Market(TAM) is huge. They can scale to 1 Lakh crore in revenues in 5-6 years. Even at 2% NPM it can be 2000 crores in profit.

Souresh_Pal 143 November 14, 2024, 1:34am

A small thought: this business is very widely tracked and might be priced to perfection. So in short term it's supposed to underperform. If things play out as mgmt has guided it will create good wealth in long run. If things don't play out as mgmt has guided then wealth creation will not be there. It's to be seen how they manage their margins.

6 Likes

Deven 144 November 15, 2024, 10:17am

Same margin for all 3 segments is seems of current Q comment. In August 2024 con call they indicated as
SG Mart Limited August 13, 2024
Page 5 of 17
40,000 ton of processed steel every month which gives us 4% to 5% EBITDA margin.

Hence they have higher margin for service centers however in last Q it was same for all segments - that may be concluded.

rajpanda 145 November 15, 2024, 3:26pm

I think, as investors in SG Mart, we should accept that in this kind of trading business, there will be inventory losses, once in a while. Even the inventory procured for service centers and distribution business will also suffer from these kind of losses. There are no 2 views about it. However, how often will this kind of movement happen in the steel price, is anyone's guess and history is our feeble guide?

I was speaking to a very respected investor who himself is into steel trading business and confirmed that even they are not immune to such movements and mostly hold 1 month worth of inventory.

IMHO, we should put this kind of episode behind us (perhaps, market has already done that, going by stock price reaction), and recalibrate our calculation for FY25.

This episode per say is not a company specific bad event and it's an industry wide situation. This doesn't kill the business model. This is my humble reading of the situation.

We should keep our guards up for other pieces of the business, like the business model around, service center (demand/supply etc etc), and the distribution of unbranded stuff (angle/channel etc…)

13 Likes

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rinkupranjan 146 November 16, 2024, 10:54am

BIS license for exporting steel products to India from China is expiring on Jan25 and for renewal it will take lot of time, hence import of steel from china will decrease in near future and steel prices should remain firm in india.

BigMint (formerly SteelMint/CoalMint) (@BigMint_Co) on X
@BigMint_Co

> Why are Indian #SteelCompanies Raising Prices for November? | BigMint Explains
>
> Indian #steel companies have hiked prices for November 2024, with increases of up to INR 1,000/tonne across key products like Hot Rolled Coil (#HRC), Cold Rolled Coil (#CRC), and #rebars. This price

4 Likes

Agni 147 November 16, 2024, 4:31pm

> rajpanda:
>
> Can you help to give more clarity on this point. Do the Japanese trading company(like Marubeni) operate in India ? In the sense that they buy from Indian manufacturers and sell them to Indian distributors, like what SG is aiming to do ? If not then how is relevant to SGM ? They are not competing with Marubeni's of the world in the world market, right ?

Basically, SG Mart's main business model or their vision is that they would become the largest steel buyer in India and this would give them some sort of bargaining power with steel producers that would help them protect / improve their margins as they would become the preferred buyer for domestic steel companies.

What I was trying to imply in my previous post was that if this market suddenly become very lucrative then bigger steel traders like Marubeni can simply increase their buying allocation in India (they have the luxury to buy at lowest prices from 50 countries currently) or other companies who're currently not into steel trading can simply enter into this market. Marubeni does have an Indian subsidiary - https://marubeni.co.in/

The startups I mentioned are not into this segment currently because of lower margins but they have the balance sheets to easily enter and create competition. This is what the management has been saying is another one of their strengths compared to unorganized sector (their buying power).

If you do a Porter's five forces analysis of this industry, you would realize the fact that the margins are not in SG Mart's hands and wouldn't be until they reach their 2030 vision of 30k Cr sales and even then it might not.

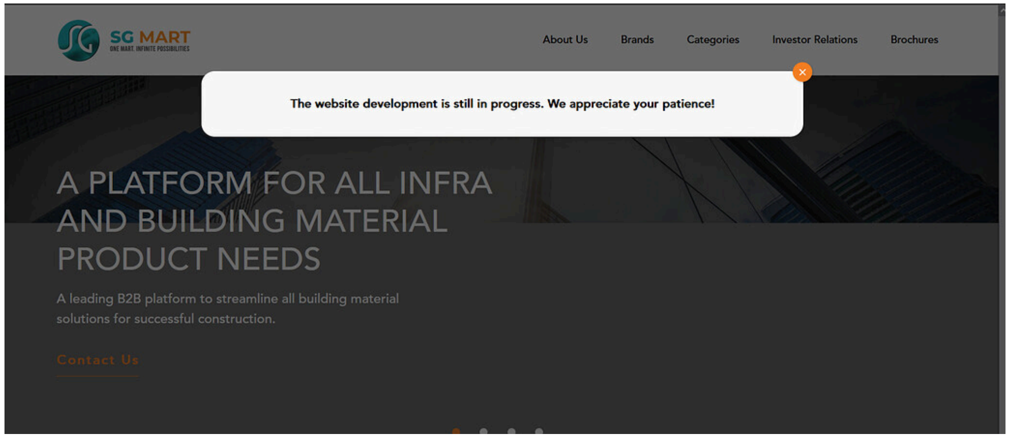
When global steel trading giants can't protect their margins (although their margins are better owing to global purchasing ability), then how can SG Mart at this small of a scale.

The primary reason to invest in this company should be the **huge and growing TAM** (steel companies are planning I think 10-11% CAGR volume growth - Revathi engineering AR) and that margins are too low and volatile so as to be very lucrative for a big player to enter into this segment (see what happened in paints industry when Grasim entered into paints sector as the ROCE was much higher in it compared to their core industry)

5 Likes

[Agni](#) 148 November 16, 2024, 4:47pm

1. Also, did anyone notice that their B2B marketplace website is still not up and running fully. I can't just go on and place an order. They talk a lot about digitizing this landscape in their B2C vertical and that there is no B2B platform (which is not true, at least for TMT bars which is the highest TAM product, there are a few).



2. Someone raised an interesting point in the concall that the management was confident in giving out margin numbers in their Sep-24 Arihant capital discussion but then reported completely different numbers.

1 Like

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rajpanda 149 November 16, 2024, 6:28pm

> Agni:
>
> Someone raised an interesting point in the concall that the management was confident in giving out margin numbers in their Sep-24 Arihant capital discussion but then reported completely different numbers.

Not sure what that person expected from the call? For mgmt. to discuss Q2 revenue and margins on 28th of September before earnings release? It sounded like a very dumb point to me harping on the same Q again & again and almost trying to blame the mgmt. on why they didn't tell about the Q2 margins in the call.

Raj Saraf: So 2 months have passed in September last week, so 28th was the day and one month was left on the last concluded quarter and that guidance was given sir, does we will in worst case scenario 2% EBITDA is nowhere?

Anubhav Gupta: Fair enough. So we never get guidance for the quarter, we always get guidance for the full year and full year you will see that our margin is more than 2%.

3 Likes

Prathamesh_Adhikari 150 November 17, 2024, 5:03am

I think the marketplace right now is between the Sales force of the company and the potential clients. After the initial relationships are built and then this platform kicks in their SGNA should go down - only for the B2B trading vertical
for the Services vertical - it will be a customised offering so the platform might not help and sales should come from the B2B sales force stationed at or in-around the service center

1 Like

Prathamesh_Adhikari 151 November 17, 2024, 5:04am

completely agree. the whole game is of Bargaining Power which will come into play once they reach a critical volume. Similar to any SAAS startup, the network effects is the moat.

1 Like

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amit151190 152 November 17, 2024, 1:58pm

Some people are talking about low EBITDA margins, one should take into account that this is a pass through business where the margins are always low (say your petrol pump business is pass through), if someone wants to calculate the EBITDA margins in real terms , he/she can do it on net revenues(gross profits are net revenues) not on gross revenues. Finally when it comes about moat in trading business, the only moat is the volume, the bigger you become the tougher you make it for others to enter…

7 Likes

---

dark_hunter 153 November 17, 2024, 5:58pm

In general, i would suggest to our members to read the book " The world for sale", its an engaging read which actually outlines how does trading happens on the metals across economies

4 Likes

[saranshbagdi](#) 154 November 27, 2024, 6:30am

Can someone help me with the address of Pune service center. I want to visit it.

1 Like

[kiraank](#) 155 November 28, 2024, 6:47am

from the website:

It looks to be office. You can check with sales.

1 Like

[GauravT](#) 156 November 28, 2024, 12:05pm

Please share insights here as well after your visit.

3 Likes

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justanoop22 157 November 30, 2024, 8:08am

do share the insights

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saranshbagdi 158 November 30, 2024, 6:18pm

They are neither receiving calls nor responding on mails. Surprising and shocking!!!

1 Like

GauravT 159 November 30, 2024, 7:25pm

that's unexpected. Can you go to their office location and check? Also, which other cities have operational service centers now?

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ranvir 160 December 1, 2024, 12:52pm

SG Mart -

Q2 FY 25 results and concall highlights -

Q2 financial outcomes -

Revenues - 1820 vs 506 cr, up 259 pc
EBITDA - 15 vs 11 cr, up 33 pc (margins @ 0.8 vs 2.3 pc YoY, due steep correction in steel prices in Q2 which led to inventory loses to the tune of 17-18 cr)
PAT - 16 vs 9 cr

H1 financial outcomes -

Revenues - 2960 cr, up 350 pc
EBITDA - 40 cr (margins @ 1.3 vs 2.3 pc)
PAT - 42 vs 10 cr

Cash on books @ 1080 cr

Total active customers at the end of H2 @ 535 vs 315 at the end of Q2 LY

No of active suppliers @ 75 vs 21 YoY

SG Mart offers a wide range of products, now encompassing more than 27 product categories, and more than 2,500 SKUs. These categories include construction steel products like TMT Rebars, HR Sheet, Welding rod, Binding wire, mesh net, tapping screw and barbed wire, among others. Additionally, in response to the increasing demand, the Company has introduced tiles, cement, bath fittings, laminates and paints

Company did volumes of 3.5 lakh tons in Q2. For current FY, company aims to maintain an avg of 1.2 lakh tons / month. Next yr, they aim to take it to 1.6 lakh tons / month followed by 2.5 lakh tons / month for FY 27

Steel price volatility + Weak construction activity in Q2 did hurt company's business in Q2

Company indulged in steel trading while procuring steel not only from local manufacturers but also the imported steel

Currently, company is operating 3 steel processing service centers @ Ghaziabad, Pune and Raipur. By Q3 ending, 2 more service centers should be live @ Pune and Dubai. These r relatively higher margin businesses

Aim to start making Solar panel frames at their service centers wef Q4. This is an area with strong tailwinds, huge demand and no presence of any organised players

One more service they intend to add at their service center is to start making Purlins (steel structures used to add strength to roof structures)

Company has identified more places where they will open their service centers over next 1 yr. These are - Chennai, Jaipur, Indore, Siliguri, Hyderabad and Ahemdabad. Similarly for FY 27, they ll identify places and operationalise more service centers across India

Capex lined up in current FY to open new service centers @ 100 cr. Have earmarked 300-400 cr for next FY to open even more number of service centers.

Avg inventory days for Q2 were 8 days. As the service center business ramps up in 1-2 yrs, this is slated to increase

Company maintains its guidance of 17000 - 18000 cr of topline by FY 27 with EBITDA margins of 2.5 pc. Also expect margins to recover to > 2 pc in Q3, Q4 FY 25

A 15 pc crash in steel prices is once in a decade kind of event and still the company could come out with 1 pc kind of margins. This should give some confidence to investors in their guidance of 2.5 pc for the long term

Sticking to their full yr guidance of Rs 6500 cr in revenues

Company does maintain a strong quality control team as company procures from different sources and labelling a lot of products under their own brand name

Company has also started testing waters with Zinc procurement and distribution. Company is going very slow in this segment. They will only scale up once they have sufficient experience and confidence in this relatively new area of operation

By FY 27, company expects 40- 50 pc of their revenues to come from service center businesses. Currently their contribution is around 20 pc

The cash that the company is sitting on (aprox 1050 cr) will all be used to finance the Capex ie - Opening new service centers + to service the company's inventory requirements

Disc: holding, biased, not SEBI registered, not a buy / sell recommendation, looking out for EBITDA margins recovery before adding more

9 Likes

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justanoop22 161 December 1, 2024, 3:46pm

thats wired but you can try few more time

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prashant_Singh2 162 December 10, 2024, 1:42pm

Does anyone have any take? on the shareholding pattern of the company … it seems that there has been some internal family transfer of shares… but summing up that too doesn't get back to the previous percentage. I think the dilution might be because of the exercising of some warrants.

Dhruv_Doshi 163 December 14, 2024, 2:23pm

Any idea on Cashflow from Operations?

I do not have the cashflow numbers for the last Quarter, but the one I have is from March and it shows negative cash flow from operations. Looking further this looks like a situation of high trade receivables and inventory.

I think this has been address but if someone has more information on this, I would like to know more.

1 Like

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antson_m 164 December 15, 2024, 5:40am

Particulars	Half year ended September 30, 2024 (Unaudited)	Half year ended September 30, 2023 (Unaudited) (Refer note 9)
A. Cash flow from operating activities		
Profit before income tax	57.75	13.67
Adjustments for:		
Depreciation and amortisation expense	0.51	0.06
Loss on derivatives measured at fair value through profit and loss account	2.32	-
Finance costs	20.50	0.41
Interest income classified as investing cash flows	(39.12)	(1.07)
Share based payment expense	0.97	-
Unrealised foreign exchange loss (net)	0.26	-
Operating profit before working capital changes	**43.19**	**13.07**
Changes in operating assets and liabilities:		
Movement in inventories	(56.24)	(4.10)
Movement in trade receivables	(60.99)	(22.17)
Movement in other current assets and other financial assets	(100.85)	(55.99)
Movement in trade payables	50.76	2.96
Movement in acceptances	331.93	-
Movement in provisions and other liabilities	5.90	21.24
Cash generated from operations	**213.70**	**(44.99)**
Income taxes paid (net)	(18.02)	(4.22)
Net cash generated from / (used in) operating activities (A)	**195.68**	**(49.21)**
B. Cash flow from investing activities		
Payments for property, plant and equipment (including adjustment on account of capital work-in-progress and capital advances)	(85.88)	(35.30)
Increase in bank deposits (net)	(27.69)	(100.75)
Repayment of loan by related party	0.49	-
Interest received	32.04	-
Net cash used in investing activities (B)	**(81.04)**	**(136.05)**
C. Cash flow from financing activities		
Proceeds from conversion of share warrants	9.66	-
Proceeds from issue of equity share capital	-	135.00
Repayment of lease liabilities (inclusive of interest paid ₹ 0.01 crores (September 30, 2023: ₹ nil))	(0.10)	-
Interest paid	(18.29)	(0.41)
(Repayment)/proceeds of short-term borrowings (net)	(140.65)	40.03
Net cash (used in)/ generated from financing activities (C)	**(149.38)**	**174.62**
Net decrease in cash and cash equivalents (D=A+B+C)	(34.74)	(10.64)
Cash and cash equivalents at the beginning of the period (E)	122.82	11.78
Cash and cash equivalents at the end of the period (D+E)	**88.08**	**1.14**

Read the Q2 note
https://www.bseindia.com/xml-data/corpfiling/AttachHis/fecb7c9e-79d1-4876-b185-67f04e0273f6.pdf

1 Like

Harsh_Rathod 165 December 15, 2024, 7:24am

Can they maintain sustainable EBITDA of 2.5% going forward?

Or become an cyclical business like steel producer ?

What will be PE ratio after some scale?

Honest opinions from experts ???

Anks 166 December 15, 2024, 10:06am

Can SG mart fall under new age business , i mean is it a disrupter ? and a very high growth business taking market share from peers and is it profitable ? All these qns have positive answer. Last qtr they have booked inventory losses still bottom line was positive shows the power of business model.when all tech backed new businesses burning cash , they are making profit from inception even in this situation{ steel price crashed more than 10% in a month, management says once in a decade event}.What happens if they book inventory profit in coming qtrs ? second point is management said they were in negative wc cycle 2nd qtr.this is hugely positive to me{ may not be the case going forward as they scale up}. so business wise everything is in place, can management scale up the business is KEY thing to watch.
INVESTED AND BIASED.
Pardon me for my poor english.

10 Likes

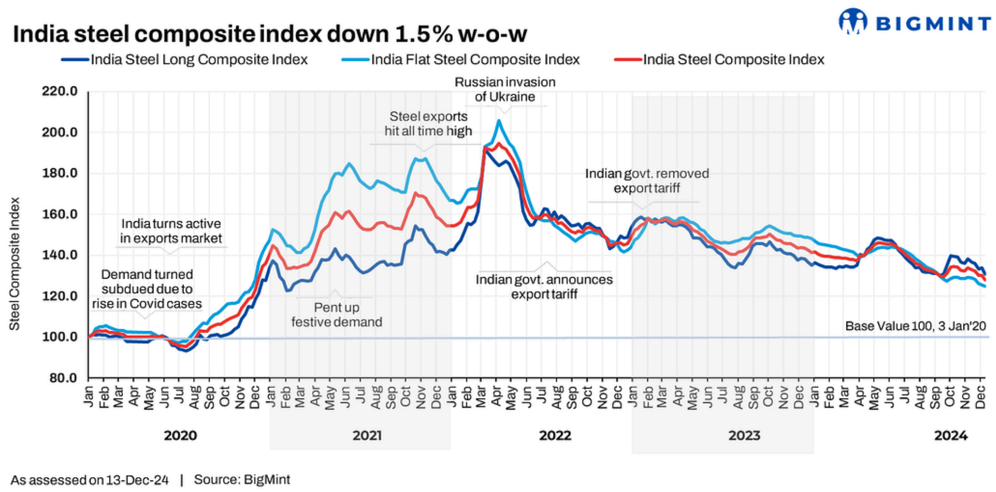
Agni 168 December 16, 2024, 3:23pm

Doesn’t look like any price recovery has happened yet. Looks to be another tough quarter for SG Mart.

Indian steel prices are nursing the blues and how. The India Composite Steel Index dropped 1.5% to 128.1 points at closure on 13 December, 2024. This is a 12-week low but importantly, these levels for the past many months are groveling at four year-lows.

Several factors contributed to this down syndrome.

1. The trend of lacklustre demand continued. Longs players are suffering in particular with the government reigning in its infrastructure push.
2. The liquidity crunch, as several state elections loom nearer from next year, are adding to the woes. Even as end-buyers feel the liquidity crunch, in a cyclical pattern, little off-take is tightening the funds availability with manufacturers.
3. Early December saw a tier-1 mill putting its caster on maintenance which led to a tightness in rebar supplies, which impacted supplies but had no effect on prices though.



6 Likes

CHAC3MEN 169 December 23, 2024, 4:11pm

Isn't steel industry cyclical?

How's SG Mart management able to give 2-3 or 5 year guidance ?

If they are saying 18000cr by FY27, that's a CAGR of around 85%. Given that the Indian economy as a whole is not doing that well, can we conclude that the guidance is a bit optimistic?

The ambitious guidance should have reflected in the stock price but given that the stock hasn't moved much in a year indicates there are lot of uncertainties about the execution.

5 Likes

Ghonarbochon 170 December 24, 2024, 3:45pm

Steady low prices should not affect margins if what they said is true even though it will result in lower revenue . Sudden steep rise and fall in steel prices can affect margins but this chart does not show steepness compared to last quarter .

1 Like

Agni 171 December 25, 2024, 6:46am

But the price bakes in the profit growth due to increase in revenue. If revenue remains growth weak then profits will remain subdued. Hence, making this an overpriced bet.

I feel like this stock needs to go below 50 PE and steel prices moving up can become a trigger for accumulation

---

Ghonarbochon 172 December 25, 2024, 7:00am

This is not a mature business that has reached a state where revenue growth is predictable based on amount of sales because the store count is large enough .This is a start up where the revenue growth is secondary to the growth rate of stores . Most of the earnings currently is only interest earned from the cash balance they have .If

anyone is valuing this business based on current revenue , imho, they are likely to be dissapointed anyway.
Applying mature business models to a newborn business is not going to give correct answers .
The main monitorables are
i)whether they can grow the store count while keeping up the sales volume per store
ii) whether they can hold the margin steady across a normal steel cycle .
That monitoring needs to be done over a few quarters atleast .

6 Likes

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arpitdangi1996 173 December 26, 2024, 12:47pm

they present it as marketplace or a platform model, but in reality its pure trading. Have seen similar trends in how Ofbusiness or infra.market operates. Businesses don't place crores of orders over a platform. Over that how trading has been since ages, these platforms provide credits on their own cost to customers which makes margins very thin like any trading business. The only difference between a small business trader in your city and these companies is the way they operate. These companies have their books cleared and run like a corporate with margins similar or most of the time less thatn what a single small-time trader would do with the cash involved ofcourse for his/ her transactions. For that reason, I would see these businesses as Trading businesses only.

Please correct me if you feel I am wrong here

2 Likes

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hnk_so 174 December 26, 2024, 3:47pm

Trading without value addition might not be margin accretive business. However, adding value and selling it should be margin accretive business. If promoters deliver what they are promising - having multiple value addition / service centers. These service centers will help company to process raw steel, which company can

buy from big steel industries, and product from these service centers is what customer/final consumers wants.
If this model successful, company will have bright future than only doing trading
Promoters has excellent experience as a steel converter and this experience and customer/dealer/distributors connect will help them to grow faster. One has to wait and watch how the business grows profitably

3 Likes

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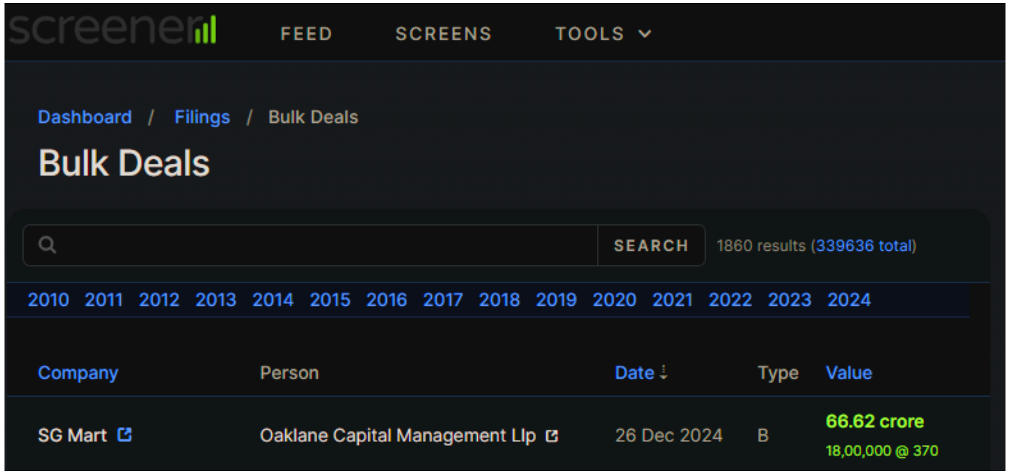
ripzc09 175 December 26, 2024, 4:13pm



Bulk purchase of SG Mart today

4 Likes

Siddharth_Gautam 176 December 26, 2024, 4:39pm

how to access these bulk deals alerts on screener?

ripzc09 177 December 26, 2024, 4:55pm

you can simply go here (**Register - Screener**) and in the search bar type ‘SG’. You can also bookmark a specific company to receive alerts (although i think free tier allows you to bookmark only upto a certain number of companies/ institutions)

2 Likes