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<p>To, The Manager, Listing & Compliance, BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001.</p> <p><u>Ref: Scrip Code - 540393</u></p>	<p>To, Listing Department, National Stock Exchange of India Limited, C-1, G-Block, Bandra-Kurla Complex Bandra (E), Mumbai - 400 051</p> <p><u>Ref: Scrip Symbol - SMLT</u></p>
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Sub: Transcript of Earnings Call for Q4-FY 2022-23.

Pursuant to Regulation 30 of the SEBI (LODR) Regulations, 2015, please find attached herewith the transcript of the Earnings Call for Audited Financial Results of the Company for the quarter and year ended March 31, 2023, held on Tuesday, May 30, 2023, at 2:00 P.M.

The transcript is uploaded on the Company's website as well on below link:

<http://www.sarthakmetals.com/docs/Transcript%20of%20Earnings%20Call%20for%20Q4%20FY%202022-23.pdf>

The above is for your information and dissemination.

Thanking You,
Yours faithfully,
For, Sarthak Metals Limited

Pratik Jain
Company Secretary & Compliance Officer

Encl. as above.



Sarthak Metals Limited
Q4 FY'23 Earnings Conference Call Transcripts
May 30, 2023



Call Duration	36 Mins.
Management (Host)	Mr. Sagar Shah, Vice President and Part of the Promoter Group
Participants	<ul style="list-style-type: none">• Keshav Garg from Counter - Cyclical Investments PMS• Akhilesh Kumar from Adpro Technologies• Nikhil Jain from Galaxy International• Arpit Jain, Individual Investor• Jiten Shah, Individual Investor• John, DNIS• Neeraj Prasad from Motilal Oswal Financial Services Ltd• Satish Mamillapalli from JHG• Shubh from Neelakant Investments• Yatin Manchanda, Individual Investor

Moderator: Ladies and gentlemen, good day and welcome to Sarthak Metals Limited Q4 FY 23 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sagar Shah, Vice President and part of the promoter group of Sarthak Metals. Thank you and over to you Mr. Shah.

Sagar Shah: Hello everyone and good afternoon. Thank you all for joining this call. I hope you all have went through a financial outcome for the quarter four and financial year 2023. Let me take you through our performance and way forward for us as a company, we clogged the revenue of about INR81 crores in quarter four in comparison to INR92 crores in the previous quarter. Our net profit stood at INR5.8 crores against INR7.55 crores in the previous quarter. That's a dip of about 12% in revenue on quarter-on-quarter basis and net profit margin stored at 7% in comparison to 8% in the previous quarter.

When compared year on year basis, there's a sharp decline in the revenue specifically. That's a lot due to realizations normalizing on the volume side, the decline is mainly due to our focus on keeping our profitability intact by choosing to maintain our prices, which led to losing some orders. Also, we held the minimum inventory this whole year to deal efficiently with the lowering prices of our raw material resulting in lower volumes. Domestically we still hold to be the market leaders in both our segments with a high rate of 85% of repetitive orders. Our quality and service has been remarkable and the inflow of repeated orders prove our potential.

Our key steel making customers are highly optimistic and constantly expanding the capacities, which puts us in a very exciting spot for the time ahead. Our exports this year have increased by about 13% in code wire segment and by more than 100% in the aluminum wire segment. We plan to expand our global presence by tapping into new geographical regions and increasing our customer base. Overall, for the financial year 2023 we managed to clock a total revenue of about INR409 crores in comparison to INR457 crores in financial year 2022.

Our net profit was at all time high of about INR29.75 crores against INR27.5 crores in financial year 2022. The company has announced a final dividend of INR1 per share making the total dividend payout of 20%. Looking forward, we are very optimistic with the resilient Indian economy and the leadership in the steel sector driven by the increasing infrastructure of our country. Looking at the global scenario, we strongly believe that the Indian steel is poised to show a strong growth in the years to come.

Last year's chaos has led us to stronger supplier relationships, allowing us to source top grade raw materials with an edge over our competition. We have a massive reputation to maintain when it comes to supply chain management, with our customers relying on us strongly for the requirements. Apart from that, we are always focused on strengthening our base by constantly looking for diversification opportunities. While at it, we have taken a step to venture into a new business segment of Lux Codewire, which has applications in the advanced technological building. It will be a whole new area for us to explore and we are confident that this venture will make headlines for Saturday metals in the years to come. With that now, I would like to start the Q & A session. Thank you.

Moderator: Thank you very much. The first question is from the man of Keshav Garg from Counter-Cyclical Investments PMS. Please go ahead.

Keshav Garg: Sir, I want to understand that in our fourth quarter numbers, the declining realizations and volumes that has already happened year-on-year. So going forward on a quarterly run rate basis, you think that we can sustain INR80 crores top line with approximately 10% margin?

Sagar Shah: Hello, Keshav sir. Good that you asked that question. Sir, not just INR80 crores, we believe that we will see a jump, we will see an increase in the volumes and also in the realizations. I believe that the prices of our raw materials and our final products have bottomed out. So yes, it's quite optimistic from year onwards.

Keshav Garg: So if you could just give us some idea that what number should shareholders expect since our numbers have been all over the place, we have made a peak revenue, quarterly revenue of around INR147 crores in March 2022 quarter with around INR12 crores of EBITDA, which has now come down to INR80 crores with around INR8 crores of EBITDA. So between these two

extremes, what should one expect? Where would our numbers lie?

Sagar Shah: See, the last year's chaos was one of a kind. So that was bound to come to normalization. But apart from that, there's a constant growth. Sarthak Metals as a company, we as a company have always jumped our revenue year-on-year basis. So we expect the same to happen in the coming years. We truly expect a double-digit growth from here.

Keshav Garg: Sir, double-digit growth in volume?

Sagar Shah: Yes, volumes. We were more focused, realizations always tend to fluctuate, but the volumes are the ones which will help us in the way forward. And if you see the realizations have come down significantly this year, but our volumes were quite good enough when compared to financial year 2021. So there obviously is volume growth and there always will be.

Keshav Garg: Sir, also just wanted to understand that in page number 13 of your investor presentation, our code wire volumes are lower in FY '23 than even in FY '19 by a significant number. So I mean, Indian seed production in FY '23 was significantly higher than FY '19. So how come our volumes are below FY '19 level?

Sagar Shah: So it's definitely growing competition. India is a growing country, there's competition and that is bound to happen. The volumes will keep fluctuating, but we always, we're here to treat our customers and we're expecting a good growth in the coming years.

Keshav Garg: Okay, and what's the outlook for our aluminum flipping coil?

Sagar Shah: What about it?

Keshav Garg: So this double digit volume growth is expected in that sector?

Sagar Shah: Definitely. So, we've already expanded our capacity in aluminum. Last year, we were running at 100% capacity. We immediately expanded the capacity and now, we're very optimistic with that product in the steel application in India and across the globe because we believe, it holds a great potential in export market.

Keshav Garg: So for FY '24, can we expect both our divisions to clock all time high volume numbers?

- Sagar Shah:** We expect so.
- Keshav Garg:** Okay, that's it, I'll come back to the question queue. Thank you very much and best of luck.
- Sagar Shah:** Thank you.
- Moderator:** Thank you. Next question is from the line of Akhilesh Kumar from Adpro Technologies. Please go ahead.
- Akhilesh Kumar:** Thank you for taking the call. Sagar, I want to know about the new diversification, we are venturing into. What is that product like, say, in any, you said that, it is hardly produced in India. So who all are the producers and how margin can be expected here?
- Sagar Shah:** Hello. So the product that we're venturing into, yes, it is not, we're among the first ones, who are going to produce it in India. And it holds huge potential because India is a growing country. There's huge, huge potential in the fabrication sector. And the product that, we're venturing into, it is the most advanced technology in the welding sector. So, we're excited. We're excited to see how it goes. Currently, we're among the first ones, who are producing it here.
- Akhilesh Kumar:** Okay, so it is not the same consumable product, what Ador Welding is selling here or producing?
- Sagar Shah:** It is the same product, but we don't believe that Ador Welding is producing it here, as of now.
- Akhilesh Kumar:** Okay, so how you will be planning, like, say, when we can see the plant, like, say, functioning on the sample, you said that, you will be producing on the trial basis and timeline, I want to know.
- Sagar Shah:** Yes. So, the first phase of the plant should get commissioned approximately three months, four months from here. And after that, we believe, like seeing the response and how things unfold, we're very confident that, we'll be able to expand like exponentially in a very short period of time.
- Akhilesh Kumar:** Okay, so you don't require any, like, imported plant or machinery to start with? Because...
- Sagar Shah:** Does we do, we do the first phase of the plant is getting imported, but it is our forte, the product is our forte. And it is very similar

to our current product, the technology is just advanced. And we have some very expert technicians in house. So we as a company, if you like, we as a company, all the cored wire mills that we currently have in our plant, we are assembling them and manufacturing them in house. And we strongly believe that, this first phase, once it gets commissioned, we will be able to crack the technology and manufacture the machinery in house. So we'll that will give us an edge to expand rapidly.

Akhilesh Kumar: That sounds good, because other machineries also you are producing yourself.

Sagar Shah: Yes.

Akhilesh Kumar: What kind of margin you make a projection, if you have any, in that?

Sagar Shah: We're expecting double digit margin, I don't want to give some, like very specific numbers that but there are some very good margins. And apart from that, I would also like to add that, we're very strategically located for this product. And we have some very existing, very good relations with some very big fabricators, who are already using this product. So, we're very confident that, as soon as we start in this line, we will get good response.

Akhilesh Kumar: Okay, that sounds good. And what might be the capex plan for that?

Sagar Shah: Capex will go around less than INR5 cores, INR5 crores.

Akhilesh Kumar: Okay, that is reasonable. So you don't need any debt funding at all, right?

Sagar Shah: No, not at all.

Akhilesh Kumar: So, apart from that, any other plan for utilizing the cash or any other expense? That is the one.

Sagar Shah: Oh, yes, good. Again, that's a very good point that you raised. So as a team, we are very, very enthusiastic and we keep on looking for good opportunities. As a matter of fact, me myself being the second generation, I'm always on a lookout, where we're buying infrastructure, we have a team of experts in the fabrication sector also, which is why, this product clicked to us so that, we can provide, we can supply to the fabricators and also in future, if we

find some value added product in the fabrication side, we might even choose to put up a fabrication unit.

Other than that, chemicals is another sector that, we are we as a group are highly interested in. So that's about it. So like, I just want to let you know that, we are always on a lookout for opportunities.

Akhilesh Kumar: Okay, great. That's it. Thanks a lot. I will come back in the queue and I have a few more questions.

Moderator: All right. Next question is from the line of Nikhil Jain from Galaxy International. Please go ahead.

Nikhil Jain: Yes, thank you for the opportunity. Since I'm new to the company, I just wanted to understand a little bit about the products, the flux cored wire and the aluminum coil. So the cored wires, what is the technical expertise required to make it one and second, how critical are they in steel manufacturing? And the third point is, who are the current competitors given that, the volumes have not grown over the last four years? So I just want to know who are the big competitors for us. Thank you.

Sagar Shah: All right. So the product cored wires and we haven't yet started manufacturing flux cored wire, but the current cored wire portfolio that we have and aluminum wire holds a very critical stage in steel making. So, these products help in the fine tuning of the steel just before the steel is cast into its final shape. So the manufacturing technicalities involved are, it has to have, it has to be moisture controlled. The alloys are highly complex and with years of experience, we as a team have grown to understand that what particular grade of alloys will be used at what particular plant and what particular steel which is being made.

So if also it is just one product, like just assuming like ferro-titanium code wire, that one product also has, has various types and various categories which are being catered to different steel plants. Some require higher titanium grade, some require lower titanium grade. In that same way, the whole of our code wire product has, is being catered to different plants for the different requirements.

Nikhil Jain: Okay. So who are our key competitors?

- Sagar Shah:** Key competitors will be, there's one Arfin India, which is listed. They're holding the same portfolio as us and then there's the biggest competitor of ours is Minex, Minex Metallurgical.
- Nikhil Jain:** Okay. So I just wanted to know, let's say given the technical criticality for the product, so why are, EBITDA margin are plus 10% or 10%, 12% kind of range actually? So the competition is very fierce. It does feel like a commodity then. Is it the case?
- Sagar Shah:** Yes, it does. It does come under commodity and also most of these complex alloys are being imported from China. So that's where more work is needed. China controls the prices and they're bound to control the prices in the coming years also because they have a few technologies and their power prices are too lower than India for us to produce those special alloys.
- Nikhil Jain:** Okay. So will it be costlier as compared to China in terms of our manufacturing cost?
- Sagar Shah:** Could be, yes, because the raw material is being sourced from China, most of it.
- Moderator:** Next question is from the line of Keshav Garg from Counter-Cyclical Investments PMS. Please go ahead.
- Keshav Garg:** Sir, I have just one request. Our performance is really great and we are in a good niche industry of consumables and we are going in the right direction and expanding into adjacent category of welding consumables, which is the customer segment is also overlapping with our existing fabricators. So the request is that if you diversify into chemicals, which is a totally altogether different industry, so then the valuations of the company will fall because you see there are so many listed chemical companies.
- So if any shareholder wants to participate, you can just buy shares of those chemical companies. So who will buy a share of a conglomerate which is into all kinds of different businesses? So such companies always trade at a discount, which are into various lines of business. So the request is to kindly focus on consumable business only, at least in this listed entity?
- Sagar Shah:** All right. Your point well noted, sir.
- Keshav Garg:** Thank you very much. And also, sir, if you could just tell us about what are our export prospects and going forward in the next three

to five years, what percentage of our export of our revenue can come from exports?

Sagar Shah: All right. So good that you asked about export. We are very optimistic about the export market right now, at least seeing all the chaos in the West. We see we see India as a great substitute to export in those markets. So we are in some very, very promising regions globally. And the results are showing up, especially aluminum, which is a very energy intensive business, which is a very energy intensive production process. So that is one area where we are highly optimistic and we will try to move as much product as possible. And the results are already showing. Other than that, you asked about the proportion of our revenue. So I am assuming, let's say in the coming two, three years, more than 25% of our revenue will be from export market.

Keshav Garg: Sir, versus what would be export proportion last year?

Sagar Shah: Export proportion last year would be not more than 7%-8%.

Keshav Garg: So in three years, you think we can reach this number?

Sagar Shah: Like, yes, very confidently.

Keshav Garg: So that's really great. Sir, also, we had some plans, we are contemplating backward integration into ferro alloys, which are our raw material. So any clarity on that, whether it makes sense to do that or better to just import?

Sagar Shah: Sir, not as of now, as I mentioned in the previous question also that China has power costs way too lower than India. And if we do choose to go backward integration, we will never be like currently, we will not be able to compete with China. So that is where that whole project has taken a pause right now. But yes, at the same time, we have vigorously studied on going into backward integration. And the day India becomes that powerful, and we are in that position where we can compete for these products directly with China, there's no question about it, we will be going into backward integration.

Keshav Garg: Sure, and sir, lastly, sir, if you could give us some idea about the market share that we enjoy in the domestic market in both of our divisions?

Sagar Shah: Both our divisions, more than 30%.

- Moderator:** Next follow up question is from the line of Akhilesh Kumar from Adpro Technologies. Please go ahead.
- Akhilesh Kumar:** Sagar, you said that our realizations have been bottomed out. So can we expect the better sales volume from this quarter itself or it is still ahead?
- Sagar Shah:** We can expect from this quarter itself.
- Akhilesh Kumar:** Okay. And the second one is, you said that the new product that flux code wire is highly technically intensive. So any idea why it has not been tried by earlier here in other companies?
- Sagar Shah:** It is a relatively very new technology and it is now being adopted rapidly by the fabrication units here. So until now, it was, as I said, it is a relatively new technologies until now the volumes of this product which were being imported were relatively small, which is why this product wasn't in the limelight. And now that now that this technology is being adopted rapidly and because the fabricator are seeing the potential and the benefits from this product. So now this product has come under limelight and we are among the first ones who have picked it up.
- Akhilesh Kumar:** Okay, that sounds great. So what might be the currently import volume for that?
- Sagar Shah:** Current import volumes are more than 10,000 tons.
- Akhilesh Kumar:** Yearly, right?
- Sagar Shah:** Yes.
- Akhilesh Kumar:** Okay, that sounds good. So I think we are in the right direction. So hopefully I think you will continue this conference call regularly on now onwards.
- Sagar Shah:** We definitely will.
- Akhilesh Kumar:** Okay, please do that because that will help us like to connect with like your plans and like how you say going things are going.
- Sagar Shah:** Sure. Thank you.
- Moderator:** Thank you. Next question is from the line of Keshav Garg from Counter-Cyclical Investments PMS. Please go ahead.

Keshav Garg: Sir, in the last in the December quarter of last year, in the initial presentation, it was mentioned that even though our volume went down, we sold some high value-added high realization consumables. So that was the reason for increased profitability. I'm not sure whether it was second quarter or third quarter of last financial year.

So going forward, sir, what is the scope for further value-addition in our product portfolio? Are we doing whatever can be done or is there still scope to increase our realization?

Sagar Shah: So we are doing what can be done. Being in this industry for more than two decades. Now we know all the know-about of this industry and what the steelmakers will require. Yes, we are always in touch with our customers. We have some very deep relations with our customers. So we do discuss what can benefit in steelmaking and new alloys. I'm sure new alloys will come up which will benefit and which will be more value-added.

Keshav Garg: Sir, any idea about the operating margins that you would like to give to the shareholders that would be our steady state operating margins? Will we be able to touch around 10% operating margins or EBITDA margins or it would be lower going forward?

Sagar Shah: We don't believe it would be lower. We will manage to keep it intact 10% of operating margin. In fact, I would like to add that we are looking to increase our profit margin because now we are in that position where Sarathak Metals is being recognized very well by our customers and we have that power to control the prices.

Keshav Garg: So that is very encouraging and for our working capital is also very controlled. In fact, the working capital actually our inventories have reduced. In fact, they have approximately halved year-on-year. So, is this the impact of realizations coming down, or our -- so basically, what I'm trying to understand, will our inventory again go up to around INR30 crores levels or is this INR15 crores level sustainable?

Sagar Shah: So there is no denying that this sector is cyclical. And after the robust year of financial year 2022, the realizations had gone up significantly. So this year, I would say, we specifically like, we focused on getting our inventories down to control the prices of our raw materials coming down as I mentioned in my presentation also. And going forward, we believe that when the demand is good, we have no problem in increasing our inventory

also. So because the inventory a lot of times has benefited us a lot. We have developed some very, very deep and good relations with our few of our very key customers just because we are like, known Sarthak Metals is known for holding a good inventory. So that in the past has always benefited us and we will continue to maintain that reputation.

Keshav Garg: So that is really great. Thank you very much. And just one more thing, sir, India has a ferroalloy industry and people have captive power plant. So that puts them in the power cost also. So are none of the ferroalloy manufacturers like Maithan Alloys, VBJ, Nav Bharat, etcetera. Nobody is manufacturing our alloys.

Sagar Shah: These alloys, no. Nobody is manufacturing these special alloys which are being consumed in the steel industry. No. In fact, we, we are our own sister company is the largest manufacturer in India and second largest in the entire world for ferro titanium. So the products which are being used in steel industry and can be manufactured in India, we're already doing it. And right now we're very well in that position that in going forward, if the prices of power come down significantly and if we are able to compete with China directly, we're just on the edge to start another plant for backward integration.

Keshav Garg: Sir, and lastly, what percentage of the Indian demand is being catered for by Chinese imports in our flux, core, wire and aluminum flipping coil?

Sagar Shah: Nothing in aluminum. Aluminum is totally local. In the core wire segment, none core wires are being imported. Not core wires are being imported, just the raw material, just the special complex alloys that are being sold in the core wires that is being imported from China. And that would be roughly more than 50%.

Keshav Garg: Okay, sir. So is there any threat that going forward that since China already has got the raw material advantage that they might start flooding the Indian market with their core wires and flipping coil also since the Chinese steel demand is also shaky?

Sagar Shah: I don't believe that would happen given that our government is very much focused in Atmanirbhar scheme, so that is not poised to happen.

Keshav Garg: And sir, what kind of import duty, is there a significant import duty on these imports?

- Sagar Shah:** Yes, there is. Not on the raw material because the raw material, there's no other alternative other than China, but the final product, core wires, there's a significant amount of import duty.
- Keshav Garg:** So approximately what would that be?
- Sagar Shah:** 15%.
- Keshav Garg:** Okay, sir. And in aluminum flipping coil?
- Sagar Shah:** Aluminum, like I'm not aware of what the import duty on aluminum, but aluminum in India is a great manufacturer of aluminum. We have some big smelters here, so aluminum can't be imported. It's very well managed locally.
- Keshav Garg:** Right. Sir, thank you very much and best of luck.
- Sagar Shah:** Thank you.
- Moderator:** Thank you. Next question is from Akhilesh Kumar from Adpro Technologies. Please go ahead.
- Akhilesh Kumar:** Yes, sir, again on the country, the question, what we were discussing right now, you said that aluminum is the raw material for your aluminum flipping coils, right?
- Sagar Shah:** Yes.
- Akhilesh Kumar:** That is the main. And then for core wires?
- Sagar Shah:** Core wires, there's a bunch of alloys. We hold a good product portfolio in the case of core wire segment.
- Akhilesh Kumar:** Okay, so that is like, again, you make, I'm not getting that for core wire.
- Sagar Shah:** So, okay, I'll make it easy for you. So in the core wire segment, there are a bunch of alloys, as I said. So few of those are like calcium, calcium based alloys, few are ferro titanium, ferroboration. So these are a few examples out of which our own sister company is the largest producer of ferro titanium.
- Akhilesh Kumar:** Okay, which we consume here.
- Sagar Shah:** Yes.

Akhilesh Kumar: So aluminum is the safe for what we know, like what is the raw material cost for you? Otherwise, this core wire, you are not aware of.

Sagar Shah: Yes. So aluminum is very, very much public. The aluminum prices are very much public and very much controlled. So the profitability front also, aluminum comes under control.

Akhilesh Kumar: Yes, I got it. That is not restricted. That can be easily imported and that is a big thing. But India exports are available. So that we can get it.

Sagar Shah: Sir, your voice is cracking.

Moderator: Akhilesh, may I request you to come in the better reception area, please?

Akhilesh Kumar: So government has scrapped that export duty on steel last year. And so after that, it was supposed to have a good demand. And I think all the steel companies production figures have been very good for the last quarter, March quarter. But still, we didn't see the volume growth in this quarter for our products, which were supposed to be consumed by them.

Sagar Shah: As I said, we purposely held a very low inventory, actually. And secondly, the export duty has been scrapped by the government and it happened mid financial year. So the movement, the export orders for our customers will start coming in now. So that's why we are very optimistic for the coming years.

Akhilesh Kumar: Okay. So deliberately, you protected your margin by keeping the inventory low and not unnecessarily on the falling price.

Sagar Shah: Yes.

Akhilesh Kumar: Okay, got it. So this quarter onwards, we will be on the better like say a stable margin.

Sagar Shah: Yes.

Akhilesh Kumar: Got it. That's it. All the best for your next quarter.

Sagar Shah: Thank you.



Moderator: Thank you very much. And now I hand the conference over to Mr. Sagar Shah for closing comments.

Sagar Shah: All right. Thank you. So I want to thank everyone who joined and for the kind questions. I hope I was able to deliver appropriate responses. In the end, I just want to mention that we as a company take pride in our team full of innovators and hard workers. I want to thank everyone for showing trust in the company's journey from IPO to about 6x growth till date. We are confident that the company will prove to be a consistent compounder. And thank you again. Have a good productive week, everyone.

Moderator: Thank you very much. On behalf of Sarthak Metals Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.

Sagar Shah: All right. Thank you.