



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

## SARTHAK METALS

### WHAT WE LIKE

#### AMONG THE LEADING PLAYERS IN METALLURGICAL CORED WIRES

Sarthak Metals is a part of the Desraj Bansal Group is India's leading manufacturer and exporter of Cored Wires and Aluminium Flipping Coils that find application in the metallurgical industry.



#### CORED WIRES: INDISPENSABLE PART OF METALLURGY

Cored wires are a substitute to single-shot addition of alloys into molten metal. It helps in uniform and homogeneous mixing of alloys in the ladle. It is a more accurate and efficient process of adding chemical elements in the casting. Cored wires have become an indispensable part of metallurgical plants today. Product categories:

- Cored Wires
- Aluminium Flipping Coils
- Wire Feeder Machines

#### INDUSTRY TAILWINDS

Indian steel industry is expected to register healthy volume growth, with growing capacity utilizations and addition of new capacities on back on growing domestic & international demand. This bodes well for the Cored Wire business.

#### ROOM & CAPACITY TO GROW



#### STRONG BALANCE SHEET & GROWTH IN NUMBERS

Sarthak Metals has a very strong balance sheet with minimal debt on its books. Strong growth in numbers and a lean Balance Sheet make it more attractive. Avg ROE for last 5 yrs is 20%+

Compounded Sales Growth		Compounded Profit Growth	
10 Years:	16%	10 Years:	31%
5 Years:	25%	5 Years:	46%
3 Years:	34%	3 Years:	64%
TTM:	21%	TTM:	36%

### WHAT WE DON'T LIKE

#### RAW MATERIAL PRICE VOLATILITY

Aluminum and ferroalloy are the two key raw materials for Sarthak Metals. And given the volatility in the prices of these materials, the company is exposed to margin fluctuation risk. However, we at SSS believe that they have done a fantastic job of being able to keep the operating margin steady in the last 10 yrs (6-9%).

#### CYCLICALITY OF THE STEEL INDUSTRY

Performance of Sarthak Metals is directly linked to the fortunes of the inherently cyclical steel industry, which has strong correlation with the overall growth in the economy. If for any reason, the economy struggles to grow, it is hard to expect meaningful growth for Sarthak Metals in that scenario.

#### SUPPLY CHAIN RISKS

The company's supply chain network, which is subjected to physical environmental, trade, geopolitical restrictions and disruptions, is critical to its operations. Moreover, a significant part of the Company's raw materials is imported, hence its dependence on outsourced partners may lead to disruption in operations. These risks, if materialized, may adversely impact the business.

#### STRETCHED WORKING CAPITAL CYCLE

Working capital cycle is a bit stretched. And we at SSS believe this is the general norm for businesses that supply to steel industry. On an average 80-110 days of the working cycle is what they work with. However, during downturn, the stress increases and the cycle has the potential to elongate a little more.

#### REGULATORY RISKS

Withdrawal of favourable trade measures, such as minimum import prices, anti-dumping laws and trade restrictions, may severely impact company's profitability.

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