

Steel Shortage Impacts Volumes, Margin Holds Strong on Processing Shift

CMP: INR 332

Rating: BUY

Target Price: INR 646

Stock Info

BSE	512329
Bloomberg	SGMART:IN
Sector	Building Products
Face Value (INR)	1
Mkt Cap (INR Bn)	37.32
52w H/L (INR)	462/290
Avg yearly Vol (in 000')	258.8

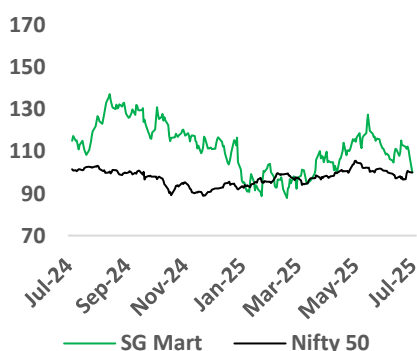
Shareholding Pattern %

(As on Jun, 2025)

Promoters	36.27%
Public & Others	57.13%

Stock Performance (%)	1m	6m	12m
SG Mart	-7.82	+3.75	-7.76
Nifty 50	-3.28	+7.51	-0.62

SG MART Vs Nifty 50



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SG Mart Ltd reported revenue of INR 11,437.7 Mn in Q1FY25 (+0.9% YoY/-28.09% QoQ), missing estimates. EBITDA stood at INR 359 Mn (+45.4% YoY/+1.04% QoQ), below our estimates of INR 404 Mn. EBITDA margin improved by 96 bps YoY (up by 91 bps QoQ) to 3.14% vs 2.18% in Q1FY26. PAT stood at INR 323.1 Mn vs INR 262.7 Mn, (+23% YoY/+2.5% QoQ), below our estimates of INR 329 Mn. Margin stood at 2.8% vs 2.3% in Q1FY25, showing a (+51 bps YoY/ +84 bps QoQ).

Key Highlights:

B2B metal trading volumes fall due to steel supply shortages: Volumes fell sharply by ~55% QoQ to ~70k tons vs 154k in Q4, due to poor steel availability in India, which significantly impacted SG Mart's business, as roughly 95% of its operations are steel-dependent. The top three steel producers also saw their sales volume decline by 11% QoQ in Q1FY26, indicating an industry wide challenge. Management expects a ramp-up in metal trading with the addition of 7 MT of new BF capacity by JSPL, expected to start in 3-4 months, which will resolve the steel supply shortage in H2FY26E.

Service Center Expansion with focus of higher margin: With steel supply shortage, procurement of available steel was diverted towards processing side, as to maintain the margins even if volume is compromised, prioritizing higher margins. Volume through service centers accounted to ~33% and ~50 of revenue contribution. Currently operating 5 centers, achieving ~40k tons of monthly volumes. Company plans to add 5 new centers annually, scouting land for three more and two centers have already been taken on lease, starting operations from Q2, with a focus on asset light model. Expects to generate 3.5% EBITDA margins and contribute revenue of ~INR 150-200 Mn/center.

Distribution Business (TMT & Other Downstream Steel Products): TMT business now shifted to pure royalty-based model and is breaking even. It is scaling well, Q1FY26 volumes at ~39k tons in Q1 vs 34k tons in Q4FY25. Currently has 11 franchised partners, with one new partner added in Chennai, 3-4 more to be added in coming months. Downstream segment also scaled up significantly, with Q1 revenue at INR 1,960 Mn. It consist of over 500 SKUs, with 90% being steel products and 10% of other construction materials. Margins range from 1%-3%, expects to reach INR 1 Bn in FY26-27E.

Steady Ramp-Up in Renewable Vertical with Strong Order Visibility: Recently added vertical has ramped up quickly, with a strong start and an order book of INR 2,850 Mn, executable over the next 6 months. Expects to book similar worth of orders in Q2, projecting ~INR 4,500-5,000 Mn worth of revenue, achieving full-year volume. This ground-mounted solar structure requires very minimal processing, with machines set up in the existing service centers, and can be easily extended to more centers, capturing growing solar structure demand. Company sees order visibility of 50k tons in FY26, expected to double in FY27.

Valuation & Outlook: SG Mart faced sharp ~55% QoQ drop in B2B metal trading volumes due to steel supply shortages, impacting overall performance. To tackle this, the company shifted focus towards diverting steel volumes through higher-margin processing, with service centers contributing ~50% of revenue in Q1. Management remains committed to service centers expansion, with two new centers on lease, starting in Q2. TMT and downstream segments scaled well, while the renewable vertical ramped up strongly with INR 2,850 Mn order book in hand and revenue visibility of INR 4,500-5,000 Mn in FY26E. Management remains confident on achieving ~INR 2,000 Mn in EBITDA in FY26E with blended margin targeted at 2.5-3%. We maintain a "BUY rating at a TP of INR 646 per share; valued at a PE multiple of 31x and its FY27E EPS of INR 20.7; an upside of 95%.

Exhibit: Valuation Summary

Valuation summary					
Y/E Mar, Rs mn	FY24	FY25	FY26E	FY27E	FY28E
Net Sales	26,829	58,562	77,502	1,17,826	1,78,285
EBIDTA	618	1,031	1,466	2,810	4,382
Net Profit	609	1,027	1,478	2,315	3,394
PAT Adj	609	1,027	1,478	2,315	3,394
Diluted EPS	5.4	9.2	13.2	20.7	30.3
PER, x	61.0	36.2	25.2	16.1	11.0
EV/EBIDTA, x	45.1	31.9	23.7	12.9	8.6
P/BV, x	3.43	3.09	2.99	2.52	2.05
ROE, %	5.6%	8.5%	11.8%	15.7%	18.7%
Debt/Equity (x)	0.17	0.58	0.61	0.75	0.60

Exhibit: Quarterly Performance

INR Mn (Consolidated)	Q1FY26	Q4FY25	Q-o-Q	Q1FY25	Y-o-Y
Net Revenue	11,438	15,950	-28.29%	11,336	0.90%
Raw Material Costs	10,887	15,340	-29.03%	10,919	-0.29%
Gross Profit	551	610	-9.74%	417	32.05%
Gross Margin	4.81%	3.82%	99bps	3.68%	114bps
Employee costs	67	55	22.00%	34	95.63%
Other Expenses	124	200	-37.68%	136	-8.33%
EBITDA	359	355	1.04%	247	45.40%
EBITDA margin	3.14%	2.23%	91bps	2.18%	96bps
Other Non Operating Income	204	198	3.23%	195	4.98%
Depreciation	17	12	46.61%	2	686.36%
EBIT	546	541	0.85%	439	24.28%
Finance costs	120	136	-11.62%	77	55.90%
Exceptional Items	-	-		-	
PBT	426	405	5.03%	362	17.55%
Tax Expense	102.80	89.56	14.78%	99.60	3.21%
Effective tax rate	24%	22%	9.28%	27%	-12.20%
PAT	323.10	315.93	2.27%	262.70	22.99%
PAT margin	2.8%	2.0%	84bps	2.3%	51bps

Source: Company Reports, Arianth Capital Research

SG Mart Ltd Q1FY26 Concall Highlights**Operational Updates**

- SG Mart Ltd reported revenue of INR 11,437.7 Mn in Q1FY25 (+0.9% YoY/-28.09% QoQ), missing estimates.
- Company has 2,312 registered customers and 246 suppliers in Q1FY26.
- EBITDA increased to INR 359 Mn, remained flat QoQ, with +45% YoY, with company focus on prioritizing higher margin steel processing segment as trading business was impacted by shortage of steel supply.
- Working capital normalized to 15 days vs 30 days in Q4FY25, inventory lowered due to shortage of steel supply and higher import prices impacting volumes.

B2B Business

- B2B metal trading volumes fell sharply by ~55% QoQ to ~70k tons vs 154k in Q4, due to poor steel availability in India.
- SG Mart's business was significantly impacted, as roughly 95% of its operations are steel-dependent.
- The top three steel producers also saw their sales volume decline by 11% QoQ in Q1FY26, indicating an industry wide challenge.
- Management expects a ramp-up in metal trading with the addition of 7 MT of new BF capacity by JSPL, expected to start in 3-4 months, which will resolve the steel supply shortage in H2FY26E.

Service Center Business

- SG Mart currently operates five centers located in Ghazipur, Raipur, Bangalore, Pune, Dubai that together handled ~40k tons/month and contributed nearly 50% of Q1 revenues and ~60% of EBITDA.
- Each center is expected to deliver INR 150–200 Mn EBITDA annually, with 3.5–4% margins.
- Company plans to include 5 new centers, with two service centers have been leased and will start operation from Q2, for three centers land acquisition has been done will start contribution from H2FY26E.
- Company shifted its focus from previous guidance of adding 100 small centers to only 30-35 more capacity centers over the next two years.

TMT/Downstream Business

- TMT distribution business has moved to a full royalty model and is now breakeven. Q1 volumes were 39k tons vs 34k tons in Q4. There are 11 franchise partners currently, with 3–4 more expected this year, including one new addition in Chennai.
- Downstream products wires, mesh nets, construction materials achieved INR 1,960 Mn in revenue in Q1.
- Over 500 SKUs are listed, with 90% of products are steel-based. This business operates on 1–3% margins and is scaling well. Company target is to reach INR 10,000 Mn by FY27-28E.

Solar Structure

- Company added third vertical of solar structure, with a brand name Sunsteel launched in Q4.
- They currently have INR 2,850 Mn order book to be executed over the next 5-6 months, with similar intake expected in Q2
- Management is confident of crossing INR 4,500-5,000 Mn revenue in FY26E and doubling volume to ~100k tons in FY27.

Other Highlights

- Working capital cycle improved significantly to 15 days in Q1 vs 35 days in Q4FY25, supported by lower advances and better collection. Inventory was also reduced due to lower procurement of steel impacted by steel shortage.
- Company has sufficient cash balance of INR 10,000 Mn, which will be used to fund service center expansion and working capital through internal accruals.
- Annual capex to remain at INR 1,500-2,000 Mn, will be fully funded through internal accruals.

Guidance

- Steel availability should improve in H2FY26E as ~7 MT of blast furnace capacity from JSPL will be live in next 3-4 months.
- Imports are also expected to ease the tight supply over the next few months, with currently prices are risen due to higher tariffs and safeguard duties.
- Management remains confident on achieving ~INR 2,000 Mn in FY26, further expanding goal of 4,000 Mn in FY27, with a minimum ROCE threshold of 25%.

Arihant Capital

Exhibit: Income Statement (Consol)

Income Statement					
Y/E Mar, Rs mn	FY24	FY25	FY26E	FY27E	FY28E
Net sales	26,829	58,562	77,502	1,17,826	1,78,285
Growth, %		118.3%	32.3%	52.0%	51.3%
Other income					
Raw material expenses	26,088	56,835	75,217	1,14,352	1,73,029
Employee expenses	50	175	221	257	298
Other Operating expenses	72	520	598	407	577
EBITDA (Core)	618	1,031	1,466	2,810	4,382
Growth, %		66.76%	42.17%	91.76%	55.91%
Margin, %		1.76%	1.89%	2.39%	2.46%
Depreciation	5	31	56	78	102
Interest paid	116	439	242	448	557
Other Income	316	802	802	802	802
Non-recurring Items					
Pre-tax profit	813	1,363	1,970	3,087	4,525
Tax provided	204	336	493	772	1,131
Profit after tax	609	1,027	1,478	2,315	3,394
PAT Adj.	609	1,027	1,478	2,315	3,394
Growth, %		68.54%	43.85%	56.68%	46.61%
Unadj. shares (m)					
Wtd avg shares (m)	112	112	112	112	112

Exhibit: Balance Sheet (Consol)

Balance Sheet					
As at 31st Mar, Rs mn	FY24	FY25	FY26E	FY27E	FY28E
PPE	387	1,643	5,391	7,791	10,191
CWIP	171	759	885	1,013	1,142
Rights Of Use Assets	4	513	511	511	511
Financial Assets	0.4	5.0	5.0	5.0	5.0
Other Non Current Assets	486	127	127	127	127
Total Non current Assets	1,048	3,053	6,925	9,452	11,981
Inventories	713	2,535	3,128	4,827	7,931
Receivables	863	3,167	4,884	8,070	12,211
Cash & CE	11,263	11,448	10,116	12,276	10,435
Other Current Assets	716	2,627	716	716	716
Other Financial Assets	268	155	155	155	155
Total Current Assets	13,822	19,932	18,999	26,044	31,448
Total assets	14,870	22,985	25,923	35,496	43,429
Total Equities	10,870	12,082	12,472	14,787	18,181
Non current borrowings	0	0	0	3,500	3,000
Other Non current liabilities	6.1	332.1	348.3	3,865.3	3,383.1
Total Non current liabilities	6.1	332.1	348.3	3,865.3	3,383.1
Current borrowings	1,843	7,034	7,585	7,585	7,957
Trade Payables	1,986	3,292	5,308	9,039	13,677
Other Current Liabilities	165	246	210	221	232
Total Current Liabilities	3,993	10,571	13,104	16,844	21,865
Total equity & liabilities	14,870	22,985	25,923	35,496	43,429

Cash Flow

Y/E Mar, Rs mn	FY24	FY25	FY26E	FY27E	FY28E
Net profit after tax	609	1,027	1,478	2,315	3,394
Other Income	-316	-802	-802	-802	-802
Finance Costs	116	439	242	448	557
Depreciation And Amortisation Expenses	5	31	56	78	102
Profit Before WCC	415	695	973	2,039	3,251
Inventories	-713	-1,823	-593	-1,699	-3,104
Trade receivables	-863	-2,304	-1,716	-3,187	-4,141
Trade payables	1,986	1,306	2,017	3,730	4,638
Other financial assets	-263	108	0	0	0
Other current assets	-716	-1,911	1,911	0	0
Short term Borrowings	1,819	5,072	551	0	372
Other current liabilities	107	92	10	10	11
Other financial liabilities	23	115	0	0	0
DTAs (net)	1	-2	1	0	0
Income-tax-assets (net)	0	0	0	0	0
Loans	0	0	0	0	0
CFO	1,795	1,348	3,153	894	1,027
CFI					
Property, plant and equipment	-392	-1,287	-3,804	-2,478	-2,502
Capital work-in-progress	-171	-589	-126	-128	-129
Rights of Use Assets	-4	-509	2	0	0
Loans	-5	5	0	0	0
other intangible assets	0	-5	0	0	0
Other non-current assets	-486	359	0	0	0
Other Income	316	802	802	802	802
CFI	-741	-1,224	-3,126	-1,803	-1,829
CFF					
Equity share capital	112	1	0	0	0
Other equity	10,149	184	-1,087	0	0
Others financial assets	0	-5	0	0	0
Long term Borrowings	0	0	0	3,500	-500
Lease liabilities (Non-current)	2	321	16	17	18
Lease liabilities	2	4	0	0	0
Provisions (Non-Current)	2	6	0	0	0
Provisions	0	2	0	0	0
Dividend	0	0	0	0	0
Current Tax Liabilities(net)	58	-12	-45	0	0
Finance Costs	-116	-439	-242	-448	-557
CFF	10,208	61	-1,359	3,069	-1,039
NET	11,263	186	-1,332	2,160	-1,841
Opening Cash	0	11,263	11,448	10,116	12,276
Closing Cash	11,263	11,448	10,116	12,276	10,435

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

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