

# Sarthak Metals Ltd (SMLT)

Q3 2024 Earnings Conference Call

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**Final Transcript**

# Corporate Participants

## Sagar Shah

Vice President and Part of The Promoter Group | Sarthak Metals Limited

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# Conference Call Participants

## Radhakrishnan Chonat

Director Of Business | AlphaStreet

## CA Garvit Goyal

Analyst | Statistical Edge Investor  
Private Limited

## Utkarsh Somaiya

Analyst | Individual Investor

## Keshav Garg

Analyst | Counter Cyclical Investments  
Private Limited

## Anay Mittal

Analyst | Seven Alpha Investors

# Presentation

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**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Good evening, ladies and gentlemen, and welcome to the Q3 FY 2023-2024 Earnings Call of Sarthak Metals Limited, hosted by AlphaStreet. This is Radhakrishnan Chonat from AlphaStreet, and it's a pleasure to host Sarthak Metals Limited for their quarterly earnings results conference call. From the management, we have Mr. Sagar Shah, Vice President and Part of The Promoter Group.

Ladies and gentlemen, as a reminder, today's call is being recorded. For professional investors, we are live-streaming this audio, along with the AI-generated transcript on our [alphastreet.com](https://alphastreet.com) platform. A replay audio of this call will be made available on [alphastreet.com](https://alphastreet.com)'s platform as well as on our AlphaStreet India YouTube channel. A final transcript will be made available shortly afterwards on AlphaStreet Intelligence platform.

With that said, may I now request Mr. Sagar Shah to take you through the presentation. And post that, we can start with the Q&A session. Over to you, Mr. Sagar.



**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yeah. Thank you, RC. Good evening, everyone. It is heart-warming to see a good set of participation from our investor community.

Last few months have been exciting times for us, with our new initiatives in the field of Flux Cored Wires and biotechnology. I am sure you are excited, like us, and eager to know more about the existing as well as the new projects.

Before we begin, a light on forward-looking statements and disclaimers. Certain matters discussed in our Q3 investor presentation may contain statements regarding the Company's market opportunity and business prospects, that are individually and collectively forward-looking statements. Such forward-looking statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and assumptions that are difficult to predict.

For those who have joined us for the first time, a little introduction of our core business. We have two main lines of business: Cored Wire and the Aluminium Flipping Coil segment. Cored wires are a substitute to single-shot addition of alloys into molten metal. Cored wire helps in uniform and homogeneous mixing of alloys in the ladle and have become an indispensable part of metallurgical plants today. Our major clients are leading steel manufacturers, including Tata steel, Jindal and JSW, with whom we have long-term relationships. Besides, we have got orders from foundries and fabrication units from different sectors of our Company.

Our second line of business is Aluminium Flipping Coil. They are used in steel manufacturing processes for de-oxidizing of molten steel and as an alloying element for manufacturing specialized steel.

Our Cored Wire did a business of INR28 crores in December quarter. Both price realizations and volume offtake were down due to combination of factors. Our Aluminium Flipping Coil business, in turn, posted a revenue of INR36 crores. We managed to increase the sales in aluminium in order to utilize our inventory in the most efficient manner.

Our revenues, in total, were down 19% to INR75 crores in the quarter three '24 -- financial year '24 on a year-to-year basis and 3% down on a sequential basis. Our EBITDA margins were highly affected due to low sales of high value and high margin products in the Cored Wire segment and mainly due to the painful commodity pricing cycle in the Aluminium segment. Our finance cost was INR33 lakhs for the quarter, up on a sequential and year-on-year basis. PAT was at INR1.72 crores.

Okay. Now, friends, as you could see, your Company went through a roller-coaster ride in the recent days. However, there is light at the end of the tunnel and I take your permission now to present you the vision ahead for a robust growth of your Company.

Talking about Flux Wire Cored segment, we have successfully taken trial runs and produced a total of 500 spools, giving us confidence in our technology adaption. The grant of the BIS certificate was a big leap ahead for us and getting rapid approvals from different customers from different sectors is giving us the confidence that we need. We are now targeting to get all the necessary government approvals for the railway sector, as we see a lot of traction and tailwind in that segment.

Talking about biotechnology. Friends, we are pleased to announce the launch of the new industrial biotechnology division of your Company. Being centrally located in the heart of India, we are confident of a very successful venture on this. Our objective is to create a global manufacturing

hub in the areas of industrial bio-enzymes and allied healthcare nutrition and dietary supplements. To achieve this, we have already tied-up with CSIR Laboratory for technology transfer on enzymes. We are also closely working with reputed local institutes of national importance, like LIT University and Hislop College for standardization and domestication of licensed CSIR technologies at our plant, that will further catalyze the growth process. We have already hired some key technical people and still hiring skilled manpower for the project. The proposed manufacturing facility will be a showcase in the field, focusing on both solid state and sub-merged processes on enzyme engineering. The facility will also house a natural pulse protein isolation facility, mainly utilizing locally available pulses, like chana, to produce protein isolates for the global market, thereby, creating the first step towards healthcare nutrition products and dietary supplements.

The proposed complex will also have a state-of-the-art multi-product, multi-purpose, interdisciplinary, scalable, advanced pilot processing facility to help isolation, formulation and efficacy evaluations of active ingredients and allied molecules for overall holistic healthcare applications. We had a promising stall at the recently completed Advantage Vidarbha exhibition, a brainchild of Honorable Union Minister, Mr. Nitin ji Gadkari, who himself having spent quality time at our stall, is convinced on the project.

The flagship product of our manufacturing facility will play a key role for the ambitious 2G ethanol project of Government of India. The Government of India has advanced the ethanol blending program in petrol from 2030 to 2025. India, in the coming times, will require staggering 1000 crore liters of ethanol, including 100 crore liters of 2G ethanol by the year 2025-2026. Your manufacturing facility is getting geared up to play a major role on 2G ethanol.

Talking about the overall global market size, the enzymes hold in excess of INR75,000 crores, including INR30,000 crores of proteins, INR16,000 crores of cellulase, INR10,000 crores of phytase and including many other enzymes, which are steadily growing at a CAGR of more than 6%. However, with lower penetration of Indian players in the global market, experts in the field predict a growth trajectory of around more than 10% CAGR for industrial enzymes and around 15% CAGR for overall healthcare nutrition products and dietary supplements.

Friends, the vision of your Company is clear. For the days to come, it is to focus on enzymes for 2G ethanol, breweries and distilleries, detergents, textile and leather, animal nutrition, food processing and industrial wastewater, which are few names in the vast category of enzyme application. At the same time, your Company is also going to focus on overall holistic healthcare solutions, including high protein nutrition formulations from natural resources like pulses, dietary supplements, prebiotics like oligosaccharides, probiotics and similar other allied formulations.

In this regard, accordingly, your Company plans to invest to the tune of approximately INR100 crores. That will ultimately generate sales of approximately INR350 crores with a gross margin of approximately 30%, starting with around approximately INR10 crores in the initial stage.

With -- now, I would like to open up the Q&A session.

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## Questions and Answers

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**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

Thank you, Mr. Sagar. We'll now move into our question-and-answer session. Today, we have participants joining via the webinar platform and also via our tele-calling platform. Participants who have joined us and connected with us through the Webinar video platform can post their questions directly to me on the chat box and we'll ask the question on your behalf. Alternatively, if you wish to ask a question directly, please use the Raise Hand functionality.

I'll take the first few questions from the chat-box as well as questions we have received via email and through our AlphaStreet platform, and then we'll open it up for participants to ask questions directly. Ladies and gentlemen, once again, please use the Raise Hand functionality if you would want to ask a question directly to Sarthak Metal's management or use the chat box.

I'll start with the first set of questions that we have received via email, through our platform and through the chat windows. The first question is, can you tell us about the competitive edge the Company has in the Flux Cored Wire segment?



**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

Okay. Yeah. So, I will keep it very crisp and short. The technological edge, firstly, the adaption of the technology, not everyone has it. We're amongst the pioneers in that segment. And secondly, very importantly, the location. We are so strategically located around big fabrication houses who are filled up with big order books.



**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

Thank you, Sagar. The next question is, can you give a brief of the current order book your Company has in the Flux Cored Wire segment?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

It is actually a little soon to reveal that, because we are in the process of getting rapid approvals as of now. And -- yeah, I will reveal -- we would reveal that in the coming times.

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**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Thank you, Sagar. We have one more question, is, going forward, does the Company intend to diversify in other metal sectors as well?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

No plan as of now, no. We are anyway very occupied with the two major ventures we have taken up.

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**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Thank you, Sagar. Next question is, could you provide more details on the Company's exploration of opportunities in the biotechnology field, that you just gave an update about?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Biotech field is our top focus area right now. Our aim is to gain credibility firstly in the area of alternate energy resources where enzymes play a vital role. We already have the technology in hand for a very green initiative by the Government of India, which is the 2G blending program, and our product will play a crucial role over there. Our vision is very clear. It is to build a healthcare segment within the biotechnology division.

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**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

The next question is, how optimistic is the leadership about the Company's performance in the field of biotechnology, especially considering the great potential for small players in the biotech industry?

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**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

We are definitely highly optimistic. If the people joining this call have been in our earlier calls also, they might know that we are very bullish when we finally venture into a segment. So, it's the same with biotechnology also. We have given enough time and enough research into this area and we feel there is massive growth opportunities over here, immense number of opportunities to explore and expand. So, we are on it. And moreover, the government is, like, fully focused on sustainable future ahead, and I feel the government, where it has its arms in today's date, will definitely flourish.

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**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

Thank you, Sagar. Let me take a few questions directly from audience.

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**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

Sure.

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**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

Garvit Goyal. Operator, can you please allow him to ask a question?

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**CA Garvit Goyal**

Analyst | Statistical Edge Investor Private Limited

Hello. Am I audible?

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**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Yes, Garvith. Go ahead and ask your question.

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**CA Garvit Goyal**

Analyst | Statistical Edge Investor Private Limited

Starting with management's earlier guidance. So, given the management's previous indication of the rising inventory levels and the expectations for a stronger performance in H2 as compared to H1. But the actual reported revenue in first nine months is INR236 cr, which is significantly below the guided target of INR400 cr for full year. And additionally, if you observe the OPM percentage, that is in comparison to the guidance earlier given, that is also raising a concern for us.

So, can the management provide a detailed explanation for the substantial deviation from the earlier guidance? What are the factors that contributed to this significant downturn and what are the corrective measures that we are looking for in our existing business?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

So, hi, yeah. So, very valid question. Firstly, the realizations of these products are hurting us a lot. We are ourselves facing the heat of the global tensions and that would be a major cause why the prices of our products aren't rising. Like, these are very -- these have become very volatile and very cyclical and, especially, in the area of aluminium, because of the heavily disrupted supply and demand chain, the raw material prices of aluminium have been very steady and in a rising graph, like -- while our selling price of a finished product have been falling, the prices of our raw material have been rising, which is really hurting our margins and even the top-line of our Company because of the lower realizations. And that is the absolute truth in this area.

We have been considering, or I would say, we have been taking these rates as the bottom of the,

like, chart, but somehow, the rates aren't bouncing back.



**CA Garvit Goyal**

Analyst | Statistical Edge Investor Private Limited

That I agree. But my question is particularly on the demand side. Like, you are mentioning in your presentation as well, we are gaining the market share. But at the same time, you are saying that, we are losing on the real -- pricing power and all these things. But you are also saying that, raw material prices are increasing, but we are not able to pass on the same. So, what kind of competitive edge do we talking -- are we talking about? And how we are [Technical Issues]?



**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Sorry? How we are -- your voice got cracked after that.



**CA Garvit Goyal**

Analyst | Statistical Edge Investor Private Limited

How we are saying that we are gaining on the market share despite our volumes are not seeing this -- not confirming this fact?



**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

So, if you notice, the sales parameter in the terms of cored wire, domestically speaking, has been muted. There is no change in the sale of cored wires. While when we talk about Aluminium segment, we have increased our sales by almost 20% when compared on quarter-to-quarter. The overall demand side, I would say, is still very, like, flattish. I wouldn't say there is -- it's bearish. The output is, like, okay from the steel plants, but it is not, like, heavily demanded. Our products are not heavily demanded as of now. And it's a fact that steel market is cyclical right now. It's still in its downturn.

**CA Garvit Goyal**

Analyst | Statistical Edge Investor Private Limited

But steel prices are, I think, steel prices...

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**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Garvit, I request you to limit yourself to two questions. We'll come back again. We have a few more questions.

The next is from the line of Utkarsh Somaiya. Operator, please allow him to ask a question. Hi, Utkarsh. Go ahead and please...

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**Utkarsh Somaiya**

Analyst | Individual Investor

Hi. Thank you for the opportunity. My first question is on the gross margin of the Company. I think the major reduction in your operating margins was due to your gross margin. And we haven't seen such low gross margins in the last many years. So, my first question is, do you see this as just one quarter phenomena and the same should bounce back in quarter four? Or do you expect this to sustain for a few more quarters? That's my first question.

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

So, can I go for the first question, or you would like to state the second question, as well?

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**Utkarsh Somaiya**

Analyst | Individual Investor

Yeah. Can you please answer my first question?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Okay. So, to answer that, I definitely see these gross margins as non-sustainable. These will definitely grow back to its normal levels, but sustainably, because -- and the only reason why the margins have dropped this time, mainly aluminium has hurt us a lot. And secondly, the export of cored wires fell down, because of, like, lower inventories, or our overseas customers have deferred from giving us clearances for dispatches. So, that is one area.

But mainly, aluminium. Aluminium needs -- the aluminium market needs to revive. And to get out of that commodity cycle, we are tackling, like, aluminium by keeping -- by again coming back to keeping lower inventories.

**Utkarsh Somaiya**

Analyst | Individual Investor

Okay. And how does Q4 look in terms of sales trajectory and gross margin?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Honestly, sales look flattish. And in terms of margin, I would again state the same thing. We need a bit of realization, because the product is commoditized. Aluminium in specificity has been commoditized and we need a little realization. And the global tensions and the supply demand, overall disruptions, are not allowing aluminium prices to go up. These are some abnormal levels, at which, aluminium is trading right now.

**Utkarsh Somaiya**

Analyst | Individual Investor

Okay. And on your utilizations, can you tell me your current capacity utilization in your Cored Wires -- Flux Cored Wires, the Aluminium business and the feeder machine business? And what will be the peak revenue in each of these at current prices?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

At current prices, okay. So, Cored wires, we are currently working at roughly around 60% of capacity utilization. And Aluminium also, I would say, 50% to 60% utilization. And at current levels, the peak revenue that we could do is approximately INR700 crores to INR800 crores at these price levels.

**Utkarsh Somaiya**

Analyst | Individual Investor

In both these products?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yeah.

**Utkarsh Somaiya**

Analyst | Individual Investor

And what about your Flux Cored wires? Is that separate?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Flux is a new segment right now. But I'm -- I can very confidently say that in the coming quarters, we'll be able to utilize 100% of the existing line.

**Utkarsh Somaiya**

Analyst | Individual Investor

And what revenue would that yield you on Flux Cored?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

If we utilize the line 100%, the revenue will be approximately -- one second, approximately INR4 crores.

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**Utkarsh Somaiya**

Analyst | Individual Investor

Oh, INR4 crores, at peak?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yes.

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**Utkarsh Somaiya**

Analyst | Individual Investor

So, is this just a pilot project for you and then you plan to scale it up?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Of course, our plan is to scale it up. And we are in advanced stages to consider scaling up. And you all will be the first ones to know about it. We are very optimistic about the project.

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**Utkarsh Somaiya**

Analyst | Individual Investor

Okay. And just one last question regarding your biotech business, the enzyme business. Just wanted to understand what is your right to win in this? And are there any barriers to entry?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Sorry? Could you repeat?

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**Utkarsh Somaiya**

Analyst | Individual Investor

My question is, your entry in the biotech enzyme business, are there any barriers to entry in that business? And second question regarding that is, what do you think you bring special to the table that somebody else wouldn't be able to, since it's a totally non-core segment, right, for you?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yes, it's a new segment for us. It is a leap that we took, and enzymes are a highly technical area and we are building our credibility in this area. Of course, there are entry barriers, which can act as a pro and a con. In our case, since we have already ventured into this area, it is a challenge for us right now. But we are very confident in terms of having technical collaborations with the Government of India itself and starting our journey, building our credibility in the area which is controlled by the government itself.

So 2G ethanol is an area where our flagship product will be of crucial role, and that is how we are building our credibility. And using other sectors also, we are gaining that momentum much needed.

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**Utkarsh Somaiya**

Analyst | Individual Investor

So, with respect to barrier to entry, how are you able to do this with a background coming from a metal industry? And how is it that you're able to enter into such a non-core field?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

By building up a facility, which is -- which will be a showcase to our credibility. And the main thing is, our own business experience is the most important thing, I feel. And venturing into a new area has been a challenge to us, but we are very confident. And we will have to wait and see how it goes.

**Utkarsh Somaiya**

Analyst | Individual Investor

Okay. And just one last question regarding your peak revenue you mentioned. Do you think you'll be able to come anywhere close to that in FY '25?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

It is hard to say. It is hard to predict like that. But definitely, if you have been a key observer of the steel output, you would be very well -- you would very well know that it is cyclical. And during -- if during its downturn, if we are able to post a revenue of approximately INR300 crores to INR350 crores, so during its upcycle, we will -- because rapid expansions are happening at all our customer houses and we being the pioneer in this area, we have some very solid relationships with them.

So, once the output and once the demand increases, we are very confident of maintaining, if not increasing, the market share. And if the -- in that very same market share, we'll be able to come very close to INR700 crores.

**Utkarsh Somaiya**

Analyst | Individual Investor

Okay. And sir, do you have any pricing power in your products?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

In the area of cored wires, we definitely do. Because cored wires are also technical, and -- like, we -- having the expertise, having in -- having aligned with the steel business since the past two decades, now we have the expertise to supply the actual mix of different alloys in the form of cored wires to the steel plant. So, cored wires, our quality, our service gives us that pricing edge.

But in terms of aluminium, it's commoditized. It's simple conversion.

**Utkarsh Somaiya**

Analyst | Individual Investor

Okay. Thank you and best of luck.

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Thank you.

**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Thank you, Utkarsh. The next question is from the line of Gagan Deep. Operator, please enable him to ask a question directly.

Hi, Gagan. Please unmute and go ahead and ask your question. Gagan, please unmute yourself. Gagan Deep, I hope you can hear us? Since you have raised your hand, we have allowed you to ask a question. Please unmute yourself.

All right. Operator, please move him to the queue and let's take a question from Keshav Garg next. Please allow him to ask a question. Mr. Keshav Garg, please unmute yourself and go ahead and ask a question.

**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Hello? Sir, I hope this is audible.

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**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Yes, Keshav, go ahead.

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**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Sir, so regarding this biotech foray, sir, in previous call, you had mentioned that you are interested in venturing into the chemical side of the business, and that too related to the steel industry, the chemicals that are being required by the steel industry. But sir, what I understand from your commentary that we are trying to make some kind of enzymes, which will go into initially the bio-ethanol.

Sir, so now -- that being the case, sir, so -- sir, now you mentioned that INR10 crores will be our initial investment. Sir, so by when will incur this investment? When will it get commissioned and when will the revenue start coming? And this INR100 crores total investment -- sir, can you give us some kind of roadmap that by when will we deploy this whole INR100 crores and by when can we expect INR350 crores top-line? And when will this division get commissioned and when will it break-even?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

So, hi, Keshav, sir. Hello?

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**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Hi.

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yeah. I'm audible, right?

**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Yeah.

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yeah. Hi, Keshav, sir. So, very interesting question. And in my opening remarks, I have quite delivered our vision because I wanted to be very clear. I know we are venturing into a very different segment to -- when compared to our traditional area. So I tried to deliver a clear roadmap ahead of us in that area. So, yes, the INR10 crores that you asked, that we plan to infuse should be -- should happen in the next financial year as a whole.

Revenues, if you ask me, revenues should start coming in, in the second half of the next financial year. The INR100 crores total infusement is our estimate that we would like to put in, in the segment because of the potential and because of the promises this industry holds. And we, as a company, we are conservative. We like to move in a sustainable manner. We like to grow in a sustainable manner.

If you have also seen in the past, even when I talk about the Flux Cored Wire segment, we started with one line and we now are in that stage when we are confident to expand that. So, same way, we will do it in the biotechnology area. But the promises and the potential that this industry holds is vast. So, INR100 crores is just the first step of the ladder.

**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Sir, and what about the break-even? Sir, can the shareholders expect a quick break-even or are some initial losses expected?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

I really don't think any losses are expected. We are pure businessmen, and the fact that we ventured into this line is to create a technological edge for our Company. We have always been regarded as a metal company and this sector actually gives us -- actually leaves the metal sector at the backseat. The metal sector has been our driver of growth since the past two decades, and now it is time to push back and something new to take over. And that new had to be something technologically strong. So, this area holds that technological edge, and I truly don't believe that we will incur any losses here.

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**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Sure, sir. Sir, that answer is very much appreciated. And sir, just one thing, sir, our -- the core business of Cored Wire, sir, if we see that -- sir, the steel prices may be down, but the steel production itself in India is still growing in mid-single-digits, something like 6%.

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Correct.

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**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Sir, so, that being the case, sir, so why are our volumes falling continuously?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Because the specialized steel output is really low. India has been the pioneer in exporting the specialized steel, and the specialized steel production requires most of our products. And since India has been facing some heat from the global tensions and the total steel export has been so low, these products are also being used in a lower form.

And second answer to that, Keshav, sir, you have been a part of our previous calls also. I would again stick to the same part. We do not like to hurt our margins like we did this time. And we avoid getting into price battles, and we keep out of it, because currently, the demand is low and supply is, like, higher.

**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Sure, sir. And sir, just one last thing. Sir, like, we are mentioning that -- sir, so, I think sir, last year in third quarter, sir, we did some high margin sales.

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yes.

**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Sir, so which I'm assuming is not there in the current quarter. Sir, so...

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

No.

**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Sir, so is that demand getting deferred or was that just a one-time thing? Sir, because I'm thinking that, I mean, since our consumers are going into some kind of production, sir, so, is that kind of steel, has it permanently stopped being manufactured in India?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

So, India hasn't been a great consumer of good quality steel. It's a hard pill to swallow, but we have learned to -- learned this the hard way. India has been a consumer of low quality steel. And when the term low quality comes into the picture, our products consumption at the steel plants gets lower. The previous year and the year previous to that were the years when India was heavily exporting its steel.

And whenever export terms comes under picture, the steel that is being exported is high quality steel. And whenever high quality steel is being made, our products of good quality are being used. So, that's the whole picture. So...

**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Sure, sir. Sir, basically, the long and short of it is that, once steel exports increase from India big time, then we can see some kind of...

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Export of steels will definitely benefit us, has benefited us in the past and will benefit us in the future also.

**Keshav Garg**

Analyst | Counter Cyclical Investments Private Limited

Sure, sir. Thank you very much and best of luck.

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Thank you.

---

**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Thank you, Mr. Keshav, for your questions. The next question is from the line of Anay Mittal. Operator, can you allow Anay Mittal to ask a question?

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**Anay Mittal**

Analyst | Seven Alpha Investors

Hello? Am I audible?

---

**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Yes, Anay. Yes, go ahead, Anay.

---

**Anay Mittal**

Analyst | Seven Alpha Investors

Hi. Thanks for the opportunity. Can you let me know what is your guidance for this year and FY '25?

---



**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

FY '25 will have a steady growth of 10% when compared year-on-year from financial year '24.

---

**Anay Mittal**

Analyst | Seven Alpha Investors

And for FY '24?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

We are expecting that. And steel cycle has been very, like, uncertain and volatile, I would say. And the amount of expansions that are happening around us in our different -- at our different customers' plants. The expansions are very promising. So, once they all kick-off, once they all start off, I can't really suggest that what would be the growth.

---

**Anay Mittal**

Analyst | Seven Alpha Investors

No, FY '24? Because whatever the 10% you are saying, it would be applicable on what you end up in FY '24, isn't it?

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Correct.

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**Anay Mittal**

Analyst | Seven Alpha Investors

So, can you let me know what is FY '24 then?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

FY '24 should close around INR330 crores.

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**Anay Mittal**

Analyst | Seven Alpha Investors

INR330 cr?

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yes.

---

**Anay Mittal**

Analyst | Seven Alpha Investors

Okay. And what about -- means, FY '25, you've said 10%. But will you have any revenue from your new ventures which is on that bio...

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Definitely. Like, keeping that aside, only the traditional business of ours should grow at a steady growth of 10%. Like, we will definitely try to stretch it even more. But that's the steady growth that we've always showcased.

---

**Anay Mittal**

Analyst | Seven Alpha Investors

Got it. And if you have to put some number to your new business, is it 20, 30, 40? What is that number?

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Flux Cored Wire, and...

**Anay Mittal**

Analyst | Seven Alpha Investors

No, bio?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Bio, biotech, it is too soon, sir. I cannot put a number for it.

**Anay Mittal**

Analyst | Seven Alpha Investors

Okay. Then, when you say that you are not considering the new business, it's Flux Cored Wire, that's what you are saying, that you are not considering it with the 10%.

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yes.

**Anay Mittal**

Analyst | Seven Alpha Investors

What would be the number from -- then from Flux Cored?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Flux Cored Wire, we should definitely make up to approximately INR10 cr in the next financial year.

---

**Anay Mittal**

Analyst | Seven Alpha Investors

Up to INR10 cr. Okay. That will be over and above the 10% growth on INR300 crores?

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yes.

---

**Anay Mittal**

Analyst | Seven Alpha Investors

Right, which is INR330 crores. Okay. Got it. Which means you're -- overall you might end up somewhere at INR390 crores -- INR380 cores, INR390 crores, FY '25?

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Correct.

---

**Anay Mittal**

Analyst | Seven Alpha Investors

And with higher margins, I would believe?

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

We are working on gaining higher margins, which is why we have ventured into these new areas. So, one is Flux Cored Wire, also promising us higher gross margins. And biotechnology division, definitely much higher gross margins.

**Anay Mittal**

Analyst | Seven Alpha Investors

Okay. That's it from my side. Thanks.

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

We have -- I would just like to add on it. We have already tasted the top-line per se. And being the second generation, I was very curious on having that technological power, which we missed in our traditional work. And I would -- we were really looking for something which would boost our work towards our bottom-line. So, these sectors, these new areas will definitely do that for us.

**Anay Mittal**

Analyst | Seven Alpha Investors

Okay. And the capex that you are looking at is INR10 cr, isn't it?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yeah, initially.

**Anay Mittal**

Analyst | Seven Alpha Investors

Initially, INR10 crores. And that INR10 cr would be incurred next year itself, FY '25 itself?

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yes. That's what we're presuming. Yes.

---

**Anay Mittal**

Analyst | Seven Alpha Investors

Okay. Thanks a lot.

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Yes.

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**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Thank you, Mr. Anay Mittal. Let's try Gagan Deep once again. Operator, can you allow him? Gagan, I hope you can hear us. Please unmute and ask. It looks like he's unable to unmute.

Operator, you can move him away from the queue. The next question is from Utkarsh Somaiya. Yeah, Utkarsh, unmute yourself and ask the follow-up question. I request you to limit it to two. Thank you.

---



**Utkarsh Somaiya**  
Analyst | Individual Investor

Yeah. Thank you, again. Your inventory on your balance sheet has been going up since the March quarter, from INR14 crores in March, now to around INR32 crores right now. So, are these finished goods lying with you, or have you -- is that high cost inventory -- high cost raw material inventory? Like, can you just give us...



**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

It is just the raw material. As I had mentioned in the previous quarter also, we had taken a little bet and we had taken a little move on building some positions in the Aluminium side specifically, as we did see an upside potential in the prices of aluminium which didn't happen. So, yes, it is majorly, the inventory should be of Aluminium and also the Cored Wires, yes.



**Utkarsh Somaiya**  
Analyst | Individual Investor

And what is the average cost of Aluminium in this INR30-odd crores inventory?



**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

INR30-odd crores inventory, the Aluminium cost should be 50%, roughly, I'm saying. I can check the exact number and let you know.



**Utkarsh Somaiya**  
Analyst | Individual Investor

No, and the rest 50% would be?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Cored Wire.

---

**Utkarsh Somaiya**

Analyst | Individual Investor

No, when I'm -- okay. And when I'm -- what I mean by average cost is, the average price per ton. What -- at what price have you booked these in your...

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Aluminium average price of the -- we are, of course, in the sustainable manner we are using aluminium. So, we are consuming a lot of scrap. So, these scrap is approximately -- costs us approximately INR150 to INR160 per kg.

---

**Utkarsh Somaiya**

Analyst | Individual Investor

And as opposed to that, what is the current price of it in the market?

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Current price keeps fluctuating. That's what's been hurting us the most. Because if our finished product is going at par with the LME, if you're aware of the factor of LME, LME controls the prices of aluminium.

---





**Utkarsh Somaiya**  
Analyst | Individual Investor

Correct.

---



**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

So -- yeah. So, our finished product goes at par with the LME. But these scrap that we purchase hasn't moved at all. Like, even if the LME goes down by \$100-odd, the prices of scrap and our raw material does not move more than \$50. And that's what's been hurting us.

---



**Utkarsh Somaiya**  
Analyst | Individual Investor

So, this inventory will be used in your quarter four production, and will that...

---



**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

We have a little in the quarter four. We keep it moving forward and trying to keep it as low as possible.

---



**Utkarsh Somaiya**  
Analyst | Individual Investor

So, this 12% gross margin will continue on quarter four, I believe, right? And maybe in quarter one as well?

---



**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

Sorry, the lower gross margin, you're saying?

---



**Utkarsh Somaiya**  
Analyst | Individual Investor

Yeah, will continue for two more quarters, right, given that you have high cost inventory and the finished good has not really...

---



**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

It should definitely improve, because we have cut down on aluminium inventory most of it in this quarter only. As I said earlier, that 50% holds aluminium, I really need to check it. But we did -- like, physically saying, because I go around the factory and see it.

So, physically saying, we have cut down on aluminium scrap a lot. And we are trying to maintain a low inventory. But it -- and it should improve. And the moment aluminium prices pick up, which I don't know, which should happen at any moment, it would benefit us a lot.

---



**Utkarsh Somaiya**  
Analyst | Individual Investor

Okay. But there's nothing you can guide about -- your...

---



**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

I can't say it, like, being, like, certain about it. I can't be certain about it.

---



**Utkarsh Somaiya**  
Analyst | Individual Investor

Okay. Thank you so much. Thank you.

---



**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

Thank you. Utkarsh. The next question we have from Ankita Garg. Ankita, you have been allowed to ask a question directly. Please unmute and ask a question. Ankita, we can't hear you. Please unmute. Okay, looks like some technical issue. She has sent the questions via chat. So, I might go -- as well go ahead and ask.

Ankita's question is, have you identified the clients and output of the enzymes? Where would you pitch this product and what could be the initial order book for the same? How does it look like?



**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

So, initial order book, again, I would say, it is too soon to mention any numbers on that. But our initial clientele includes a lot of the detergent players, because detergent is one sector which is slightly, I would say, easy to penetrate and there is a lot of growing awareness of the usage of enzymes. So, detergent is definitely one of our most, like, focus areas.

Secondly, we are surrounded by some very big distilleries and we have some good relationships with the -- with distilleries, and we might see some orders flowing in from there also. So -- and the third part, I would say, is the, like, promising future this product holds, like, 2G ethanol. The moment 2G ethanol from the government, it starts gaining traction, because it is under rapid R&D right now. And the moment it starts gaining that traction, which is inevitably going to come, we are going to face a lot of, like, steam and we are going to face a lot of traction in the demand for our products.



**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

Thank you, Sagar. The next question is, what is the current capacity utilization of both the segments of your Company?

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

50% to 60%, poised, very well-positioned, very well, for the future demand.

---

**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Thank you, Sagar. The next question is, going forward, how do you intend to keep up with the growth that the Company has maintained till now?

---

**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

Sorry?

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**Radhakrishnan Chonat**

Director Of Business | AlphaStreet

Going forward, how do you intend to keep up with the growth that the Company has maintained till now? This is a question we have received via email.

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**Sagar Shah**

Vice President and Part of The Promoter Group | Sarthak Metals Limited

As a -- okay. As a company, I would say, we have been -- since the time, we have been incepted, we have been growing at a very steady pace. And we are very happy with the way we have come forward. And in the future, to come out of that steady pace, we have chosen these different lines to venture into. And, like, it takes one idea for exponential growth. And we totally believe that biotechnology area and even the Flux Cored wire segment can give us that opportunity, which will result, like -- which will in a very good growth -- robust growth in the years to come. We are very optimistic.

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**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

Thank you, Sagar. We have a question from Akhilesh Kumar. How is the new segment related to welding material doing, which we started trial production already?

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**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

So, Flux Cored Wire is the latest technology in the welding area and it is gaining a lot of momentum. It is an import substitution and it is being used in heavy fabrication areas. So, some key players or key consumers of this product would be related to the railway sector and then the ship-building sector, warehousing building sector. These are some areas which are highly interesting to us. So, this product seems very promising to us and we are very optimistic, again, with it.

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**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

Thank you, Sagar. There are no more open questions that I can see. So, ladies and gentlemen, I'm going to give a few seconds to see if there are any more questions on the line.

All right. Ladies and gentlemen, that's all the time we have allocated for today. Please do send in your questions by email to us and we'll follow up to get those answered by the Sarthak Metals management.

Thank you all for joining us for the Sarthak Metals Limited Q3 FY 2023-2024 earnings call. And as a reminder, today's call was recorded. A replay of this call will be made available on AlphaStreet India's platform, as well as our YouTube channel.

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**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

Perfect. This was a very...

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**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

The final transcript...

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**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

This was a great session. Sorry, RC, I'm interrupting, but this was a great session. I hope you all look at the Company with its past performance and the way forward for us looks very promising. Believe in us. Trust in us. We have the experience of 20 years in the business.

And coming into the biotechnology area, I'm leading the sector myself. And I totally believe that, at the end of the day, it is the business etiquettes and the business culture that it takes to flourish, not the segment that you venture into. Biotechnology has been a wild take for us, but that's what it takes for a company to grow exponentially. A steady growth would have offered from our traditional work, but we choose to go the highway. Thank you a lot. Thank you, all.

---



**Radhakrishnan Chonat**  
Director Of Business | AlphaStreet

Thank you for the closing remarks, Sagar. Appreciate it. Ladies and gentlemen, thank you for joining us. A final transcript will be made available shortly on AlphaStreet's Intelligence platform. Thank you, everyone. Once again, thank you for joining us. And Sagar, thank you for conducting the call. Over to the operator?

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**Sagar Shah**  
Vice President and Part of The Promoter Group | Sarthak Metals Limited

Thank you. Team AlphaStreet, thank you.

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