



**Date: August 19, 2024**

To  
Department of Corporate Services/Listing  
BSE Limited  
Department of Corporate Services  
Phiroze Jeejeebhoy Towers,  
Dalal Street, Mumbai – 400 001

**Scrip Code: 512329**

Dear Sir/ Madam,

**Subject: Transcript of the Conference Call held on August 13, 2024**

With reference to our letter dated 1st August 2024 intimating you about the conference call with Analysts and Investors held on August 13, 2024, please find attached the transcript of the aforesaid conference call.

This above information is available on the website of the Company.

We request you to kindly take the above information on your records.

Thanking you  
Yours faithfully,  
**For SG Mart Limited**  
**(Formerly known as Kintech Renewables Limited)**

**Sachin Kumar**  
**Company Secretary**  
**ICSI M. No. A61525**

Encl: a/a

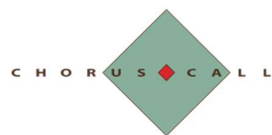
## **SG MART LIMITED**

(formerly known as Kintech Renewables Limited)

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“SG Mart Limited  
1QFY25 Earnings Conference Call”  
August 13, 2024



**MANAGEMENT:** **MR. SHIV BANSAL – JOINT MANAGING DIRECTOR –  
SG MART LIMITED**  
**MR. SURAJ KUMAR – CHIEF FINANCIAL OFFICER – SG  
MART LIMITED**  
**MR. ANUBHAV GUPTA – GROUP CHIEF STRATEGY  
OFFICER—SG MART LIMITED**

**MODERATOR:** **MR. KUMAR SAUMYA – AMBIT CAPITAL**

**Moderator:** Ladies and gentlemen, good day, and welcome to the SG Mart 1QFY25 Earnings Conference Call hosted by Ambit Capital. As a reminder, all the participants' lines will be in listen-only mode, and you will have an opportunity to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing a star and then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kumar Saumya from Ambit Capital. Thank you and over to you, Mr. Kumar.

**Kumar Saumya:** Thank you, Riya. Good afternoon, everyone. Welcome to the first quarter FY25 post-results conference call of SG Mart. From the management, we have with us Mr. Shiv Bansal, Joint Managing Director, Mr. Suraj Kumar, Chief Financial Officer, and Mr. Anubhav Gupta, Group Chief Strategy Officer. I'll now hand over the call to the management for opening remarks, post which we will open the floor for Q&A. Over to you, sir.

**Anubhav Gupta:** Thanks, Ambit Capital, for hosting SG Mart for our first-ever investor call. I welcome all the participants, investors, and analysts who took the time and joined us to hear us; thank you so much. So, the format of this call will be, since this is our first investor call, I would like to explain the business model, the vision behind this venture from our group, and what are the plans which we are going to execute over the next two to three years, and what's the vision till 2030. And since it's the fourth quarter of our business operations, how the business started and where it is headed. And then I'll be happy to take questions regarding the business model, the vision, or the quarterly results which we declared last week.

So, coming to the venture, SG Mart, this is the latest baby from the group of APL Apollo, which we started in June last year with the vision of establishing India's largest trading company. As you all know that, we have been running two manufacturing companies for many years now. One is APL Apollo Steel Tubes, and the second is Apollo Pipes, which is in the plumbing segment.

As manufacturers, we always used to face a lot of gaps which India, as a nation, has by inheritance. And we used to think that how we can fill these gaps and streamline the manufacturing in a better way. So, we thought let's start a trading company, because what happens is that as manufacturers, we always struggle to push our material with the large distributors.

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

So, we thought at a time when India is taking a leap forward to become the world's manufacturing hub, China plus one policy actually being played out in the minds of global consumers, we thought it's the right time that we should support the manufacturing sector by

becoming one of the largest traders in the country. And it will help the group as well as we solve the problem for the whole industry as well.

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

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

So, we carved out three business models to start with for SG Mart related to the steel sector. Plus, we are doing small non-steel products as well, which I will talk about later, but that is pretty small as of now. The major focus is on establishing or building the steel business. Now, within this business model, as I said, there are three revenue streams that we created.

One is B2B. B2B has two segments which is number one, trading of long steel and flat steel products, buying directly from the steel producers and then distributing in the market. Second business model in B2B is creating a vast network of service centers where you process upstream steel and then sell in semi-finished shape to various user industries of steel. Then in B2C we have identified some products like rebars and light structures which are sold as a branded segment.

And we can leverage our group distribution network. So, if you look at all the three revenue streams, we are trying to address the gaps which are existing in the industry. Plus, we have a right to win from day one on which we are building the business model.

So, coming to revenue stream one in B2B which is pure metal trading. Here we are looking at products within steel like short coils, billets and we have also started doing zinc. I mean you will be surprised to know that we have become India's largest zinc trader as we speak today. The industry gap what we identified here was that these milk producers are dependent on very, very small size distributors and dealers who lift material directly from steel mills and then distribute it to their customers who are like user industries down the line.

The largest distributor which we could identify in the industry was doing a volume of 25,000 ton a month. Now, that's like ridiculously low if you look at India sitting at 120 million tons of steel capacity today, and we are talking about a 300-million-ton capacity by 2030. So, there is

no way that this incremental capacity can be consumed or can be absorbed by these small SME traders.

So, we thought that there is a massive gap here. If we emerge as the largest steel trader, these steel producers will be attracted to do business with us. And then we will distribute the product in the downstream sector. So today we are doing business with JSW Steel, NMDC Steel, Jindal Steel and Power, Steel Authority as well, and some imports which we are doing in SG Mart.

So, we have good raw material supply with us. We have money power and we have good distribution below us. And we have already started doing 50,000-ton, 60,000 ton of monthly volume, which we started like 6-7 months ago, this industry. And here the margins are between 1.5-2% based on what kind of [inaudible 10:08] we source. And the working capital which is required here is around zero to 10 days because most of this steel we buy and we have back-to-back contracts with the customers.

So, the inventory is like zero to 10 days. And we lift on credit from steel suppliers and we sell on cash as well to our clients because steel as a commodity is mainly cash-and-carry basis. So, the net working capital here will be zero to 10 days here. Average you can take five days with a margin of 1.5-2%. So doing like 15, 20 times churn, 25 times churn in a year can give us 30, 40% ROC on this business.

Second business in B2B is service centers. Now here if you look at the industry like auto sector, consumer durables, construction industry, they don't buy raw steel like in coil form or long steel form. They need processed steel, which acts as an input to their factories and then they make washing machines, refrigerators. It is used in automobile bodies, in construction, in bridges, etc.

So, there are small service centers, very unorganized service centers, which are established in the country and they are run like mom-and-pop stores. There is no Pan-India national level organized chain of service centers which can ensure the quality steel availability to the user industry.

So, this is a gap we thought we should work upon. And anyways, the steel, the input for these service centers will be the raw steel, which I'm buying anyways, for my trading business. So, I can divert some of the steel to my service centers and I can process it and earn extra profit on that.

So here the business model is that in metro cities as we are talking, two of our service centers are operational, doing business of 10,000-12,000 ton a month. Two new service centers in India will be starting in next two to three months. The construction work is underway and we will be starting those service centers in the next two to three months.

And fifth service center we are starting in Dubai because there also a lot of user industries need processed steel. So, with a network of five service centers, we should be doing like 30,000-

40,000 ton of processed steel every month which gives us 4% to 5% EBITDA margin. And here of course the inventory days will be slightly higher from 15 to 25 days but then you cover it up by making extra margin.

And then we have identified 15 new locations, which we will start operations over the next 12 months. So, the vision here is that by 2030 we should be having 101 service centers, maybe 102 outside India and 99 in India. Because in smaller towns, in cities like Raipur, in Patna, in Ludhiana, Jalandhar, Jammu, Kochi, these industrial clusters they don't have service stations. So, they buy material from metro cities and they pay a rate of INR1,200 a ton. So, we thought we should penetrate deeper into the market and get service stations established.

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

Then coming to B2C here we want to leverage the distribution network in the downstream sector which the group created for these steel tubes over the last 30 years. Now if you look at our group dealers who are doing business in steel pipes, steel pipes are 28% of their total business. Rest 80% they do rebars, angle channels, welding rod, mesh, wires. This is massive consumption but almost like INR3-4 trillion for non-tube products which these distributors buy from small manufacturers.

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

So, we thought that we have a visibility of demand for INR3-4 lakh crores in multiple products. We aggregate the demand from our distributors and against that we do tie-ups with efficient, good quality manufacturers and we bridge the gap between the SME manufacturer and an SME trader. This we started right from July-August when we started the company and we have already started doing like 30,000 tons a month of monthly volume, mainly steel construction products.

We don't do any steel pipes here, right, because steel pipe is a set distribution business for APL Apollo Tubes. Anything outside steel tube which the distributor is dealing with, we are catering to this segment and APL Apollo brand is with the family. So, family has given rights to SG Mart to use APL Apollo brand for non-steel pipe products at free of charge.

So, there is a good ramp up which is happening in this distribution business. So here also the idea is that we are connecting manufacturer with the trader. So, entry days will not be more than

like 15-20 days on a blended basis for this business and margins here because we have private labels, so they will vary from 2% to 4%, blended 2.5%, 3%.

And the network of service centers which we are creating, so that can act as a warehouse for either metal trading which we require or for B2C distribution products. So, we are not going to spend extra money on creating more warehouses. My service centers will act like warehouses plus the processing unit. So, my capex is limited, which is like say INR25 crores per service center.

If I do 100 in next seven years, so INR2,500 crores will be the total gross block which we will be spending. And idea is to do 10 million ton of combined volume in these three segments which could amount more than INR50,000 crores of top line. And with 20 days of average working capital, we should be requiring around INR2,500 crores of working capital. So, the total capital employment that this company may require will be 5,000 crores to do 50,000 crores of top line and with 2.5% of EBITDA margin, which is broad based. So, 1,500 crores EBITDA we should be getting on 50,000 crores top line and on a total capital employment of INR5,000 crores. So, 1,200-1,300 crores network we already have cash on the books, right?

And then over seven, eight years, the business has been profitable for us from day one. So, there will be accumulated profits and there could be like some working capital limits we may require. So, the company is well funded to reach the scale of 50,000 crores of revenue with 1,500 crores EBITDA on a capital employment base of INR4,500 to INR5,000 crores.

We don't need any more money equity to do this. And once we establish this business for steel, we create a proof of concept for the steel sector, then we are confident that the other industries will also come to support, to take support from SG Mart. By that time, we will be able to move to other sectors.

As we speak, we have already started seeding some of the non-steel products like we have done tie-ups with industry leaders in tile segment, in electrical fitting segment, in bath fitting segment, in branded rebars to support the construction sector. We are reaching directly to the contractors and real estate developers and we are doing the B2B business. That segment is small, but it is ramping up pretty quickly.

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

What I have to offer is the power to buy in bulk, right, multiple products, offer the same product at much lower cost than what that trader would be getting from the manufacturer. And we are only looking for 2.5%, 3% EBITDA spread, which is not very high for my services.

And this also I will be generating by two sources, one is improving the efficiency in the manufacturing process, right? Because if I am doing a business with a manufacturer who is doing, say, 50% utilization rate as of now, and I take his utilization rate to 70-80%, so his cost

of production will come down and he will pass on that benefit to me, which I will keep 50% myself and 50% I will share with my customer. Plus, I will use APL Apollo brand, right, to get the premium from the market, from the customer, that will add to my EBITDA.

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

Lastly, we can discuss how the business ramped up, right, since we started this in Q1 of FY24. I mean, Q4 we did around INR1,300 crores of revenue. Q1 was slightly lower because of elections and some raw material shortage because of maintenance, plant shutdowns, what steel producers were having but Q2, you will see a big jump in the revenue.

EBITDA has been around 2.5%, even at a very low scale today. In Q1, there was like one non-recurring brand expense of INR5-6 crores. That's why my EBITDA was lower than Q4. But if I exclude that, I was at par with my Q4 EBITDA. And since the money which we raised last year to start the business, out of that, the utilization is very low today because the business, we are doing like INR7,000 to INR8,000 crores of revenue.

We have enough money to take this revenue to INR20,000 crores in next two to three years. So, a lot of funds are lying in the fixed deposit, which gives us the interest income. So, that's why my PAT may appear higher than the EBITDA. But as we start investing into service centers, as my volume ramps up from INR7,000-INR8,000 crores to INR12,000-INR13,000 crores this year and next year, and then eventually INR17,000-INR18,000 crores in FY27, and then INR50,000 crores by FY30. So, this money will be utilized plus all the profits which I will be generating. So, yes, this is what we had to explain about SG Mart, and we'll be happy to take questions. Thank you so much.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and 1 on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we'll wait for a moment while the question queue assembles. The first question is from the line of Vivek Patel from Ficom Family Office. Please go ahead.

**Vivek Patel:**

A very good afternoon, everyone. Thanks a lot for this opportunity. Just had three small questions on that. First is, would there be any broad guidance that you'll be sharing at this time for FY25? And what would be your key assumptions to this guidance and the key risks of not meeting them?



- Management:** So, if you look at FY25, we are looking at around INR7000 to INR8,000 crores of revenue, right, which will translate into like 1.3 million ton of steel business put together. And margin should be around 2.5%. This INR7,000 to INR8,000 crores will ramp up to INR13,000-INR14,000 crores next year and eventually INR18,000 to 20,000 crores in FY27. This is what we have also put it in our investor presentation as well, this ramp up.
- Vivek Patel:** Great.
- Management:** Just to address the second part of the question, the risk to this guidance, I think now that we are in the fifth month of the year already, we don't see any challenge as of now to achieve this number.
- Vivek Patel:** Great. That helps a lot. Next question is, as of now, what percentage of your revenues are coming from these different business models that you explained around B2B and B2C service centers and so on?
- Management:** Right. So, if I have to break up my INR1,200 crores revenue, which I did in Q1, 1,150 crores, right, I would say that out of this, INR500, INR600 crores will be metal trading, INR400 crores will be service center business and the rest 200 crores worth will be the distribution business.
- Vivek Patel:** Great. Thanks a lot. That helps. Lastly, just a small question. You had mentioned in your presentation that you have spent a small sum of about INR6 crores in marketing. If you were to ignore this expense, the other expenses still rise by about 45% on a QOQ basis. What would be the reason for that?
- Management:** See those other expenses will pertain to the new service centers which we are putting up. So, two started in Q1, there the fixed costs come into play. And then we are also spending money to open three new centers. So, we added a lot of opex, which is there. So, this will now be recurring.
- Vivek Patel:** Great. Thanks a lot. That helps. Thank you.
- Moderator:** Thank you. The next question will be from the line of Pavan Kumar from RatnaTraya Capital. Please go ahead.
- Pavan Kumar:** Sir, can you just give us a break-up of, what would be the HR coil kind of sales in the break-up
- Management:** So, like I said, metal trading was around INR500 crores. Out of that, majority will be HR coil. Zinc, we started to ramp up in last two months only.
- Pavan Kumar:** Okay. And how much could tubes be, sir? Tubes and rebars, if you can just give us a broad break-up.
- Management:** So, that is around 200 crores.
- Pavan Kumar:** Which are tubes, right?

- Management:** Okay. No, not tubes. B2C, which is rebars, angle channels, light structural, and welding rod, etc. Okay. We don't sell tubes here.
- Pavan Kumar:** Okay. And of these three particular businesses, one is metal trading, one is service centers and distribution, which do you expect to grow the fastest going forward?
- Management:** So, I guess distribution business will ramp up pretty quickly. Because once we have these five service centers ready, today we are with two, three will be ready in the next two, three months. And then next leg of service centers will start contributing, say, from Q2 of FY26. And even metal trading. So, every day we are getting calls from steel producers, from foreign steel suppliers, they want to sell their products to us. So, I guess all three businesses will ramp up at the same pace because what we see is a huge opportunity in all the three segments and every segment has its own gaps, what we are filling right now.
- And in every segment, we have our own right to win. So, if you look at the split also of INR18,000 crores revenue guidance, which we have given for FY27, it's also like we have divided it equally, like INR60-INR60 billion. So, all three businesses are exciting, and they will ramp up on their own.
- Pavan Kumar:** And can you give us broad numbers on what was the volume on recent Q4, and also the volumes for this particular quarter in terms of steel?
- Management:** So, last quarter must be like around 200-225,000 tons. And this quarter should be over 300,000 tons.
- Pavan Kumar:** And can you just also let us know what was the total volumes for FY24 for the full year?
- Management:** FY24 was around 500,000 tons.
- Pavan Kumar:** Okay. Okay. Thank you, sir. I'll get back to you.
- Moderator:** Thank you very much. The next question is from the line of Vikas Mistry from Moon Shot Ventures. Please go ahead.
- Vikas Mistry:** Hi, Anbu. Thanks for the opportunity. I have one question that we are procuring almost 2-3 million tons of steel from parent company and another maybe 4-5 from Aeron. What will be the price differential you are getting from suppliers, steel suppliers, as against other competition like O-Business? Because O-Business also does almost a billion dollar of revenue from steel itself.
- Management:** So, this is a bit of sensitive information. We would like to stay quiet on this. But, I mean, you can imagine that this is not only in steel, but any product, any commodity. You buy more, you get more discounts. So, same works here as well.
- Vikas Mistry:** But, from our understanding, it is that after you achieve one significant level of scale, then the discounts start diminishing and they become tapering out.

- Management:** No, if I were the manufacturer, I am anyways for my other group companies, we will not do that.
- Vikas Mistry:** Okay. My second question is on tech side. So, other competitions like O-Business, they are doing so many segments, construction, polymers and all that. It is very heartening to listen to your reason also, you also want to go into construction and other polymer and other chemicals and agri commodities. So, in order to do that, from today to 2030, the B2B supply chain will be highly [inaudible 35:36] and it is rising at a much faster rate. Are you doing a mistake of not slowly venturing into other sectors also? Because till then, a large portion of it will already get digitalized. So, what is your take on that?
- Management:** See, as a group, we always like to work on our core strengths first. Our strength or right to win was in steel sector. That is why we started with steel sector. Unless we see this company making INR500 crores EBITDA. We don't want to invest into sectors where we don't have much expertise. Okay.
- So, after FY27, we will speed up the process of entering into other industries, other sectors. But till FY27, we have a laser-sharp focus that all the energy, all the resources must be put to build the steel franchise first and then, we will move to other sectors.
- Vikas Mistry:** That is hurting to see and continue to maintain the focus. And we want to see SG Mart to be the best tech player from B2B supply chain perspective. Thanks, that is all from my side.
- Moderator:** Thank you very much. The next question is from the line of Aastha from Pkeday Advisors. Please go ahead.
- Aastha:** Hello. Thanks for the opportunity. Sir, I would like to understand who would be our competitors in the unlisted as well as the listed market, the biggest one?
- Management:** If you see, there is no national level player, who has a network of service centers. They are all, like I said, mom-and-pop stores. Steel traders, the distributors who are attached with the steel producers, there are also SMEs, multiple end number of unorganized players. And any unique company which has access to downstream traders in the steel sector who are doing these steel pipes, rebars, angles and channels, that also no one has except our group. So, in that way, I mean, difficult to name anyone who could be our nearest competitor. I would say our nearest competitor is unorganized sector.
- Aastha:** Okay, got it. So apart from that, we are supplying to distributors. So, by any chance, can we get a name of a distributor or the client base, basically, one of the biggest clients?
- Management:** Yes, in our presentation, we have given the contact details of our investor relation team, Mr. Naman Rastogi. You can get in touch with him and he can connect you with the distributors who are doing these products.
- Aastha:** Okay. My last question would be, so we have bought SG Mart rather than starting a new one. So, what was our thought process? Why did we buy a company rather than starting a new one?

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

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

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

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

**Aastha:** Right, sir. Okay. Got it. Thank you so much.

**Moderator:** Thank you. The next question will be from the line of Alisha Mahawla from Envision Capital. Please go ahead.

**Alisha Mahawla:** Hi, good afternoon. Thank you for the opportunity. So, the first question was like somebody was trying to understand earlier, while we understand the benefits for the manufacturers, because this is an incremental avenue for them to sell, what would be the benefit for customers? And are we directly supplying to OEMs? Because you were mentioning service centers. You act as a hook between the auto OEMs, the consumer durables, semi-finished goods. Or will there still be a distributor layer sitting in the middle? So, if you can help us understand that, is this just creating another layer in the middle? And who would be our customers?

**Management:** So, each segment has its own set of customers. Now talking about the layer, let's talk about the metal trading first. So, the model here is that we buy raw material from steel producers or say zinc producers, in bulk. As big as like 10 times more than what they are selling to a single distributor today and at a time when they are in pressure to push their own sales because new capacities are coming every quarter.

So, they like to work with large distributors. So, SG Mart comes in and acts like a large distributor, so they sell the material to us and then that metal, we either sell to the retailers or their own small dealers. Because like I said, the largest one was doing 25,000-ton monthly

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

Then second is service centers. Here the customers are OEM industries like consumer durable companies, automobile companies, construction companies who are buying processed steel. Earlier, what happened is that a small mom-and-pop processing center. They don't have enough steel supply from behind. So just in time delivery, they are never able to offer to their customers.

Then the quality of machinery what they have installed like cutters and slitters, etc., that also is likely outdated. So here we are trying to address the problem that, I am a service center with high-tech machinery. My quality of my processed steel will be better. Then I'm creating a brand like if I open 10 service centers. For example, Havells. Havells has a factory in Neemrana, Rajasthan. They have a factory in Baddi, Uttarakhand. They have a factory near Bangalore, so Lt 101, which is the concept for these service centers, we have service centers in all these locations.

So, at head office level, I do a tie up with Havells that for all your factories, we will be supplying from my service center near to your factory. Right now, they don't have any national level players. So, each of the factories is buying steel from the local mom-and-pop processor. So that's the value proposition I'm going to offer to large manufacturers.

Plus, what happens is that, a factory in Ludhiana, Ludhiana is a big manufacturing hub, they need processed steel. Now they have to buy from Ghaziabad, for which you have to pay INR1,000 per ton freight. Now the steel which comes, HR coil which comes, whether it comes in Ghaziabad railway siding or Ludhiana railway siding, the freight is the same, the handling cost is the same. But from Ghaziabad to Ludhiana, the processed steel will carry freight of INR1,000 a ton. If I open a center in Ludhiana, my raw metal cost will be the same and my customer will be able to save Rs.1000 per ton freight from Ghaziabad. So that's how we will acquire customers in service centers.

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

**Alisha Mahawla:**

Okay, understood. This is quite helpful, thanks. The next question is what is the kind of inventory risk that we carry? Because these are commodities at the end of the day, and while you have highlighted the working capital cycle, is it an inventory gain, inventory loss kind of situation that we have to keep making adjustments for every quarter?

**Management:**

So, because our margins are low, around 2.5%, right? So, we have to ensure that that 2.5% is protected, okay? There is no threat, there is no risk to that margin, to that thin margin. That 2.5% EBITDA flows as my PBT also, okay? And for that, number one is below EBITDA is depreciation. So, because my asset terms are so high on my service centers, which means almost

like 15-20 times so the depreciation cost to the overall size of the company will always be very low.

Then the interest cost. Now, everything is equity funded. When I will be doing INR50,000 crores of revenue, then I may need INR1,000 crores, INR300 crores of short-term bank limits. Till then, everything will be equity funded. So, my interest cost also is going to be almost zero. So, whatever my EBITDA is, 2.5%, that is also my PBT.

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

Then the inventory write-off. Now, steel is a volatile commodity. It carries a lot of risk and with such a low margin, our risk management has to be very strong, which it is. So again, all the three verticals, Alisha, the first vertical, which is metal trading, here we are doing back-to-back sale, like purchase and sale. So, the risk what we carry is from 0 to 10 days. Which is very limited.

Steel prices in India normally are reviewed like once in a month. On first day of every month, all the steel producers come out with a new revised pricing policy. So, if you are doing business within 10 days, there is no risk as such to carry to your balance sheet.

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

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

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

So, a trader, whether a wholesaler or a retailer, if we are churning our inventory quick, the inventory risk can be easily managed. So, whatever you buy, you should be able to sell under 30 days. Shankara sells in 50 days. Their inventory churn is like 40, 50 days. But still, we don't see any write-off in their balance sheet, even on a quarterly basis. So, we don't see much of a risk of any inventory write-off.

- Alisha Mahawla:** I understood. This is quite helpful. Just on the service center, will we manage to have a cash-and-carry with the OEM?
- Management:** Yes.
- Alisha Mahawla:** Okay. And last question, like you were mentioning, the parent of the group has some investment in Shankara. What is the kind of overlap with Shankara? While you've explained the three businesses, is there an overlap? Can they eventually fit into the SG Mart ecosystem at some point?
- Management:** So Shankara can be our customer, right? Because Shankara is a retailer. We are like wholesalers. We are in the upstream. Shankara is in the downstream. So, there is no business overlap, except the fact that Shankara can be my customer. Shankara can buy raw metal from me if they want to create that. Shankara can buy processed steel from me if they have the market for themselves. Shankara can buy rebar, etc., from me in my private label, which we are doing business anyways. So Shankara can be our customer. There is no business overlap.
- Alisha Mahawla:** And are they already part of our ecosystem or are they already customers?
- Management:** We are doing some business with them, but it's small as of now, it should grow.
- Alisha Mahawla:** Okay, great. Thank you and all the best.
- Moderator:** Thank you. The next question will be from a line of Rakshit from Pkeday Advisors. Please go ahead.
- Rakshit:** So, thank you for the opportunity. I want to understand, according to your assessment, why hasn't a large-scale distributor been created in this industry up to now? Has something structurally changed for you to now be able to scale up this business and be able to be present? Because the distribution in India is always driven by SME traders. And it's not only in steel, but in any sector.
- Today, APL Apollo deals with 800 distributors. My sister company, Apollo Pipes Limited, which is into plumbing pipes, they deal with 600 small distributors. So master franchisee concept in India has never been established because manufacturing has always been growing at a very slow pace.
- Now that if you see India to become a USD10 trillion economy which is led by manufacturing, or India replaces China as a global manufacturing hub. Then you need trading infrastructure also to support that. You need large traders who can lift volume, who can stock raw material. I mean, this concept was never there. Now, India says that we want to have 300 million ton of steel capacity by 2030. The question is, I mean, JSW, Tata, they all have money in the world to put in the factories. But then question is, who has the power to lift that material? Can they depend on a distributor who is doing like 20,000, 30,000-ton monthly volume? Answer is no.

**Rakshit:** Got it. Clear. Yes, my question was, what problem are we solving by taking away the small distributors from the steel manufacturers? Why would they want to hand over that relationship?

**Management:** So, here the point is that a small trader, has limited funds to buy material. He has limited warehousing capacity to stock raw material. Today, when India's steel capacity is going to increase by 100% in the next six years, they will need a trader who can lift that raw material.

Steel, when you produce in a blast furnace, it is like 24 by 7 into 365 days. It flows like like how water flows in a river, you can't stop it. And you need continuous buying from your customers. I mean, APL Apollo being India's largest consumer, we get so many deals from steel producers like once in a month or once in a quarter, sometimes like even multiple times that whenever they have excess supply, they want to come to APL Apollo and sell that raw material to Apollo at a discount.

But APL Apollo has a limitation of maintaining limited inventory days. So, we don't take that risk. So, we turn them back. So, that's where we also saw this opportunity that if there is a SG Mart, which can take as much raw material as any steel company wants to put in, at a good cost, at a good price, and then I keep that profit with me and then flow those materials gradually in the market.

I can stock for 10 days, 20 days, 30 days. A small distributor, he gets any deal, but he doesn't have ability to stock it more than five days. So, he passes on that deal in the market and that disturbs the market. But SG Mart has the ability to hold the material for 20 days, 25 days. I will keep that discount in my kitty as my profit and then I will slowly, gradually pass on the material, sell the material in the market.

And this is a concept which is not unique in the world. You look at Japan, South Korea, China, there are players like Marubeni, Mitsubishi Trading Corporation, Sumitomo Trading Corporation, ITOCHU, Hanwha, JFE Shoji all these players are there who buy raw material from steel producers or other metal producers in bulk and then they distribute further.

**Rakshit:** All right, thank you. And my last question was, you're obviously leveraging the group companies, expertise and strength in the industry. So, how are we ensuring that the relationship between the two entities is at arm's length?

**Management:** Because SG Mart is not selling raw material to APL Apollo Tubes and APL Apollo Tubes is not selling tubes to SG Mart. So, there is no transaction between the two companies.

**Rakshit:** No, but the brand has been shared, I think you mentioned, that they'll be able to sell under their...

**Management:** That belongs to the family. The family has given rights to APL Apollo Steel Tubes to use APL Apollo brand in the steel tube segment free of cost. Family has given rights to PVC pipe company, Apollo Pipes Limited, to use APL Apollo brand in the plumbing segment free of cost. And family has given rights to SG Mart to use APL Apollo brand for non-steel pipe products in the steel sector at free of cost.



- Rakshit:** Got it. Clear. Thank you.
- Moderator:** Thank you very much. The next question will be from the line of Keshav Sanjay Agarwal from ValueQuest Investment Advisors. Please go ahead.
- Keshav Sanjay Agarwal:** Thanks for the opportunity. Would like to understand what are the key friction points or the challenges that we will encounter to scale up so fast, given our guidance for FY27 being of 18,000 odd crores. So, what kind of challenges can we face?
- Management:** What we see is the opportunity which is there in all the three segments. Then what we need is the raw material as backup source. So that also we are tying up with all the stakeholders. Third thing is creating the infrastructure of service center cum warehouses. Fourth requirement is the scalability of B2C products and private label products because that needs market acceptance.
- So, I guess we are working on all these four requirements aggressively. We are ensuring that we don't get stuck in any one of these requirements. We are hiring right people at right place. We are already a team of 100 people which will increase to say not more than 200-250 when we touch INR18,000 crores top line by FY27.
- So, the whole objective is to ensure that we don't falter on the execution of this business plan. I think one important element is also the quality of the B2C products because for that we are dependent on small manufacturers. So, yes, I mean idea is to put all these ingredients to make a good recipe product and allocating the resources equally to ensure that all five elements are taken care of.
- Keshav Sanjay Agarwal:** We did mention about service center being one of the building blocks. Can you just give us some sense around the unit economics of these survey centers with respect to the amount of investments needed and output that can be generated?
- Management:** So, say I create a service center with an investment of INR25 crores of gross block. Okay. INR25 crores of gross block we buy one-to-two-acre land parcel. Then there is a shed over it, the building. And then the machinery for cutting and fitting etc. So, that investment will require INR25 crores. On that I will generate the revenue of around the INR350 crores per annum. It will give me EBITDA of 4% which is equivalent to INR12 to INR15 crores of annual data. And the working capital which I will require in that service center will be around INR15 crores. So, my total investment is INR40 crores of capital employment, INR25 crores gross block, INR15 crores working capital. And that will give me an EBITDA INR12 to INR15 crores.
- Keshav Sanjay Agarwal:** Okay. Got it. That's it from me.
- Moderator:** Thank you very much ladies and gentlemen. That was the last question for today. I now hand the conference over to the management for closing remarks.



*SG Mart Limited*  
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**Management:** Thanks everyone for dropping by and listening to this call. We look forward for a healthy interaction with you on SG Mart. For any question and query, follow up, please feel free to contact our Investor Relations team and look forward to see you soon. Thank you so much.

**Moderator:** Thank you. On behalf of Ambit Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.