

Frail Volumes impair short term story...

We reduce TP to Rs650 (previously Rs715) and maintain BUY rating for Steelcast Ltd. Reduction in TP is due to reduction in target multiple to 9x (previously 10x), primarily on the back of bleak volume outlook which dent the earnings estimates. 1QFY24 was an excellent show on margins due to new solar power plant and other input cost benefits but a listless revenue performance. Due to the looming slowdown from end user industries, we have lowered our sales volume growth to -3%/ 14% for FY24/FY25E (previously 9%/15% growth). While short term prospects remain muted, we continue to stay positive on the long-term diversification and growth thesis of Steelcast which is largely undervalued.

- **Subdued demand results in meagre revenue growth:** Steelcast reported revenue of Rs1.19bn; +3.3% yoy; -0.7% qoq in Q1FY24. Realizations grew 2.5% yoy at Rs2,98,000/tonne due to improved pricing performance, coupled with a weak show on volumes which largely remained flattish at ~4000 tonnes due to subdued demand from the end customers. Revenue from domestic operations witnessed a jump of 45% yoy whereas exports declined 21% yoy. The management foresees dispatches to soften further due to slowdown in demand from the end user industry due to which next 2 quarters are expected to witness de-growth on sales volume.
- **Impressive show on EBITDA margins:** Steelcast reported all time high margins at 27%; +619bps yoy; +130bps qoq due to multiple factors including 1. savings in power cost due to solar power plant, 2. reduction in input costs, 3. improved customer pricing, and 4. improved operating margin efficiency. This resulted in an EBITDA of Rs323mn; +34% yoy; +4.3% qoq. Effectively, PAT stood at Rs203mn (+43% yoy; +3.7% qoq). In 2QFY24, we expect margins to moderate due to pass on of RM cost benefit, partially offset by savings in the power cost on account of hybrid power plant which were absent in 1QFY24.
- **Demand slowdown weakens earnings outlook; margin prospects robust:** The margin outlook remains robust due to 1. savings in power costs on account of solar and hybrid power plants, and 2. operating margin efficiency. The diversification prospects remain bright with supply to American railroad expected to ramp up from H2FY24, repeat orders from the defence sector and entry into Ground engaging tools segment. However, management has signalled an imminent slowdown in demand from end user industries in both domestic and global markets due to which we have lowered our volume growth to -3%/14% in FY24/ FY25E (previously 9%/15% growth) leading to reduction in earnings. This impact is partially offset by increase in margins by 50bps/ 70bps in FY24/FY25E. We remain positive on Steelcast's longer-term prospects.
- **Valuation and Risks:** We value Steelcast at 9x (previously 10x) Jun'25E EV/EBITDA to arrive at a TP of Rs650/sh (Rs715 previously). Reduction in TP is primarily due to downward revision in earnings and reduction in multiple due to looming slowdown in demand. On CMP of Rs535, stock is trading at 7.6x 1-year forward EV/EBITDA. Key risks: Slowdown in end user industries, delay in cost savings from hybrid power plant.

Y/E Mar – Rs mn	1QFY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Net sales	1,195	1,156	3.3%	1,203	-0.7%
Raw materials total	347	364	-4.7%	299	16.1%
Employee costs	101	82	23.1%	99	2.1%
Other expenses	424	469	-9.6%	496	-14.5%
EBITDA	323	241	34.0%	310	4.3%
EBITDA margin	27.0	20.8	619 bps	25.7	130 bps
Depreciation	48	46	3.8%	44	10.0%
EBIT	275	195	41.2%	266	3.4%
Finance cost	2	7	-76.5%	4	-60.1%
Other income	3	3	-5.1%	1	183.6%
PBT	276	190	45.1%	262	5.1%
Tax	73	48	51.4%	67	9.2%
Tax rate %	27%	25%		26%	
PAT	203	142	42.9%	195	3.7%

Source: Company, MNCL Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	1,575	-21.5	314	19.9	116	45.9	5.7	9.0	9.4	18.1	7.1
FY22	3,020	91.7	637	21.1	333	185.9	16.4	21.3	15.6	14.5	8.5
FY23	4,768	57.9	1,140	23.9	705	112.0	34.8	32.8	29.9	12.3	7.7
FY24E	4,455	-6.6	1,133	25.4	689	-2.3	34.0	25.5	24.7	15.7	9.0
FY25E	4,971	11.6	1,254	25.2	796	15.6	39.3	23.8	22.4	13.6	7.6
FY26E	5,835	17.4	1,488	25.5	977	22.7	48.3	23.7	22.2	11.1	6.2

Source: Company, MNCL Research Estimates

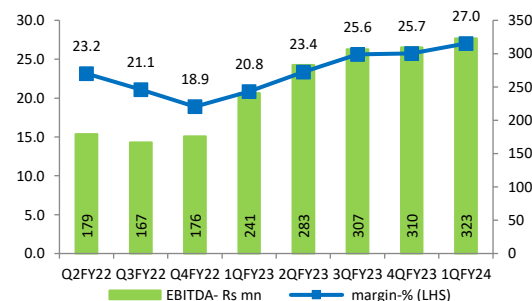
Target Price	650	Key Data	
		Bloomberg Code	STLCS:IN
CMP	535	Curr Shares O/S (mn)	20.2
		Diluted Shares O/S (mn)	20.2
Upside	22%	Mkt Cap (Rsbn/USDmn)	10.8/132.04
Price Performance (%)		52 Wk H / L (Rs)	571/404.6
	1M 6M 1Yr	3M Average Vol.	49010
STLCS IN equity	11.5 3.1 13.6		
Nifty	0.7 8.9 11.1		

Source: Bloomberg, ACE Equity, MNCL Research

Shareholding pattern (%)

	Jun-23	Mar-23	Dec-22	Sept-22
Promoter	45.00	46.07	46.07	46.07
DII's	0.06	0.0	0.0	0.0
FII's	0.27	0.09	0.25	0.11
Others	54.67	53.84	53.68	53.82

Source: BSE

EBITDA margins % – at record high levels for the fourth consecutive quarter.

Source: Company, MNCL Research

Earnings Revision

Particulars (Rs mn)	FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)
Sales	4,455	4,941	-10%	4,971	5,546	-10%
EBITDA	1,133	1,187	-5%	1,254	1,359	-8%
PAT	689	696	-1%	796	829	-4%

Source: MNCL Research Estimates

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Conference call Takeaways

Industry:

1. There are challenges in growth due to subdued demand from customers, geopolitical uncertainties, inflation, and high interest rates across the exporting geographies.

Operations:

2. Sales volume in Q1FY24 ~4000 tonnes, expects volumes to soften in Q2FY24 and Q3FY24.
3. Supply to American railroad to commence in H2FY24.
4. Added 2 new customers belonging to the railways sector in 1QFY24.
5. Received formal approval for 5 track systems for combat vehicles, to be delivered by Mar'24.
6. Currently in discussions with 2 global leaders in the ground engaging tool industry (i.e. replacement market). Company to provide an update in the coming quarters.
7. Targets railroad and ground engaging tools to contribute ~10% and ~7% revenue share resp. in the next 2.5 years.
8. Sustainable EBITDA margins in the range of 20-22% (without any cost savings impact). Impact of cost savings to increase the margins upwards.
9. Management to take a call on modular expansion in H2FY24.

Cost Saving Projects:

10. Commissioned 5 MW Solar Power Plant for captive use effective from 30th March, 2023.
11. The hybrid power plant was commissioned on 8th July, however due to State Government regulatory issues, the savings have not yet started to flow. The company expects regulatory issues to be resolved by Aug'23 and derive benefits retrospectively from 8th July.
12. Solar and hybrid power plants result in savings of ~Rs100mn annually.

Financials:

13. Debt repaid in 1QFY24 ~140mn, the company to pay off the remaining debt of ~100mn and become debt free by 1st October 2023.
14. Capacity utilization in 1QFY24 was 52%. Target utilization: FY24 ~50%, FY25 ~60%, FY26 ~75%.
15. WC days ~83 days, in line with 4QFY23.
16. Current order book Rs1.05bn as on 1st July 2023. Railways order book ~Rs20mn, expects orders to increase from H2FY24.
17. Employee cost to be ~Rs100mn qoq, the company has factored in the salary hikes effective 1st April 2023.

Valuation – Clarity on growth required for re-rating

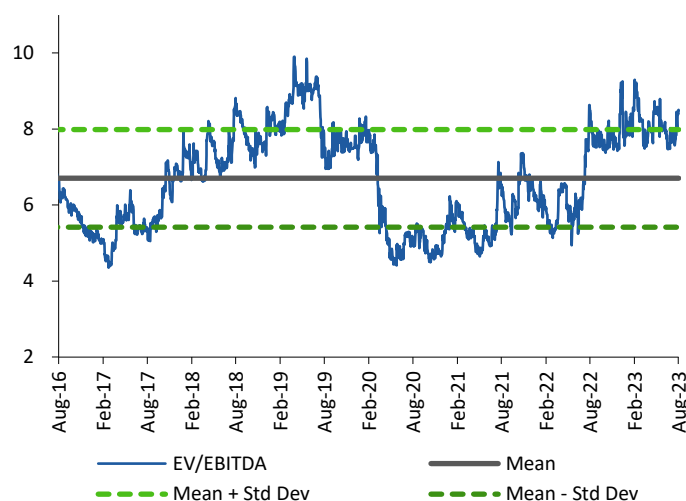
We value Steelcast on 9x Jun'25 EV/EBITDA (previously 10x) to arrive at a TP of Rs650/sh and maintain BUY rating. The de-rating materialized primarily on account of looming slowdown in demand from end industries, result of which we expect volumes to grow at -3%/ 14% (vs. earlier estimated to grow 9%/ 15%) during FY24/FY25E. Dent in volumes growth hampers the overall near term earnings growth prospects. However, we believe that Steelcast has very healthy set of financials and is consistently delivering robust margins which are expected to sustain above 20%. The financial profile is only expected to improve from here with further diversification and measures to improve growth and margins, thereby leaving large scope for upside. On CMP of Rs535, stock is undervalued at 7.6x 1-year forward EV/EBITDA.

Exhibit 1: Valuation

Valuation - in Rs mn	Jun'25E
EV/EBITDA Valuation	
EBITDA	1,312
Attributed multiple - x	9
EV	11,811
Less: Net Debt	-1,365
Equity Value	13,175
shares O/S - in mn	20
TP - Rs/sh	650
CMP	535
Upside	22%

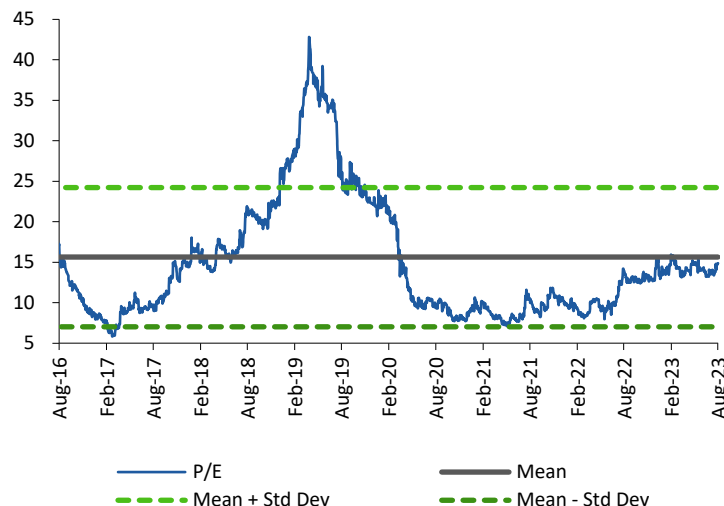
Source: Company, MNCL Research estimates

Exhibit 2: 1-year forward EV/EBITDA chart



Source: Company, Bloomberg, MNCL Research estimates

Exhibit 3: 1-year forward P/E chart



Source: Company, Bloomberg, MNCL Research estimates

Quarterly Financials

Exhibit 4: Quarterly Financials

Y/E March (Rs mn)	Q2FY22	Q3FY22	Q4FY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
Net sales	774	790	930	1156	1212	1197	1203	1195
Cost of Raw materials consumed	257	272	268	285	296	339	294	280
Changes in Inventories of Finished goods, wip	-89	-116	-27	79	53	-19	5	66
Total materials consumed	167	156	242	364	349	320	299	347
Staff cost	68	76	76	82	95	94	99	101
Other expenses	359	391	437	469	484	476	496	424
EBITDA	179	167	176	241	283	307	310	323
Depreciation	47	44	43	46	47	44	44	48
EBIT	132	122	133	195	236	262	266	275
Interest	2	8	4	7	7	5	4	2
Other Income	1	1	1	3	6	1	1	3
Exceptional items	0	0	0	0	0	0	0	0
Profit Before Tax	131	115	130	190	236	258	262	276
Tax	33	29	34	48	60	65	67	73
Profit After Tax	98	86	97	142	176	193	195	203
Growth (yoy - %)								
Revenue	122%	81%	68%	120%	57%	52%	29%	3%
EBITDA	142%	79%	59%	108%	58%	84%	76%	34%
PAT	177%	125%	117%	166%	79%	125%	102%	43%
Margin (%)								
EBITDA	23.2%	21.1%	18.9%	20.8%	23.4%	25.6%	25.7%	27.0%
EBIT	17.1%	15.5%	14.3%	16.8%	19.5%	21.9%	22.1%	23.0%
PAT	12.7%	10.8%	10.4%	12.3%	14.5%	16.1%	16.2%	17.0%

Source: Company, MNCL Research

Exhibit 5: Key Assumption

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Rs mn)	1338	2297	3138	1975	1572	2967	4644	4330	4846	5710
Sales Volumes (tonnes)	6,217	12,684	13,219	8,613	7,155	12,027	15,740	15,288	17,460	20,370
Realisations (Rs/t)	2,15,164	1,81,068	2,37,380	2,29,277	2,19,668	2,46,678	2,95,022	2,83,221	2,77,557	2,80,332

Source: Company, MNCL Research

Financials

Exhibit 6: Income Statement

Y/E March (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	1342	2312	3179	2006	1575	3020	4768	4455	4971	5835
Materials cost	202	423	880	467	340	680	1332	1212	1342	1564
% of revenues	15	18	28	23	22	23	28	27	27	27
Employee cost	153	201	258	228	199	284	370	426	490	563
% of revenues	11	9	8	11	13	9	8	10	10	10
Others	736	1253	1450	935	723	1420	1926	1685	1886	2220
% of revenues	55	54	46	47	46	47	40	38	38	38
EBITDA	252	435	592	376	314	637	1140	1133	1254	1488
EBITDA margin (%)	18.8	18.8	18.6	18.8	19.9	21.1	23.9	25.4	25.2	25.5
Depreciation & Amortization	121	148	157	160	138	177	181	231	241	250
EBIT	131	287	435	216	176	460	958	901	1013	1238
Interest expenses	102	115	99	50	38	16	24	0	0	0
Other income	4	17	14	5	15	3	11	30	64	83
Exceptional items	9	0	0	0	0	0	0	0	0	0
PBT	42	190	351	170	153	447	945	931	1076	1321
Taxes	12	-19	101	91	36	115	240	242	280	343
Effective tax rate (%)	29	-10	29	53	24	26	25	26	26	26
Reported PAT	30	209	250	80	116	333	705	689	796	977
Adjusted PAT	21	209	250	80	116	333	705	689	796	977

Exhibit 7: Key Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratio (%)										
Revenue	-2.0	72.2	37.5	-36.9	-21.5	91.7	57.9	-6.6	11.6	17.4
EBITDA	-3.8	72.7	35.9	-36.4	-16.6	102.9	78.9	-0.6	10.7	18.7
Adjusted PAT	1465.2	902.6	19.7	-68.1	45.9	185.9	112.0	-2.3	15.6	22.7
Margin Ratios (%)										
Gross	84.9	81.7	72.3	76.7	78.4	77.5	72.1	72.8	73.0	73.2
EBITDA	18.8	18.8	18.6	18.8	19.9	21.1	23.9	25.4	25.2	25.5
Adjusted PAT	1.5	9.0	7.9	4.0	7.4	11.0	14.8	15.5	16.0	16.7
Return Ratios (%)										
ROE	2.8	22.3	21.7	6.8	9.0	21.3	32.8	25.5	23.8	23.7
ROCE (post-tax)	6.2	17.7	18.6	6.8	9.4	15.6	29.9	24.7	22.4	22.2
ROIC	6.3	17.9	19.3	6.9	9.5	15.7	30.4	30.8	35.4	36.3
Turnover Ratios (days)										
Gross block turnover ratio (x)	1.0	1.5	2.1	1.3	1.0	1.6	2.1	1.8	2.0	2.2
Debtors	94	83	65	52	119	91	59	60	60	60
Inventory	447	349	99	180	276	330	139	140	140	140
Creditors	260	256	67	82	151	192	113	120	120	120
Cash conversion cycle	281	176	97	150	244	230	86	80	80	80
Solvency Ratio (x)										
Net Debt-equity	1.0	0.9	0.4	0.2	0.1	0.4	0.1	-0.2	-0.4	-0.4
Interest coverage ratio	1.3	2.5	4.4	4.3	4.6	29.5	39.7	NM	NM	NM
Net Debt/EBITDA	2.9	1.9	0.8	0.7	0.4	1.0	0.1	-0.5	-1.0	-1.1
Current Ratio	0.9	1.0	1.4	1.5	1.9	1.3	1.8	3.3	4.4	4.9
Per share Ratios (Rs)										
Adjusted EPS	1.0	10.3	12.3	3.9	5.7	16.4	34.8	34.0	39.3	48.3
BVPS	36.6	46.1	56.8	58.2	63.6	77.3	106.3	133.6	165.0	203.7
CEPS	7.4	17.6	20.1	11.9	12.6	25.2	43.8	45.5	51.2	60.7
DPS	0.6	1.4	2.0	0.6	1.4	3.2	9.9	6.8	7.9	9.7
Dividend payout %	41	13	16	15	23	19	28	20	20	20
Valuation (x)*										
P/E (adjusted)	67.8	13.5	13.6	32.1	18.1	14.5	12.3	15.7	13.6	11.1
P/BV	1.9	3.0	2.9	2.2	1.6	3.1	4.0	4.0	3.2	2.6
EV/EBITDA	8.5	8.4	6.5	7.6	7.1	8.5	7.7	9.0	7.6	6.2
Dividend yield %	0.9%	1.0%	1.2%	0.5%	1.3%	1.3%	2.3%	1.3%	1.5%	1.8%

Source: Company, MNCL Research estimates

Exhibit 8: Balance Sheet

Y/E March (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	101	101	101	101	101	101	101	101	101	101
Share warrants	0	0	0	0	0	0	0	0	0	0
Reserves & surplus	639	832	1048	1078	1187	1464	2051	2602	3239	4021
Shareholders' fund	740	933	1150	1179	1288	1566	2152	2703	3340	4122
Total Debt (incl. pref shares if it's there)	748	845	521	297	138	628	236	0	0	0
Def tax liab. (net)	75	18	42	102	84	67	69	69	69	69
Total Liabilities	1563	1797	1713	1578	1510	2261	2458	2773	3410	4191
Gross Block	1373	1496	1491	1543	1594	1853	2315	2435	2535	2635
Less: Acc. Depreciation	121	266	322	476	612	759	897	1128	1369	1619
Net Block	1253	1230	1169	1068	982	1094	1419	1307	1167	1016
Capital WIP	5	23	4	0	8	50	1	1	1	401
Intangible assets	0	0	0	0	0	0	102	102	102	102
Net Fixed Assets	1258	1252	1172	1068	991	1143	1522	1410	1270	1519
Investments	1	1	1	1	1	1	96	96	96	96
Inventories	247	404	240	230	256	616	509	465	515	600
Sundry debtors	345	528	566	283	514	752	775	732	817	959
Cash & Bank balance	18	15	64	17	15	21	35	534	1220	1598
Loans & Advances	211	186	135	345	127	212	20	20	20	20
Other assets	24	50	44	29	20	15	94	94	94	94
Total Current Asset	847	1184	1050	905	932	1617	1528	1941	2762	3367
Trade payables	144	297	162	104	140	357	411	398	441	514
Other current Liab.	374	311	331	270	250	119	157	157	157	157
Provisions	24	31	16	20	23	24	24	24	24	24
Net Current Assets	305	544	540	510	519	1117	936	1362	2140	2672
Total Assets	1563	1797	1713	1578	1510	2261	2458	2773	3410	4191

Exhibit 9: Cash Flow

Y/E March (Rs mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Operating profit bef working capital changes	242	411	578	374	318	634	1140	1133	1254	1488
Net changes working capital	-39	-265	71	67	9	-506	174	74	-92	-154
Direct taxes	-8	-15	-108	-97	-35	-130	-237	-242	-280	-343
Cash flow from operations	195	132	541	344	293	-1	1077	964	882	991
Net Capex	-35	-141	-74	-61	-41	-328	-450	-120	-100	-500
Others	2	12	6	3	6	1	-92	30	64	83
Cash flow from investments	-34	-129	-69	-58	-35	-327	-542	-91	-37	-418
Proceeds/ (repayment) of borrowings	-68	-115	136	-151	-92	-181	-392	-236	0	0
Interest paid	-91	-87	-85	-46	-34	-14	-23	0	0	0
Dividends Paid	0	-12	-27	-40	-12	-55	-118	-138	-159	-195
Others	0	-2	-6	-8	0	0	0	0	0	0
Cash flow from financing	-159	-216	18	-246	-138	-250	-533	-374	-159	-195
Net change in cash	2	-214	490	40	120	-577	1	500	686	378

Source: MNCL Research Estimates

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Name of the Analyst: Sahil Sanghvi

Analyst holding in stock: **NO**

Key to MNCL Investment Rankings

Buy: Upside by >15%, Accumulate: Upside by 5% to 15%, Hold: Downside/Upside by -5% to +5%, Reduce: Downside by 5% to 15%, Sell: Downside by >15%

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