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(SEBI Registered Research Analyst: INH000016834)

Stock Research – Sunflag Iron & Steel Co. Ltd. (SISCL)

(www.sunflagsteel.com, BSE: 500404, NSE: SUNFLAG)

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Company Overview

Sunflag Iron & Steel Company Ltd was established in 1984 & is a part of Sunflag Group, company started operations in 1989 as a spring steel producer however, at present the company manufactures mild-steel and alloy steel products of varieties like carbon steel, free & semi free cutting steels, etc.

Product

Products include rolled products, billet/bloom, ingots, bright Bars, etc. of varied shapes and size ranges. It is a reputed supplier of flat bars, round bars, bright bars, and wire rods for alloy, spring, ball-bearing, and stainless steel.

Product Application

The company's products are mainly used for manufacturing automotive transmission gears, drive shafts, steering systems, bearings, exhaust systems, and other engine components. It also supplies to the Indian Railways, ordnance factories, power sectors & other general engineering areas to manufacture critical application components.

Clients

The company holds preferred vendor status with major OEMs in the automotive industry and auto ancillary companies. Its key OEM partners include TVS, Maruti Suzuki, Ford, Bajaj, Toyota, and Nissan. The top 10 customers contribute 20-30% of its total revenues.

Exports

The company exports its products to the South East Asian, North American, and South American Countries, South Africa, the European Union, Japan, Taiwan, Australia, Switzerland, the UK, and Ireland. Exports accounted for 2% of its total revenues in FY24.

Manufacturing Capabilities

The company has its manufacturing facility located at Warthi, Maharashtra with an installed capacity of 6.68 Lakh MTPA for rolled products.

Collaboration

The company has been in a technical collaboration with Daido Steel Company, Japan since 2010, for the localization of its steel requirements. As of FY24, Daido Steel holds a 10% stake in the company.

New Business

The company has entered into manufacturing Super Alloy Steel which will cater to requirements related to Aircraft Parts, Armaments, Submarine Parts, Space Vehicle and Rocket Engines, Nuclear Reactors, Super-critical Power Plants, Industrial and Vehicle Gas Turbines, Petro-Chemical Plants and other High Temp and Corrosive Applications.

Raw Material Arrangements

The company primarily procures coal from its captive coal mine in Belgaon, Maharashtra, and sources iron ore from Lloyds Metal and Energy. It is currently licensing and developing the Bhivkund coal mine, which was allocated to the company in November 2021. Additionally, the company received a composite license for the Surjagad Iron Ore Block in December 2023.

Capacity Expansion

In FY24, the company increased its rolling capacity from 4 lakh MTPA to 6.68 MTPA, with the commissioning of a blooming mill.

Promoters

The Sunflag group was promoted by the Bhardwaj brothers i.e. Late P. B. Bhardwaj and Ravi Bushan Bhardwaj (Chairman). The promoters have rich experience of over five decades in the iron and steel industry. Pranav Bhardwaj, Managing Director (MD), is second generation entrepreneur, responsible for overall in charge of running the business affairs of the company. The promoters are also supported by team of qualified professionals from varied business backgrounds.

Financial Summary:

(Figures in Rs. crores)

Narration	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24	Mar-25
Sales	1,524	1,456	2,019	2,186	1,758	1,892	2,698	3,488	3,415	3,536
Operating Profit	178	145	237	237	170	254	398	446	375	389
Operating Profit Margin (OPM%)	12%	10%	12%	11%	10%	13%	15%	13%	11%	11%
Other Income	9	8	17	11	11	11	5	1,201	8	17
Interest	65	35	35	39	41	29	42	81	97	90
Profit before tax (PBT)	86	85	184	172	94	166	285	1,485	183	211
Tax%	35%	23%	30%	36%	2%	15%	24%	25%	22%	23%
Net profit after tax (PAT)	56	65	129	110	92	141	217	1,115	144	162
Net Profit Margin (NPM%)	4%	4%	6%	5%	5%	7%	8%	32%	4%	5%
Cash from Operating Activity (CFO)	236	-18	117	177	209	223	43	278	244	187
Capex		45	98	131	687	54	339	240	124	81
Total Debt (D)	250	330	341	352	387	268	587	609	727	624

Growth Trends:

	10Yr	7Yr	5Yr	3Yr	TTM
Sales Growth	10%	8%	15%	9%	0%
OPM	12%	12%	12%	12%	11%
PAT Growth	12%	3%	12%	-9%	0%
Avg. PE	10.5	11.0	11.6	14.3	33.0

The company's raw material costs constitute 60-65% of the revenue. The company passes through increased costs to end customers with lag and thus impacting its margin. The operating profit margin has been volatile at 11-15% between FY16-FY25, due to fluctuations in raw material prices.

Rationale:

As per the settlement through arbitral tribunal with respect to dispute with Lloyds Metals and energy (LMEL), The company had been allocated optionally fully convertible debentures (OFCD) of LMEL in April 2022. The company exercised the OFCD on March 16, 2023, resultantly, the company now holds 11.47% stake in LMEL (as on March 31, 2025). This stake is valued at approx. Rs. 8800 crore (as on 08.06.25). Adjusting for this the company provides fair margin of safety.

Prospects of Lloyd Metal: Prospects of Lloyd metal appear bright. The company has high quality mines. Since the mines are on allocation basis the royalty payments are lower than most other mines. The company is likely to receive environmental clearance to increase mining capacity from 10 MT to 25 MT. The company is planning an integrated steel plant of 3MT.

Price trend of the company is shown below.



(Source: Screener)

Market Capitalization (as on 08.06.25)	5,353 crores
52-week H/L	311/188
P/E	33.0
Gross Debt excl. lease (as on 31.03.25)	570 crores
Cash & Investments (as on 31.03.25)	7,900 crores (approx.)
CMP	297

EV of Main Business valued at 9x FY25 EBIT: $285 \times 9 = \text{Rs. } 2,565 \text{ crores}$

Lloyd Metal stake at 70% of market value= Rs. 6,160 crores

Fair EV = Rs. 8725 crores

Net Debt= Rs. 571 crore - Rs.158 crore= Rs. 413 crores

Fair Mkt Cap = Rs. 8,412 crores

Current market Cap = Rs. 5,353 crores

Upside: ~55%+

Recommendation:

- Stock is potentially undervalued particularly given the stake in Lloyd Metal
- Very limited downside risks given business has very low debt and valuations are below even stake in Lloyd Metal. Stock is trading close to all-time highs and hence buying momentum exists.
- Buy on stock recommended with upside target of Rs. 450 in next 1 year.

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Kapil Aggarwal (proprietor of investkaps and hereinafter referred to as the Research Analyst) is registered with SEBI as a Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide Registration number INH000016834, having its office at Delhi.

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Kapil Aggarwal is a seasoned professional with over 18 years of extensive experience navigating the Indian stock markets and possesses a deep passion for developing systematic, research-driven models for trading and investment strategies. This led him to establish investkaps with a clear mission: to empower a broad audience with the knowledge and tools for effective investing, ultimately aiming to maximize their returns through a well-reasoned approach. Kapil is an Engineer and an MBA in Finance. To know more about us, visit <https://investkaps.com/about-us>

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