

Sunflag Iron & Steel Company Ltd.

Steel Business with Hidden Value

Buy

Current Price: Rs. 410 | Market Cap: Rs. 80 Bn

28th September 2026



Sunflag Iron & Steel Company Ltd. | Initiating Coverage Report

Steel Business with Hidden Value

Sunflag Iron & Steel Company Ltd. (Sunflag) was incorporated in 1984 as the flagship Company of the Nagpur-based Sunflag Group, promoted by the Bhardwaj brothers. The Company operates a single-location integrated steel plant at Bhandara, Maharashtra, with an installed rolled-products capacity of 0.5 Mn MTPA. Unlike bulk steel manufacturers, Sunflag focuses on value-added and engineered steel grades, including alloy steels, free and semi-free cutting steels, and high-performance superalloy steels, supplied in forms such as round bars, bright bars, wire rods and rolled blocks. The automotive industry is Sunflag's largest end-market, contributing ~60-75% of the total revenue, with the Company serving as an approved or preferred supplier to several domestic and global OEMs and Tier-1 component manufacturers. Sunflag also supplies specialised steel to strategic sectors such as Defence, Aerospace, Railways and Nuclear Power, and is an approved vendor to organisations including VSSC, LPSC, HAL, BrahMos and DRDO. Sunflag's core steel business remains stable, while its valuable non-core asset presents a potential hidden value opportunity for the Company. It holds an equity stake in Lloyds Metals and Energy Ltd., one of India's largest private iron ore miners. Interestingly, this stake was acquired through a legal settlement rather than a conventional investment.

From dispute to strategic shareholding

The relationship between Sunflag and Lloyds dates back to 2004, when the two companies entered into a JV for Lloyds' Surjagarh Iron Ore Mine, under which Sunflag was to finance capital and operational expenses in exchange for a 60:40 split of the extracted iron ore. The arrangement did not work out as intended. Although Sunflag advanced funds and Lloyds commenced limited mining in 2016, Sunflag did not receive its contracted allocation of iron ore, leading it to initiate arbitration proceedings. In April 2022, the Sole Arbitrator ruled in Sunflag's favour, establishing an initial financial liability of Rs 9 Bn on Lloyds. To settle this liability, Lloyds issued 60 Mn convertible debentures to Sunflag in June 2022, which were subsequently converted into equity shares on a 1:1 basis in March 2023 at ~Rs 204 per share. As of mid-2026, Sunflag continues to hold all 60 Mn shares. The two companies also remain operationally linked through an Iron Ore Off-Take Agreement, under which Lloyds regularly supplies raw iron ore to Sunflag.

Over the years, Lloyds has grown into one of India's largest private iron ore miners, with an expanding mining scale, a growing Mine Developer and Operator (MDO) business, and early-stage diversification into copper and cobalt, developments that have meaningfully increased the value of the stake Sunflag holds.

View and valuations

We value Sunflag using a sum-of-the-parts approach, treating its core steel business and equity stake in Lloyds as two distinct assets with different risk-reward profiles. For the core steel business, we factor in no volume growth, as the existing plant is operating at near-full utilization and visibility on the Company's next capacity expansion plan remains limited. For the Lloyds stake, we apply a 40% holding-company discount to its quoted market value, reflecting the tax costs of eventual monetisation, the potential market-impact cost of exiting a large block, and the lack of clarity on timing or use of proceeds. Combining the two, we arrive at a target price of Rs 531, against a current market price of Rs 410, implying an upside of ~29%. We initiate coverage on Sunflag Iron & Steel Company Ltd. with a Buy rating.

BUY

CMP Rs. 410

TARGET Rs. 531 (+29%)

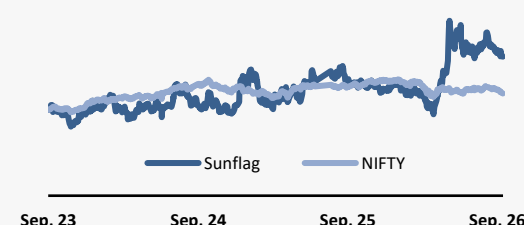
Company Data

Bloomberg Code	SUNF:IN
MCAP (Rs. Bn)	80.0
O/S Shares (Mn)	180
52w High/Low	428/192
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	67.8

Shareholding Pattern %

	Jun-26	Mar-26	Dec-25
Promoters	51.2	51.2	51.2
FII's	0.9	0.5	0.5
DII's	0.2	0.0	0.2
Non-Institutional	47.8	48.3	48.2

Sunflag vs Nifty



Key Financial Data

(Rs. Mn)	FY26	FY27E	FY28E
Revenue	39,394	40,444	40,444
EBITDA	4,768	4,449	4,348
Net Profit	2,024	2,072	1,952
Total Assets	112,925	115,117	116,229
ROCE (%)	3%	3%	3%
ROE (%)	2%	2%	2%

Source: Company, Keynote Capitals Ltd.

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About Sunflag Iron & Steel Company Ltd.

Sunflag Iron & Steel Co. Ltd. (Sunflag) was incorporated in 1984 as the flagship Company of the Nagpur-based Sunflag Group. The Company was promoted by the Bhardwaj brothers, late Mr. P. B. Bhardwaj and Mr. Ravi Bhushan Bhardwaj. Sunflag manufactures special and alloy steel products, with an installed rolled-products capacity of 0.5 Mn MTPA.

Sunflag operates a single-location integrated steel plant at Bhandara, Maharashtra. Being an integrated manufacturer, the Company produces a large part of its key iron inputs in-house through a Direct Reduced Iron (Sponge Iron) plant and a Mini Blast Furnace (MBF), which produces hot metal/pig iron. These inputs are converted into intermediate products such as blooms and billets and subsequently rolled into finished steel products.

Unlike bulk steel manufacturers, Sunflag primarily focuses on value-added and engineered steel grades. Its product portfolio includes carbon steels, alloy steels, free and semi-free cutting steels, and other high-performance superalloy steels. These steels are supplied in multiple forms including round bars, round-cornered squares, bright bars, wire rods, flat sections, ingots and rolled blocks.

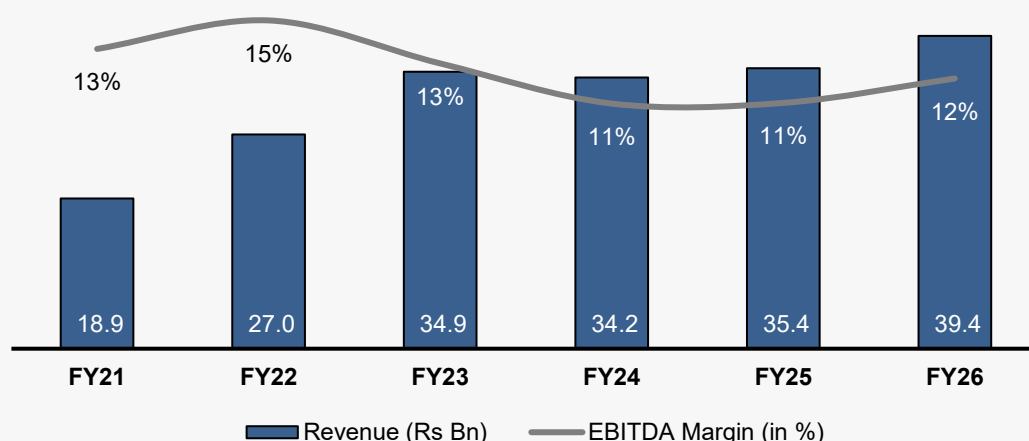
The Automotive industry has been Sunflag's largest end-market, contributing ~60–75% of the total revenue. The Company is an approved or preferred supplier to several domestic and global automotive OEMs and Tier-I component manufacturers. Its steel is used in critical automotive components such as transmission gears, drive shafts, steering systems, bearings and engine components.

Beyond automotive, Sunflag also supplies specialised steel to several strategic industries. These include Defence and Ordnance, Indian Railways, Aerospace and Space, Nuclear and Thermal Power, and Heavy Engineering. Its products are used in applications such as bombshells, gun barrels and warship bulb bars, while the Company is also an approved vendor to organisations such as VSSC, LPSC, HAL, BrahMos and DRDO.

Sunflag has a long-standing partnership with Japan's Daido Steel Co. Ltd., which began in November 2010. Daido also holds a 10% equity stake in Sunflag. The collaboration helps the Company with technology transfer, development of new steel grades, improvement in product quality and localisation of steel grades used by global automotive OEMs. Sunflag also has an international presence, exporting its products to more than 12 countries across North and South America, Europe, Asia and Africa.

Special and alloy steels contain elements such as chromium, nickel, and molybdenum, which improve their strength, durability, and resistance to heat and fatigue. These properties make them suitable for demanding applications in automotive, aerospace, defense, and power generation.

Revenue and EBITDA margin

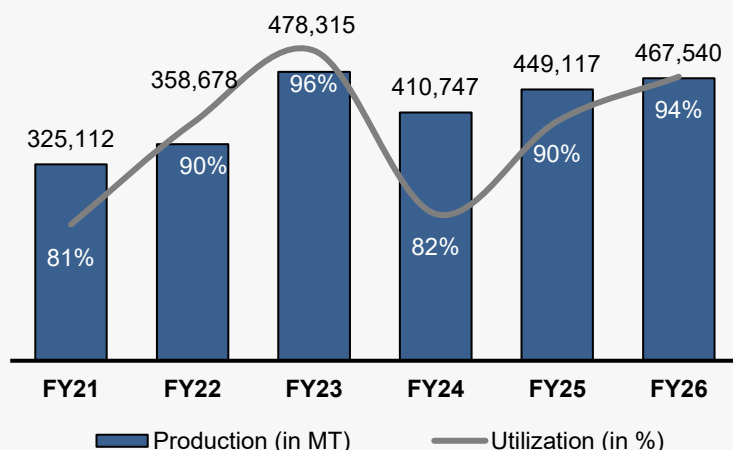


The increase in FY23 was driven by higher volumes following a capacity expansion from 0.4 to 0.5 Mn MTPA.

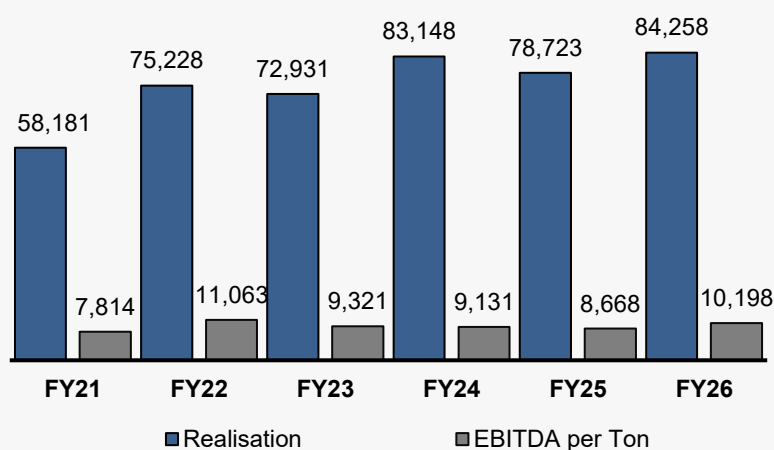
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Manufacturing and Operational Profile

Production and Utilization



Realisation and EBITDA per ton



Source: Company, Keynote Capitals Ltd.

Note - Realization = Revenue / Production

Capacity and Utilisation

Sunflag currently has an installed rolled-products capacity of 0.5 Mn MTPA. Capacity utilisation has remained high for most of the period, reaching 90% in FY25 and 94% in FY26, indicating limited headroom for meaningful volume growth from the existing asset base. The Company has not announced any major rolled-products capacity expansion so far. Accordingly, in the absence of incremental capacity, we believe near-term growth is likely to be driven more by better product mix and higher realisations rather than a significant increase in volumes.

Realisation and Product Mix

Sunflag's realisation has consistently remained above that of conventional steel producers, reflecting its focus on special and alloy steels rather than commoditised steel products. Realisation increased from Rs 58,181 per MT in FY21 to Rs 84,258 per MT in FY26, supported by a higher share of value-added and specialised grades. The Company has also secured approvals from customers across Defence, Aerospace and other strategic sectors, opening opportunities in applications such as fighter-aircraft components, space vehicles, nuclear reactors, gas turbines and other high-temperature applications. These products can potentially improve the Company's product mix and realisation while reducing its dependence on automotive demand.

We believe the Company can meaningfully benefit from demand in these high-profile sectors only after expanding its current capacity.

Supply-side Dynamics

To improve raw-material security and reduce exposure to input-cost volatility, Sunflag has been pursuing backward integration into iron ore and coal, alongside investments in renewable power.

On the mining side, the Belgaon Underground Coal Mine is currently operational and has estimated reserves of ~8.2 Mn tons with an extractable balance of ~3.5 Mn tons. All other allotted assets, including the coal and iron ore blocks, are yet to commence operations and remain subject to statutory approvals, land acquisition and mine-development timelines. Certain legacy mining allotments also remain cancelled or under litigation. On the energy side, Sunflag acquired a 31.2% stake in ReNew Green Pvt. Ltd. to procure solar power from a 71.34 MW project commissioned in December 2024. Renewable sourcing has started contributing towards energy-cost optimisation. However, the larger benefits from Sunflag's backwards-integration strategy are yet to materialise, as several of its key coal and iron-ore assets remain pre-operational.

According to the World Steel Association, producing 1 tonne of steel via the blast-furnace route requires ~0.78 tonnes of metallurgical coal.

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Sunflag key location in Maharashtra



Source: Company, Keynote Capitals Ltd.

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Lloyds Metals - From Dispute to Strategic Shareholding

The commercial relationship between Sunflag and Lloyds Metals and Energy Ltd. (Lloyds) began in 2004 through a joint arrangement regarding Lloyds' Surjagarh Iron Ore Mine. The original plan for Sunflag was to finance capital and operational expenses in exchange for a 60:40 split of the extracted iron ore. However, the agreement did not work out as intended. Even though Sunflag advanced funds and Lloyds commenced limited mining in 2016, Sunflag did not receive its contracted allocation of iron ore, leading Sunflag to initiate arbitration proceedings.

In April 2022, the Sole Arbitrator passed an arbitral award in Sunflag's favour, establishing an initial financial liability of Rs 9 Bn on Lloyds. To settle this liability, Lloyds issued 60 Mn 0% Optionally Fully Convertible Debentures (OFCDs) to Sunflag in June 2022. Sunflag exercised its option to convert these debentures on a 1:1 basis into equity shares of Lloyds 9 months later, in March 2023. Lloyds officially allotted 60 Mn equity shares to Sunflag at ~Rs 204 per share. Operationally, both companies remain tied through an Iron Ore Off-Take Agreement (OPA) executed in May 2022, under which Lloyds regularly supplies raw iron ore to Sunflag.

Particular	Details
Instrument	0% Optionally Fully Convertible Debentures
Number allotted	60 Mn OFCDs
Allotment date	15 June 2022
Conversion window	After 9 months but before 18 months from allotment
Conversion date	16 March 2023
Conversion ratio	1 OFCD : 1 Lloyds equity share
Shares received	60 Mn equity shares
Initial ownership	11.9% of Lloyds

Source: Company, Keynote Capitals Ltd.

As of mid-2026, Sunflag continues to hold all 60 Mn shares. While its absolute share count has remained unchanged, its ownership percentage diluted slightly from ~11.9% to ~10.6% as Lloyds expanded its total equity share base.

A future monetisation remains possible through a block sale, gradual market sale, strategic transaction or financing against the shares. However, assigning a near-term cash value to Sunflag shareholders requires a holding-company discount because the timing, tax consequences, use of proceeds and management's capital-allocation decision are unknown.

Sunflag has not disclosed any plans to exit its stake in Lloyds. In our view, the Company is unlikely to monetise the investment unless it identifies a sufficiently attractive business opportunity.

A cash dividend remains a possible route for value distribution, although the Company has not shared any specific guidance on it.

The current value of these 60 Mn shares of Lloyds on Sunflag's books is ~Rs 110 Bn, while Sunflag's market cap is ~Rs 80 Bn.

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About Lloyds Metal and Energy Ltd.

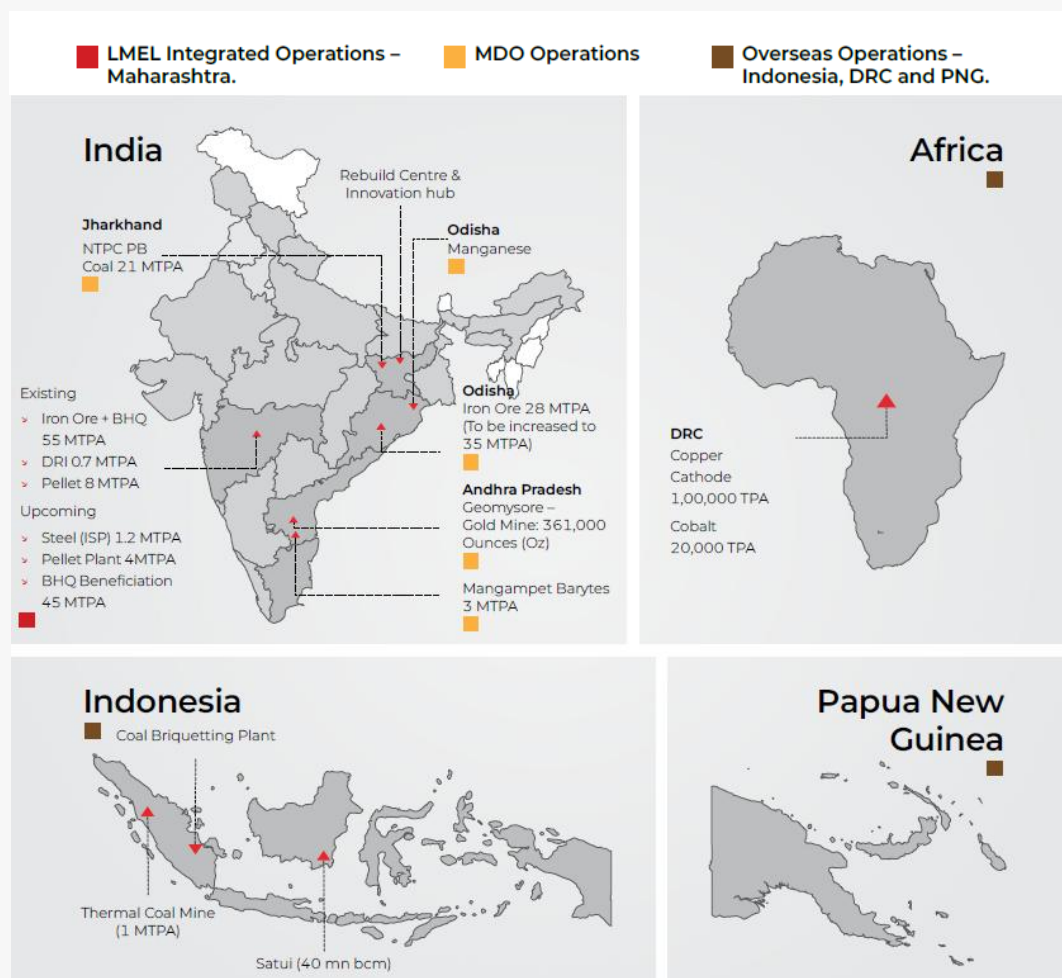
Incorporated in 1977 as Nagarjuna Metals and Engineers Pvt. Ltd. and renamed Lloyds Metals and Energy Limited (LMEL) in April 2011, LMEL is India's largest private merchant iron ore miner and a leading coal-based sponge iron producer. The Company operates across the mining, ferrous metals, and energy value chains, with a portfolio comprising iron ore lumps and fines, Direct Reduced Iron (DRI/sponge iron), iron ore pellets, captive power generation, Mine Developer and Operator (MDO) services, and upcoming downstream products such as Hot Rolled Coils (HRC) and wire rods.

LMEL's operations are centred around its Surjagarh iron ore mine in Gadchiroli and its DRI and captive power facilities at Ghugus and Konsari in Maharashtra. The Company follows a vertically integrated model with captive iron ore, waste heat recovery-based power generation, captive truck fleets, slurry transportation, and in-house beneficiation of low-grade Banded Hematite Quartzite (BHQ) ore. This integration helps reduce dependence on external suppliers, freight costs, and government auction premiums while improving operating efficiency.

Lloyds presence across the geography

BHQ is a low-grade iron ore containing ~25–38% iron, historically discarded as waste due to its high quartz and silica content.

Lloyds processes BHQ through crushing and washing to remove impurities and upgrade it into iron ore concentrate containing over 66% iron.



Source: Lloyds, Keynote Capitals Ltd.

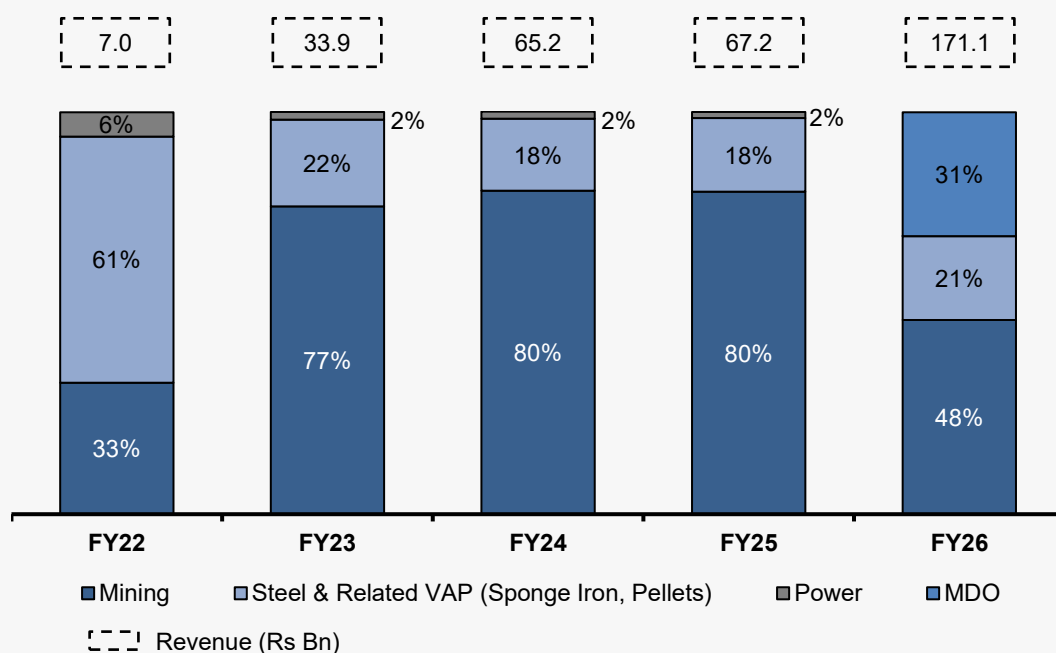
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A major step in LMEL's expansion was the acquisition of a 79.8% stake in Thriveni Earthmovers and Infra Pvt. Ltd. (TEIPL) in July 2025. TEIPL houses the demerged MDO business of Thriveni Earthmovers Pvt. Ltd. and has mining operations across India and international markets. The acquisition strengthened LMEL's mining capabilities, reduced mining costs by Rs. 400–500 per tonne, and added an MDO order book of more than Rs. 1.0 Tn, executable over the next 15–18 years. Its MDO presence extends across India, Indonesia, Papua New Guinea, and the Democratic Republic of Congo.

LMEL has also developed a distribution network across 20 states, supported by its captive truck fleet and slurry pipeline infrastructure. Its diversified customer base includes leading steelmakers, utilities, and international trading houses such as JSW Steel, Jindal Steel & Power, Sunflag Iron & Steel, Shri Bajrang Power & Ispat, NTPC, Marubeni Corporation, Itochu Corporation, Stemcor London Trading Limited, and Royal Eastern Minex DMCC.

During FY26, TEIPL issued additional equity shares to an external investor, which diluted Lloyd's holding from 79.8% to 75.6%.

Revenue Bifurcation (in %)



Source: Company, Keynote Capitals

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Growth drivers for Lloyds

Unlocking massive mining scale (Iron Ore & BHQ)

In June 2025, Lloyds received Environmental Clearance (EC) from the Ministry of Environment to expand its Surjagarh mining operations. The approval permits total annual excavation of up to 60 Mn TPA, subject to individual ceilings of 26 Mn TPA for high-grade hematite, 45 Mn TPA for low-grade BHQ and 5 Mn TPA for waste. The Company's stated combined ore capacity is ~55 Mn TPA, with the actual mix of hematite and BHQ varying according to the approved mining plan. The individual maximum limits cannot all be utilised simultaneously. This significantly expands the Company's mining headroom and provides the raw-material base required to support its planned downstream capacity additions.

The Surjagarh mine was originally allocated to Lloyds in CY07. Following amendments under the Mines and Minerals (Development and Regulation) Act, 2015, the lease tenure was automatically extended to 50 years, providing mining rights until CY57 without any additional auction premium. This is particularly valuable as several competing iron ore leases are expected to expire and come up for re-auction between CY26-30, where winning bidders could be required to pay significantly higher auction premiums.

Beyond the long mine life, Surjagarh also provides Lloyds with a structural cost advantage. The mine contains high-grade iron ore with relatively low alumina and silica content, while the planned captive slurry pipeline should further reduce transportation costs. In addition, royalty paid on ore consumed captively is eligible for reimbursement under the Industrial Promotion Subsidy (IPS) scheme. Together, the absence of an auction premium, favourable ore quality, integrated logistics and subsidy benefits position Lloyds among the lower-cost iron ore producers in India.

MDO – annuity-like business model

Lloyd's current 75.6% stake in TEIPL provides the Company with a scalable and relatively annuity-like MDO business, spanning bulk and critical minerals across India, Indonesia and the DRC. Unlike merchant mining and steel manufacturing, where earnings are closely linked to commodity prices, the MDO business operates largely through long-tenure, fee-based contracts with established steel companies and government entities, providing greater revenue visibility and helping reduce the cyclical nature of Lloyd's overall portfolio.

The integration of TEIPL also creates meaningful operating synergies at the Company's flagship Surjagarh mine, where bringing mining operations in-house is expected to eliminate external contractor margins and reduce iron ore extraction costs by ~Rs 400–500 per tonne, potentially improving consolidated mining EBITDA margins by ~10–15%. TEIPL's captive Rebuild Centre in Jamshedpur further strengthens its cost advantage by refurbishing heavy earthmoving machinery at ~30% of the cost of purchasing new equipment, thereby lowering maintenance capex requirements.

Going ahead, the Company plans to expand its MDO presence across coal, copper, bauxite and other bulk commodities, while a rising share of higher-volume contracts and value-added mineral processing projects could drive MDO EBITDA margins from historical levels of ~25% towards 32–36%. Together, these factors position MDO as both a stabilising earnings stream and an important growth engine for LMEL over the coming years.

Diversifying beyond ferrous metals

To reduce its dependence on the domestic iron ore and steel cycle, Lloyd's is gradually building a presence across non-ferrous and critical minerals linked to global electrification and the energy transition. The key focus is copper and cobalt in the Democratic Republic of Congo (DRC).

According to Tata Steel Industrial Consulting's Mineral Resource Report, the Surjagarh mine has total mineral resources of 863 Mn tonnes, comprising 157 Mn tonnes of Iron Ore and 706 Mn tonnes of BHQ.

Lloyd's royalty outgoings are ~20% of the ASP, substantially lower than the ~40% for public-sector mines and >150% for auctioned captive mines. This structural advantage underpins LMEL's cost competitiveness and resilience across price cycles.

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Through Surya Mines, where Lloyd's holds a 50% interest, the Company has access to 16 mining licences spread across ~100 sq. km along with a 12,000 TPA SX-EW copper processing plant, which commenced commercial production in March 2026 and has a pathway to scale towards 30,000 TPA. It started commercial production of copper cathode at Surya Mines in Mar-26.

The Company has further strengthened its presence through a 49% stake in Chemaf Group, which holds more than 50 mining permits and integrated processing assets in the DRC. Together, these platforms provide Lloyd's a potential pathway towards ~100,000 TPA of copper and ~20,000 TPA of cobalt production.

Beyond copper and cobalt, the Company is also extending its mining capabilities into gold and other industrial minerals. It has commenced contract mining and exploration for Geomysore's gold project in India, undertaken the Mangampet Barytes project in Andhra Pradesh, and is exploring opportunities around the Panguna copper-gold mine in Papua New Guinea. While these initiatives remain at different stages of development, they mark an important step toward a more diversified mineral portfolio and reduced dependence on the domestic ferrous cycle over the longer term.

Steel Prices to remain firm going forward

Indian steel prices are likely to remain firm over the coming months, supported by several key factors.

Domestic demand remains healthy

India's finished steel consumption is increasing 7% on a YoY basis to ~70 Mn tonnes during the first five months of FY27, from April to August. As the monsoon season recedes, activity in infrastructure and construction is expected to improve, while automobile demand could also strengthen, providing further support to steel consumption.

Raw-material costs have risen sharply

NMDC has increased its DR-CLO price to Rs. 6,000/tonne, while iron ore fines remain at Rs. 4,500/tonne. At the same time, Australian premium hard coking coal prices have risen by ~\$70/tonne on a MoM basis to ~\$283/tonne, while domestic met coke prices have increased to ~Rs. 42,000/tonne, their highest level in nearly 3.5 years. Since iron ore and coking coal account for a significant portion of steelmaking costs, these elevated input prices are putting pressure on mill margins and establishing a strong floor for steel prices.

Steel prices are already operating from an elevated base

According to BigMint, HRC prices are currently ~Rs. 63,800/tonne and rebar prices ~Rs. 61,000/tonne, with both up ~30% compared with a year ago. Mills are also expected to operate at full capacity through September and October, meaning maintenance shutdowns are unlikely to provide an additional trigger for prices. Instead, restocking demand, festive demand and elevated input costs are expected to sustain current price levels.

Overall, strong underlying demand should provide a steady base for steel prices, while rising raw-material costs are squeezing mill margins and reinforcing the price floor. Consequently, the probability of a sharp decline in steel prices appears low, although further upside from current levels is also likely to remain limited.

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Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY25	FY26	FY27E	FY28E	FY29E
Net Sales	35,356	39,394	40,444	40,444	40,444
Growth %		11%	3%	0%	0%
Raw Material Expenses	22,075	24,809	25,884	25,884	25,884
Employee Expenses	1,373	1,511	1,618	1,719	1,719
Other Expenses	8,014	8,306	8,493	8,493	8,493
EBITDA	3,893	4,768	4,449	4,348	4,348
Growth %		22%	-7%	-2%	0%
Margin%	11%	12%	11%	11%	11%
Depreciation	1,045	1,132	1,112	1,170	1,226
EBIT	2,849	3,637	3,337	3,178	3,122
Growth %		28%	-8%	-5%	-2%
Margin%	8%	9%	8%	8%	8%
Interest Paid	899	722	674	674	674
Other Income & exceptional	165	77	77	77	77
PBT	2,115	2,992	2,740	2,581	2,525
Tax	497	985	685	645	631
PAT	1,618	2,007	2,055	1,936	1,894
Profit from associates	3	17	17	17	17
Minority interest	0	0	0	0	0
Net Profit	1,621	2,024	2,072	1,952	1,910
Growth %		25%	2%	-6%	-2%
Shares (Mn)	180.2	180.2	180.2	180.2	180.2
EPS	9.0	11.2	11.5	10.8	10.6

Balance Sheet

Y/E Mar, Rs. Mn	FY25	FY26	FY27E	FY28E	FY29E
Cash, Cash equivalents & Bank	1,582	2,298	2,211	3,367	4,804
Current Investments	0	0	0	0	0
Debtors	3,617	3,393	4,449	4,449	4,449
Inventory	9,312	9,763	10,871	10,871	10,871
Short Term Loans & Advances	1,058	1,696	1,696	1,696	1,696
Other Current Assets	103	192	192	192	192
Total Current Assets	15,671	17,341	19,419	20,575	22,012
Net Block & CWIP	17,821	17,909	18,010	17,953	17,839
Long Term Investments	77,791	76,923	76,936	76,949	76,963
Other Non-current Assets	587	752	752	752	752
Total Assets	1,11,870	1,12,925	1,15,117	1,16,229	1,17,566
Creditors	4,783	5,466	6,208	5,953	5,953
Provision	14	42	42	42	42
Short Term Borrowings	2,823	3,016	3,016	3,016	3,016
Other Current Liabilities	3,197	3,248	3,248	3,248	3,248
Total Current Liabilities	10,817	11,771	12,513	12,258	12,258
Long Term Debt	1,653	611	611	611	611
Deferred Tax Liabilities	11,006	11,081	11,081	11,081	11,081
Other Long Term Liabilities	714	720	720	720	720
Total Non Current Liabilities	13,374	12,412	12,412	12,412	12,412
Paid-up Capital	1,802	1,802	1,802	1,802	1,802
Reserves & Surplus	85,862	86,923	88,373	89,740	91,077
Shareholders' Equity	87,664	88,725	90,175	91,542	92,879
Non Controlling Interest	16	16	16	16	16
Total Equity & Liabilities	1,11,870	1,12,925	1,15,117	1,16,229	1,17,566

Cash Flow

Y/E Mar, Rs. Mn	FY25	FY26	FY27E	FY28E	FY29E
Pre-tax profit	2,115	2,992	2,740	2,581	2,525
Adjustments	1,867	1,759	1,622	1,680	1,735
Change in Working Capital	-1,511	-66	-1,422	-255	0
Total Tax Paid	-549	-784	-685	-645	-631
Cash flow from operating Activities	1,922	3,901	2,255	3,360	3,629
Net Capital Expenditure	-881	-1,277	-1,213	-1,112	-1,112
Change in investments	-186	-104	0	0	0
Other investing activities	154	164	168	168	168
Cash flow from investing activities	-913	-1,217	-1,046	-945	-945
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-996	-960	0	0	0
Dividend (incl. tax)	0	-135	-621	-586	-573
Other financing activities	-940	-783	-674	-674	-674
Cash flow from financing activities	-1,936	-1,878	-1,296	-1,260	-1,247
Net Change in cash	-926	807	-87	1,156	1,437

Valuation Ratios

	FY25	FY26	FY27E	FY28E	FY29E
Per Share Data					
EPS	9.0	11.2	11.5	10.8	10.6
Growth %		25%	2%	-6%	-2%
Book Value Per Share	487	492	500	508	515
Return Ratios					
Return on Assets (%)	2%	2%	2%	2%	2%
Return on Equity (%)	2%	2%	2%	2%	2%
Return on Capital Employed (%)	3%	3%	3%	3%	3%
Turnover Ratios					
Asset Turnover (x)	0.4	0.4	0.4	0.3	0.3
Sales / Gross Block (x)	1.8	1.9	1.8	1.7	1.7
Working Capital / Sales (%)	13%	13%	15%	19%	22%
Receivable Days	37	32	35	40	40
Inventory Days	146	140	145	153	153
Payable Days	79	74	79	86	84
Working Capital Days	103	99	102	108	110
Liquidity Ratios					
Current Ratio (x)	1.4	1.5	1.6	1.7	1.8
Interest Coverage Ratio (x)	3.4	5.3	5.2	5.0	4.9
Total Debt to Equity	0.1	0.0	0.0	0.0	0.0
Net Debt to Equity	0.0	0.0	0.0	0.0	0.0
Valuation					
PE (x)	45.7	36.6	35.7	37.9	38.7
Earnings Yield (%)	2%	3%	3%	3%	3%
Price to Sales (x)	2.1	1.9	1.8	1.8	1.8
Price to Book (x)	0.8	0.8	0.8	0.8	0.8
EV/EBITDA (x)	20.2	16.5	17.7	18.1	18.1
EV/Sales (x)	2.2	2.0	1.9	1.9	1.9

Source: Company, Keynote Capitals Ltd. Estimates

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Valuation

Particulars	FY26	FY27E	FY28E
Operational data			
Capacity (in MT)	5,00,000	5,00,000	5,00,000
Utilization (in %)	94%	96%	96%
Production (in MT)	4,67,540	4,80,000	4,80,000
Realisation (Rs)	84,258	84,258	84,258
Financial data			
Revenue (Rs Mn)	39,394	40,444	40,444
Gross margin (in %)	37%	36%	36%
EBITDA margin (in %)	12%	11%	11%
EBITDA (Rs Mn)	4,768	4,449	4,348
EV/EBITDA (x)			7
Net Debt (Rs Mn)			259
Sunflag core business Valuation (Rs. Mn)			30,174
Sunflag stake in Lloyds (Rs Mn)			1,09,140
Holding Company Discount (in %)			40%
Estimated Market Cap. (Rs Mn)			95,658
Outstanding Shares (in Mn)			180
Target Price (Rs.)			531
CMP (Rs.)			410
% Upside			29%

Source: Company, Keynote Capitals Ltd. estimates

We value this opportunity using a Sum-of-the-Parts (SOTP) approach, treating Sunflag's core steel business and the equity stake in Lloyds as two distinct assets with different risk-reward characteristics.

For the core steel business, we build in low volume growth going forward. Sunflag has taken roughly a decade to expand capacity from 0.4 Mn MTPA to 0.5 Mn MTPA, a pace that reflects a deliberate, low-growth capital allocation approach rather than an aggressive expansion strategy. With the plant currently running at full utilisation and no announced plans for the next leg of capacity addition, assuming flat volumes is the more conservative and realistic basis for valuing the business, rather than extrapolating growth that management has given no visibility on.

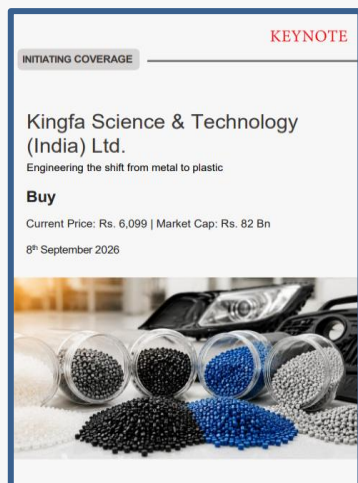
For the Lloyds stake, we deliberately do not value it at full quoted market price. There are three specific reasons for applying a holding-company discount here, first, an eventual monetisation would attract tax costs, reducing the actual value that flows through to shareholders; second, given the size of the holding, a sale could have a market-impact cost, meaning the exit price may be lower than the last-traded price; and third, there is no clarity on the timing of any monetisation or on how the proceeds, if realised, would be deployed. Beyond these financial considerations, the stake is not purely a passive investment, it is linked to Sunflag's strategic raw-material relationship with Lloyds, which makes an outright sale less likely in the near term and reinforces the case for discounting it rather than treating it as a liquid, freely disposable asset.

By valuing both businesses separately through the SOTP approach, we believe this method provides a more accurate valuation than applying a single blended multiple. Adding both the assets together, we arrived at a target price of Rs 531, giving an upside of 29% from the current levels.

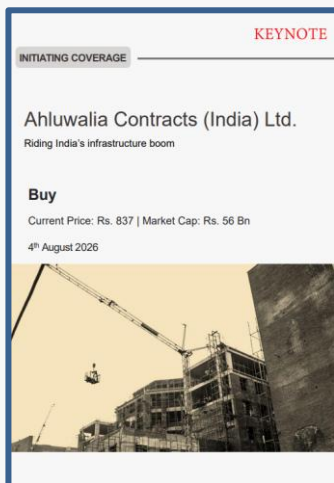
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Jyoti CNC Automation Ltd.

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Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
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