

CMP: INR 428
Outlook : Positive

Stock Info

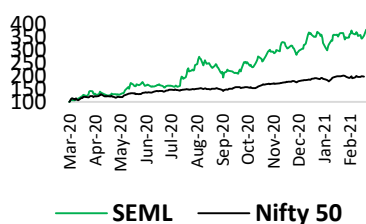
BSE	504614
NSE	SARDAEN
Bloomberg	SEML:IN
Reuters	SEML.BO
Sector	IRON & STEEL PRODUCTS
Face Value (Rs)	10
Equity Capital (Rs mn)	361
Mkt Cap (Rs mn)	15408
52w H/L (INR)	447 / 97
Avg Yearly Volume (in 000')	102.56

Shareholding Pattern %

(As on Decemner, 2020)

Promoters	72.5
Public & Others	27.5

SEML Vs Nifty



Peer Comparison(TTM basis)

in mn	GPIL	IMFAL	SEML
Revenue	35997	16472	19146
EBITDA	8948	1873	4063
EBITDAM (%)	24.9	11.4	21.2
PAT	3448	499	2032
PATM (%)	9.6	3.0	10.6
EPS (Rs)	101	19	56
PE(x)	7.0	25	7.6
ROE(%)	23%	4.3%	10.3%
D/E(x)	0.9	0.5	0.8

Sarda Energy & Minerals Limited (SEML), incorporated in 1973, is an integrated steel producer of long steel products having steel manufacturing facility at Raipur, Chhattisgarh. It is also leading producer and exporter of Ferro Alloys with manufacturing facility at Raipur & Vizag. It also has interests in Hydro Power sector through SPVs.

Key Positive Triggers

Healthy Financials & Strong Balance Sheet: On standalone Basis Company does a top line of INR 14000-17000 mn, depending on price of steel. EBIDTA margin vary from 18-19% in bad times to more than 30% in very good times. Company's operation is debt light, company pays nearly INR 300-400 mn as debt repayment every year against cash accrual of INR 2500 mn. Net debt of company is around INR 13500 mn as on Q3FY21. Cost of debt for operational projects is around 8.5% and under construction projects cost of debt is around 12%-13%. Once the project is complete debt is refinanced which helps in reduction of cost of debt.

Proximity to availability of Raw Material Company has operational iron ore mines and has recently won Shahpur West coal Mine , Gare palma IV/7 Coal mine in auction, which earlier got deallocated and will start the production in October. This would lead to benefit company in two ways to get timely supply of main raw material of manufacturing steel ie iron ore and coal.

Hydro Power Capex : In Sikkim plant, Hydro power capacity earlier was 96 MW and rated capacity of turbine is 113 MW. Company has got approval from government to enhance capacity to 115 MW. Post commencement of Sikkim unit on commercial basis, total Hydro power capacity would be 145 MW comprising of 115 MW in Sikkim 25 MW in chhattisgarh and 5 MW in Uttrakhand as the Hydro Power capex is over it would lead to higher free cash flow generation.

Outlook : At a CMP of INR 428 Stock is trading at a P/E multiple of 12.2(x) to its FY20 EPS of INR 35. We continue to remain positive on Sarda Energy due to a) strong balance sheet b) completion of hydro power capex leading to higher free cash flow going forward c) Plant strategically located in chhattisgarh d) proximity to availability of raw material e) Mine availability to improve margins. f) Company's positioning will help to deliver profits during down cycle also. We do not have active coverage on stock, however one can look at stock for portfolio investment.

Consolidated Financials (INR in Mn)

in Mn	FY17	FY18	FY19	FY20	9MFY21
Revenue	14342	21737	23238	20001	14997
EBITDA	2110	3997	4576	3128	3295
EBITDAM (%)	14.7%	18.3%	19.6%	15.6%	22%
PAT	1269	2047	2071	1355	2355
PATM (%)	8.8%	9.4%	8.9%	6.7%	15.7%
EPS	36	56	56	35	67
EV/EBIDTA(x)	7.8	6.0	5.0	5.8	9.1
PE(x)	12	7.6	7.6	12.2	6.4

Source: Arihant Research, Company Filings

Management Meet Highlights:

- Company is fully integrated long steel manufacturer and partially integrated Ferro Alloy manufacturer. Company has operational iron ore mines. It also had coal mines which got deallocated when deallocation of coal mines happened for all private sector companies in India. Company has won the same coal mine in recent auction (Shahpur West coal Mine , Gare palma IV/7 Coal mine) that should start production in October. This would lead to benefit company in 2 manner as timely supply of main raw material of manufacturing steel ie iron ore and coal company manufactures both raw material required for manufacture of steel in-house.
- The company has also won second mine in Shahpur West in the state of Madhya Pradesh with extractable reserves of 13 million metric tons and presently approved extraction capacity of 0.6 million metric tons is there. The mine is at a distance of 260 kilometers from company's manufacturing facilities. The company has to start production in the mine within 51 months from the date of signing of the vesting order. Vesting orders for both the mines are expected to be issued this month.
- The company has been recently allowed "consent to operate" the enhanced capacity of pellet plant from 600k mts per annum to 800k mts per annum.
- Company manufactures its own Iron Ore Pellets, Sponge Iron, Steel Billets, Wire Road, HB wires etc. Company has a captive power plant of 80 MW which is used completely.
- On Ferro Alloy side company makes manganese based Ferro alloys, two main raw material are thermal power which requires coal which company will have in house once the production starts in October and another is manganese ore which company buys from MOIL. Company has 5 furnaces of 9MW each.
- On standalone Basis Company does a top line of INR 14000-17000 mn depending on price of steel. EBIDTA margin vary from 18-19% in bad times to more than 30% in very good times. There is lesser chance of any margin expansion despite backward integration, expansion of capacity going forward due to cyclical nature of business.
- Company's operation is debt light, company pays nearly INR 300-400 mn as debt repayment every year against cash accrual of INR 2500 mn
- As a Holding company it holds 3 major operating assets one is in metal space on Ferro alloy side based out of Vizag. It is export focused, exporting to more than 40 countries with major exports is to Japan that entity has 2 furnaces of 33MVA and 80 MW power plant. Company is in process of putting third furnace over there. On sustainable basis EBIDTA margin are around 14-15%. Top line is around 6000-7500 mn depending on prices.
- Second operating unit is 5MW hydro power project in Uthrakhand which is debt free and free cash flow generating. Other project is 25 MW power plant in Chhattisgarh which is also debt free and free cash flow generating. Expected long term PLF to be around 40-45%.
- Another operating unit is a 115 MW plant in Sikkim in which PPA is signed for 35 years and construction has started in Feb for which machines are imported from Europe. For Hydro power plant there is standard tariff structure. Interim tariff process is under way for the company One set of filling document is happened with regulator 2nd hearing is scheduled in March. Interim Tariff rate will be awarded only after that company will start injection process.
- In Sikkim plant, Hudro power capacity earlier was 96 Mw and rated capacity of turbine is 113 MW company has got approval from government to enhance capacity to 115 MW. Post commencement of Sikkim unit on commercial basis ,Total Hydro power capacity would be 145 Mw comprising of 115 MW in Sikkim 25 MW in chhattisgarh and 5 Mw in Uthrakhand .
- Large hydro power project now comes under renewable purchase obligation of state government. Hydro power obligation is which every state is to meet in which they have to buy units at INR 5.5 per unit with 5% rise in escalation every year so as per company expectation Provisional tariff should be at least 6+. Per unit.

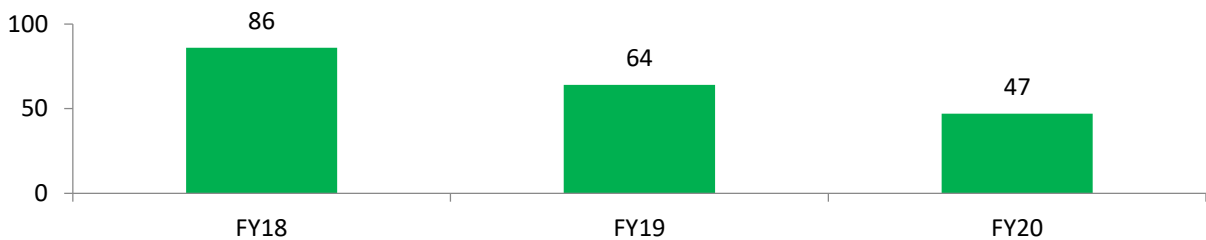
Management Meet Highlights:

- Hydro power business will be working as independent business going forward. No more equity infusion will happen from parent company. Second expansion in Hydro will be done from cash flow of existing plant.
- Investment activity from Honkong and Dubai is largely in listed bonds by which company is making good profits. The current portfolio value is around INR 1500 mn.
- Net debt is around INR 13500 mn most of debt of the company is in hydro power segment Sikkim unit is having debt around INR 9600 mn and Chattisgarh Hydro unit debt is around INR 1100 mn so almost INR 11000 mn debt in Hydro business and around 5000 mn debt is there in metal business (gross level) both debt being paid as per repayment schedule.
- On debt repayment, both the Hydropower debt is repayable over 15 years. Cost of debt for operational projects is around 8.5% and under construction projects cost of debt is around 12%-13%. Once the project is complete debt is refinanced which helps in reduction of cost of debt.
- Outlook on Ferro alloys : Global big players production capacity has been impacted Vale has announced closure in Brazil. In South Africa also there are issues with furnaces, this is putting constraint on global supply side. On domestic front also leveraged players are also impacted. Rise in prices of ferro alloys is also due to rise in demand of steel.
- Elevated level of steel prices to remain high till iron ore supplies normalize and company expects at least it will take 6 months till supply normalizes.
- Rise in Manganese ore prices will not impact margins in next quarter.
- Margins in March is expected to be better than December and even realization in pellets is expected to be in range of INR 11500-12000 per ton which is higher on QoQ basis.
- Raipur Plant buys Manganese ore from Moil.
- Vizag Plant imports 70% of manganese ore and buys 30% from Moil.
- There are three main capex happening currently in the company first is company is putting third furnace in Vizag for which financial closure will happen in March or April It will be 33MVA and it will add 45000 MT to production of ferro Alloys.
- Post this capex Margin of Vizag plant to improve from current sustainable 14-15% to 17-18%.
- Capex for Vizag plant is around 1350 mn and is likely to happen in next 2 years and is to be funded in Debt to Equity ratio of 70:30. Net impact on debt will be zero as what revenue will be generated from that plant in this year and next year will be more than what additional debt company will pay.
- Company is paying 350 mn of debt in Vizag entity every year so till the time of completion of 2.5 year company would have paid a debt of 1000 mn till the time company takes a new debt of INR 900-950 mn. Another capex is coal mine capex where the requirement is of INR 1500 mn. Company has paid INR 700 mn in advance money to government through internal accruals. Out of 1500 mn 1000 mn is refundable after 1.5 year of production so in net outflow will be around INR 500 mn. Third capex is a Hydro power side where Chhattisgarh Hydro will be putting second unit of 25 MW total capex required is 2600 mn funded in 70:30 ratio in which holding company will not be involved and funds would be used from proceeds of power business only.
- Company does not export to China. However as per channel checks, pellet export volumes are stronger than last year with improved realizations on QoQ basis. This would also aid Pellet Prices to be stronger thus boosting revenue and margins of the company.
- The company is not going to be impacted by recent government order to allow secondary steel producers in tenders as it is pertaining to TMT business where company doesn't have any presence in the segment.
- On the sponge iron segment, the realization in Q3 was INR 21k per ton which is in range of INR 24-25k per ton.

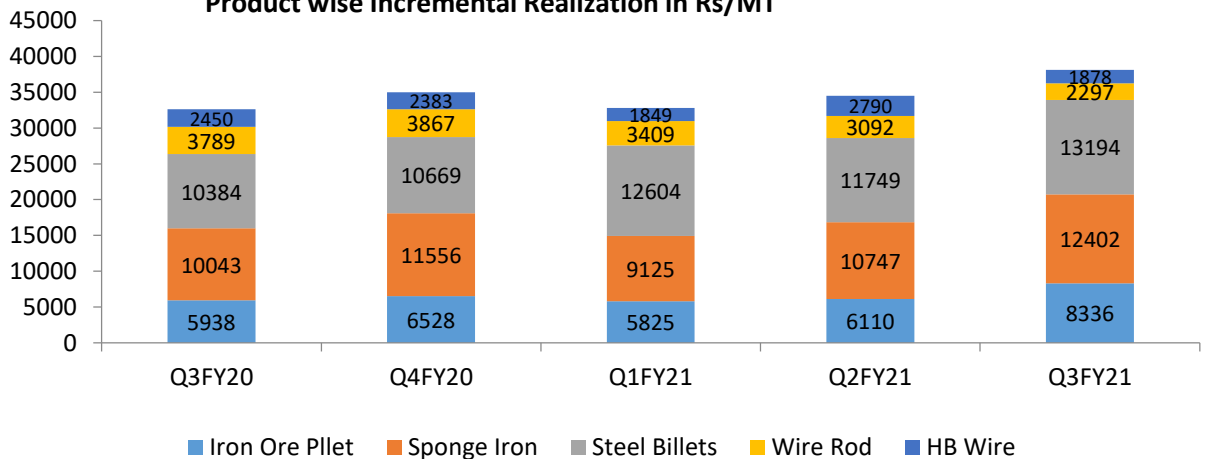
Yearly Volume Trend (in 000MT)	Production			Sales		
	FY18	FY19	FY20	FY18	FY19	FY20
Iron Ore Pellets	600	600	600	384	438	313
Sponge Iron	278	302	325	150	148	161
Steel Billet	136	157	175	20	33	30
Wire Road	113	119	142	86	97	118
HB Wire	28	21	23	29	20	21
Ferro Alloys	149	145	124	149	139	123

Yearly Power Generation- Mn Units	Generation			Sales		
	FY18	FY19	FY20	FY18	FY19	FY20
Thermal Power	1010	1076	999	145	173	142
Hydro Power	74	85	115	74	85	115

Ferro Alloys Exports (000MT)



Product wise Incremental Realization in Rs/MT



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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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