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Dear Sir,

Sub: Transcript of the earnings call conducted on 1st August 2023

Please find enclosed herewith the transcript of the Q1 / FY 24 Earnings Conference Call conducted on 1st August 2023. This is for your information and records.

This information is being hosted on the Company's website - www.seml.co.in.

Thanking you,

Yours faithfully,
For Sarada Energy & Minerals Ltd.

Authorised Signatory

Encl: As above



“Sarda Energy & Minerals Limited
Q1 FY’24 Earnings Conference Call”

August 01, 2023



**MANAGEMENT: MR. PANKAJ SARDA – JOINT MANAGING DIRECTOR –
SARDA ENERGY & MINERALS LIMITED
MR. PADAM KUMAR JAIN – CHIEF FINANCIAL
OFFICER, WHOLE-TIME DIRECTOR – SARDA ENERGY
& MINERALS LIMITED
MR. MANISH SARDA –DY. MD, SARDA METALS &
ALLOYS LIMITED**

Moderator:

Ladies and gentlemen, good day, and welcome to the Sarda Energy & Minerals Limited, Q1 FY '24 Earnings Conference Call. As a reminder, all participants' lines will be in only-listen-mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Pankaj Sarda, Joint Managing Director, Sarda Energy and Minerals Limited. Thank you, and over to you, sir.

Pankaj Sarda:

Thank you, dear moderator. Good afternoon, everyone. I extend a very warm welcome to all of you to the Q1 FY '24 earnings call of Sarda Energy & Minerals Limited. Today's discussion may include forward-looking statements, which must be considered in conjunction with the risks that industry in general and our business in particular face, and actual results may vary materially.

The company has completed 50 years of its success journey on 23rd June 2023. To commemorate the occasion, the directors had recommended a special dividend of 75% in addition to the regular dividend of 75% and had also proposed split of each equity share in 10 shares. 4th August has been fixed as record date for splitting the shares. This will improve much needed liquidity in equity shares of the company.

During the quarter under review, globally, the economies continue to face macro headwinds on account of high inflation, high-interest rates, war between Russia and Ukraine and impose sanctions affecting commodity prices, including steel. In India, domestic steel demand continued to grow and was up around 10%, but steel spot prices moderated in line with global cues.

Raw material and fuel prices also moderated further. As such, margins remained stable with downward bias. Central banks continue to adopt tighter monetary policies to rein in inflation, resulting into liquidity tightening, demand compression and high interest rates. The operating performance of manufacturing facilities has been stable.

During the quarter, we recorded highest ever level of production of 226,360 metric tons of iron ore pellet against capacity of 8 lakh tons per annum. In Q1 FY'24, we exported 29,358 metric tons of ferro alloys valued at about INR242 crores against 26,300 metric tons in Q1 FY '23 valued at INR300 crores and 34,560 metric tons in Q4 FY '23 valued at INR294 crores.

The hydropower generation was low during the quarter as compared to the corresponding quarter of the previous year due to delayed arrival of the monsoon in the eastern part of the country. The total generation was 101 million units against 149 million units during Q1 FY '23. In July, the generation was better YoY.

Mines and Minerals-We have applied for increase in the coal mining capacity from 1.44 million tons to 1.68 million tons and expect to receive permission during the current year. In view of increased in-house coal requirement post acquisition of SKS Power, we are seeking approvals to increase the core mining capacity of Gare Palma IV/7 Coal Mines to 5.2 million

tonnes in phases. The capacity of the coal washery is also proposed to be increased suitably to meet our requirements.

Process of forest clearance is going on for Shahpur West coal mine in Madhya Pradesh. We expect to commence commercial production before the stipulated period of 51 months from allotment.

Soon, we shall enter into an agreement with SECL for mining of high-grade coal from Kalyani coal mine on revenue sharing business. We have to restart mining within 18 months after obtaining all required approvals, etc. This will be the first mine under revenue sharing model.

Surjagad iron ore mine- we expect to get a letter of intent for composite license for the mine soon, thereafter prospecting work will be started.

Hydropower project under construction- Construction work at 25-megawatt Rehar hydropower project is progressing as per schedule and it is expected to be operational before the end of FY 25.

Acquisition- Considering the rising power demand and positive outlook for the sector, we have submitted our bid for acquisition of SKS Power Generation(Chhattisgarh) Limited through IBC route. We have been declared as successful resolution applicant. The plan has been filed with NCLT for its approval. NCLT has heard the petition and reserved for orders. As part of resolution plan, SKS Power will be merged into our company.

We expect to complete the acquisition before end of current year. SKS is having an operational thermal power plant of 600-megawatt capacity near our coal mine in Raigarh, Chhattisgarh and this acquisition will bring operational synergies with our coal mine. Presently, NTPC is running the plant under O&M contract. We are taking steps to increase mining capacity of the coal mine to meet increased coal requirement. The acquisition will be funded through a judicious mix of debt and equity. Equity fund requirements will be met mostly from surplus funds and internal accruals.

Now, I hand over to Mr. P K Jain, who will brief about financial performance and position of the company. Over to you, Mr. Jain.

Padam Kumar Jain:

Thank you, Pankajji. The company has achieved quarterly consolidated revenue of INR1,052 crores during quarter 1 FY '24 against INR1,076 crores reported in the last quarter and INR1,261 crores in corresponding period of the previous year.

The company has reported operating EBITDA of INR207 crores during the quarter against INR209 crores in the previous quarter and INR364 crores in quarter 1 FY '23. The company's profit after tax at the consolidated level, stood at INR173 crores, as against INR115 crores in the previous quarter and INR173 crores in the quarter one of previous year.

At a stand-alone level, the company is net debt free with surplus funds. At the consolidated level, gross long-term loan stood at ~INR1,200 crores and short-term borrowing stood around

INR100 crores. The total net debt stood about ~INR500 crores and the total debt net of the loans given is just INR150 crores. Loan repayable within next one year is INR110 crores.

Ongoing capex, including for the coal mine and the hydropower project have been financed from the internal accrual. The company is not exposed materially to currency rate fluctuations. Foreign currency exposure is majorly covered by natural hedge by import and export.

Now, I hand over to Shree Manish Sarda, who will brief about Steel and Ferro Alloys industry scenario and also outlook in the coming period. Over to Manishji.

Manish Sarda:

Thank you, Mr. Jain. During June quarter, the world steel production recorded negative growth of 3% from 497 million tons to 483 million metric tons. China, which produces more than 57% of world steel recorded negative growth of 4%. India produced 31.9 million metric tons recording growth of 12% despite a fall of 20% in steel exports from 2.88 million metric tons to 2.33 million metric tons year-on-year and jump in imports by 28% from 1.23 million metric tons to 1.58 million metric tons.

This has been possible due to robust domestic demand. The apparent consumption has gone up from 27.5 million metric tons to 30.3 million metric tons, registering a growth of more than 10%. Energy and logistic prices have softened during the quarter. The finished goods prices also softened broadly maintaining margins. Ferro Alloys prices also corrected during the quarter.

Outlook- Input cost of steelmaking, including iron ore, coke, coal, energy may remain range bound with downward bias. Steel prices may also remain range-bound due to seasonal effect. Manganese Ore prices have also softened, ferro alloys prices have also softened and may improve from here due to production cut post increase in power tariff, particularly in Andhra Pradesh.

The hydropower projects generally operate at their peak load during quarter two and generate about half of annual generation during the quarter. Since hydropower contributes a substantial amount to EBITDA levels that should result in a better financial performance in Q2. This is all about the performance and outlook.

Now, we leave the forum open for questions from participants.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Rathi from Aequitas Investments.

Subham:

This is Subham from Aequitas. Sir, my first question is related to the thermal power plant that we are planning to acquire. So, by when can we expect the NCLT orders? And what's the timeline that we are expecting internally to consummate this transaction?

Padam Kumar Jain:

As stated in our initial comments, the matter has already been heard by the NCLT and it is reserved for orders. But still, matter being subjudice, it is difficult to give any time frame. But what we expect is, I think, before the end of the current year, we should be able to consummate the transaction.

- Subham:** And if we are able to get this asset by the end of the year, will we have enough coal for forward integration of our coal mines or will we acquire coal from outside?
- Padam Kumar Jain:** No, this is IPP. Here whatever power we are supplying under the long-term contracts, for that linkage coal is available from the government at concessional price. For independent power projects, there is a different rate. So to the extent, they already have a long-term linked contract. Whatever power we supply even in the future under long-term contract of the power supply, we will get coal from Coal India Limited.
- For any power supply under the bilateral contract or on the multilateral forums like IEX or any other exchange, for that we still have to procure coal from outside which we will take from our mine and that will take care of the requirement.
- Subham:** Okay. And can you also give us some indication as to what will be the size of this transaction?
- Padam Kumar Jain:** Since the matter is sub judice, it will be very difficult to give you a specific figure. But so far, as the transaction is concerned, it has been bid on competitive basis and at a reasonable price. But giving specific figure will be very difficult because the matter is sub judice. And whatever transaction value is there, that is also again subject to certain adjustments from the date of the admission to the CIRP to the date of the completion of the transaction.
- Subham:** Got it. Fair enough. And on the Steel division, sir, could you explain what drove the margin so low this quarter compared to last quarter in the Steel division specifically?
- Padam Kumar Jain:** No. If you see, the prices of steel products have gone down on all the fronts. There is always a time lag between the raw material price correction and finished goods price correction. So, one reason is, we had high cost inventories also and since we have our own coal to that extent our raw material price was not affected.
- Subham:** Okay. So sir, it would be fair to assume that this is the stable rate margin that we can expect in future quarters also given that our raw material is not expected to go down further.
- Padam Kumar Jain:** No. But if the prices move up from here, then the advantage will be available. And second thing is whatever the raw material inventory we were holding at a higher price, in the future, we will purchase inventory at a lower cost. In the last two, three months, continuously the pricing of iron ore, coal and manganese ore all the 3 items have gone down. So, the effect of that should definitely get reflected.
- Subham:** And the total coal that we have sold outside also declined substantially this quarter compared to last quarter. Any reason for this?
- Padam Kumar Jain:** Sales quantity quarter on quarter? If you compare year-on-year, last year, what had happened is we had produced more coal in the January to March '22. We had produced much more quantity because of a limited time slot available for production of the 1.2 million tons. So, because of opening inventory in the first quarter of FY2023, there was higher sales but otherwise, there is no material difference so far as the sales quantity QoQ is concerned.

- Subham:** Okay. But if we consider that, we got an approval to increase this quantity in May only, Q-on-Q, we would have expected increase in production, right?
- Padam Kumar Jain:** No, you are talking about 1.2 to 1.44?
- Subham:** Yes.
- Padam Kumar Jain:** That capacity we will produce over a period of 12 months, production will remain stable over the period of 12 months. So, in the coming months, definitely sales will go up and also in the falling market generally buyers also defer their buying. So, that also had some effect on the quantum. But overall, there is not an issue. We will be able to cross what we have sold in the previous year. Our current year sales should be more than that.
- Moderator:** The next question is from the line of Rakesh Roy from Omkara Capital.
- Rakesh Roy:** My first question regarding your SKS power, sir. Sir, is the power you use for your captive use or sell sir?
- Padam Kumar Jain:** No, this will be used for sales, but partly, we may also consume captively if we find the economic sense in consuming power captively by producing there and supplying to our subsidiary. We will evaluate depending upon the situation. But as of now, it is purely for the market sales.
- Rakesh Roy:** Sir, apart from buying this one, do we need any capex, additional capex for this plant?
- Padam Kumar Jain:** Yes. Some minor capex not material, but there may be one more capex for FGD related, but we have some time for that. As of now, we don't require material capex. Some minor improvement related capex, maintenance-related capex will be there.
- Rakesh Roy:** So how old is the plant, sir? How old, sir?
- Padam Kumar Jain:** It started in 2018.
- Rakesh Roy:** This is a new one, sir.
- Padam Kumar Jain:** And in between, it was closed also. So it has not run much of the life.
- Rakesh Roy:** Okay. Sir, my next question regarding -- so you see the pellet prices have come down. But do you see any more price down in near future? Or what are your outlook in terms of pricing, sir?
- Padam Kumar Jain:** Manish?
- Manish Sarda:** We personally don't see too much fall in the pellet pricing going forward, and we are waiting for the China stimulus, which is about to come in anytime. And once the China stimulus is there, we'll be seeing buoyancy in all products of steel.
- Rakesh Roy:** Okay. So, do you see realization is the same for the full year, sir, FY '24?

- Manish Sarda:** Will be difficult to comment on the full year. You know the war between Russia and Ukraine has also intensified, and there are many factors which lead to things going forward. So it will be very difficult to predict for the entire year. But once we are seeing that the Chinese stimulus is in place, you will see that there's a lot of buoyancy which happens in iron ore pellets and related steel products.
- Rakesh Roy:** Right, sir. So my next question, sir, apart from this 25 mega hydropower in Chhattisgarh, we are looking to add more hydro in near future in the next 2, 3 years?
- Pankaj Sarda:** Yes, we are.
- Rakesh Roy:** Okay. And then what is the target of a...
- Pankaj Sarda:** So we have three more projects lined up. So we are trying our best to get the environment and forest clearances, and then we'll talk about it once we have those in place. So we have three more projects lined up.
- Rakesh Roy:** All three projects are in northeast only or
- Pankaj Sarda:** All these three projects are in the state of Chhattisgarh itself. They are self-identified projects. All of them are ~ 25 megawatts each.
- Rakesh Roy:** Regarding sir, your ferro alloy business, how is ferro alloy business doing? Because ferro alloy market --for Q1, it was a very tough market for ferro alloy? Then what is your outlook for ferro alloy business?
- Manish Sarda:** So you are well aware that we are in the commodities business and commodities business is cyclical. We have earlier seen very, very good market pricing of Ferro Alloys and we are seeing softening of Ferro Alloy and also demand contraction in terms of Europe and the Western European sector because of the war being on. What we foresee is that when ferro alloy prices go down, also the raw material prices go down, so the margins should remain intact. That is the most important thing. Pricing is up and down depending upon demand. And I think for the next couple of months, we have to see what the Chinese stimulus comes around and what are the contours of the Chinese stimulus and only then we will be able to clearly say what exactly the market would look like.
- Moderator:** The next question is from the line of Rajesh Bhandari from Nakoda Engineers.
- Rajesh Bhandari:** Many congratulations for the good results. In fact, the thing about Sarda is that when there is a little bit of dip then people think that there must be some reason. The same is the case with Sarda, revenue becomes low, the reason is that the prices were probably low. Sir, till when will the China stimulus come? 2 months, 4 months, 6 months?
- Manish Sarda:** The thing is that the stimulus of China, according to what we know, it was supposed to come this week. In fact, it was supposed to come by yesterday evening. But since it is China, we cannot say much about China. But everybody is looking forward to the stimulus only, that what exactly will be the contours of the stimulus.

- Rajesh Bhandari:** Within August, it is expected?
- Manish Sarda:** I'm saying that it should have been there in this week. So I hope by the end of this month, we should be seeing something or maybe in the next week itself, we should be seeing something coming out of China.
- Rajesh Bhandari:** Sir, the power plant that we have taken, 2x300 is working now. And for the remaining 2x300, all the infrastructure is available. Is there anything like this, sir?
- Pankaj Sarda:** Yes, all the infrastructure is available. Land is available, the transmission line is available according to 1200 megawatt. The whole water pipeline is available for 1200 megawatt. The whole infrastructure is available for 1200 megawatt. And the railway siding is made according to 1200 megawatt. The raw material handling system is made for 1200 megawatt.
- Rajesh Bhandari:** We will have to install the main machinery?
- Manish Sarda:** Correct. If we want to go ahead, then 600 megawatt of environment clearances and everything is in place. That we have to see again.
- Rajesh Bhandari:** It is only to put machinery and start?
- Nilay Joshi:** I will just clarify that it is a 2x300-megawatt operational project. And as of now, that is the deal.
- Rajesh Bhandari:** Okay. Sir, in this power when we will be selling, is it a very profitable business? Because we heard in the middle that there were very low rates for power purchase?
- P K Jain:** The market has improved from earlier. The market has improved year on year. In the middle, the price of power was very low. But again, it is of commodity type. So, it goes up and down. But if you see the trend of the last 2-3 years, then the price is on an increasing trend on IEX
- Moderator:** Next question is from the line of Pawan Nahar an investor.
- Pawan Nahar:** I am sorry if the question has already been asked because I have joined late. If you could tell us what is the amount paid for this or what we have agreed to pay for this 2x300 megawatt power plant? One. Two is whether it already has a PPA or will be entering into a PPA later? How would we be selling? Yes, these two things. If you already have if you could tell us?
- P K Jain:** This question has already been asked. It has been said that the matter is sub judice before NCLT. So, we will not be able to give specific figures now. But in a neck-to-neck competition, we have been able to avail this facility at a reasonable price. The other thing is about the capacity. This is about tie-up. Part of the capacity, is tied up for long-term, part of that is tied for medium-term and part is freely available which can be tied-up for any term or we can also sell even in the open market. So we have flexibility in all the three manners, something is for long-term, some for medium-term and something is available for open market sale.
- Pawan Nahar:** So how much is the open capacity?

- P K Jain:** Open capacity as of now, we have about 50%.
- Pawan Nahar:** Okay. So 50% can be sold as merchant.
- P K Jain:** Or can be sold even in the medium or long-term tie-up with others. That is the option available to us. That will be evaluated and taken care of. For the untied power, we can always have the benefit of our coal for selling in the open market.
- Moderator:** Next question is from the line of Payal Goenka from Tusk Investments.
- Payal Goenka:** I want to know about SKS power plant, what will be the source of coal from where you will source the coal for the plant?
- Pankaj Sarda:** So, you are asking from where we'll source the coal, correct?
- Payal Goenka:** Yes, yes. So, where from are we planning to source the coal? Is that like from the SECL?
- Pankaj Sarda:** So there are big SECL coal mines and MCL coal mines around 100-kilometer distance from the power plant, one is Chhal and Baroudin Chhattisgarh itself. And MCL, coal blocks are also very close by.
- Payal Goenka:** Okay. So sir, currently, do we have any FSA with Coal India for that?
- P K Jain:** Yes, plant has FSA. Whatever power it is supplying under long-term or medium-term contract FSA is available and coal will be available under those FSAs, but that will be available only for the long-term and medium-term power supply contracts.
- Payal Goenka:** Okay. So currently, the plant, is it 200 and 300 megawatts, right?
- Pankaj Sarda:** 2x300 megawatts, correct.
- Moderator:** The next question is from the line of Namit Mehta from KC Capital.
- Namit Mehta:** So I'm new to the industry, and I have a few basic questions about the Ferro Alloys business. Can you actually just walk us through what happened to realizations over FY '22 and FY '23? And what were the key drivers behind such as spike in realization and then corresponding decline over a period of time?
- Padam Kumar Jain:** Manish?
- Manish Sarda:** Hi, Jain sir. Do you want to take that question or should I take it?
- Padam Kumar Jain:** So far as realizations are concerned, in the Ferro Alloys in 2022-23 was the peak period where realizations were better. In the first quarter, we had realization of more than INR1 lakh per ton, which gradually came down. In second quarter, it was somewhere about INR85,000, then INR76,000 in the range of INR76,000. And in last quarter, silicomagnese has come down to INR72,000. And gradually, it has been going down from first quarter of the previous year.

- Namit Mehta:** And was this majorly caused by increases in demand? Or were there a lot of supply constraints during this time as well, especially during FY '22-23?
- Padam Kumar Jain:** Manishji?
- Manish Sarda:** Can you just repeat the question again please.
- Namit Mehta:** Yes. Can you just talk a little bit about the factors that have been driving realization? Is it largely supply related? Or was it demand that drove realizations during FY '22 and then over a period of time in FY '23 and currently?
- Manish Sarda:** Yes, there was a lot of supply constraint during war between Russia and Ukraine, if you remember, and the prices rocketed to 120,000. And slowly, slowly, the plants started operating in Western Europe and Eastern Europe. And then we gradually saw the realizations coming down. And typically, right now, the market is oversupplied, and we are hoping once China brings back the stimulus, we'll see a lot of material going into China as well.
- And what we see is that the markets will remain a little subdued for the moment, but once the power prices start hitting the producers because all of the Ferro Alloys industry has made a good amount of money in the previous highs of the Ferro Alloys industry. So, we're just waiting to see what is the capacity shutdown that is going to take place. And, once the capacity shutdowns are there, the smaller plants, which are not able to cope up with the high electricity prices, we'll see the markets becoming buoyant again.
- Namit Mehta:** And how much capacity has been added in the last two years?
- Manish Sarda:** In the last two years, there were three plants which were not operating. They have started and there are two more expansions which have happened majorly in Andhra Pradesh only. And I think the capacity addition roughly would be around 45,000 to 60,000 tons a month.
- Namit Mehta:** And last question, sir, given the power price hikes in Vizag, what is now the power -- the price differential and cost competitive differential between plants there versus in West Bengal and other regions?
- Manish Sarda:** So what is the power rate today in Andhra is 7.80 per unit. And for the smaller plants, which are connected on the 33 KV line their tariff is INR8.10 per unit. And if you look at the power pricing in West Bengal and Jharkhand and Chhattisgarh, they are on an average pricing of around INR4.90 to INR5.50.
- Moderator:** The next question is from the line of Aditya Rathi from Aequitas Investments.
- Aditya Rathi:** My question is, again, related to the thermal power plant. So given that after this acquisition, our entire energy asset would become quite substantial. So how do we look at this part of our business going forward? Are we exploring possibilities of value unlocking through demerger of the entire power plant at our division, etc?
- P K Jain:** I think it may be a little early because first we have to get it integrated with our operations. It has to come to the full capacity utilization. Mine is also to come to the full capacity utilization.

Then that can always be evaluated. We have a separate vertical on hydro. We have a separate vertical or definitely thermal will also become a little large one. But then we also need to see the synergies with mining. So when it comes to the thermal power plant, because with the captive coal mines, we have got certain advantages on the coal side. So that has also to be taken into consideration while deciding on the situation of the demerger of the vertical.

Moderator: The next question is a follow-up question from the line of Rajesh Bhandari from Nakoda Engineers.

Rajesh Bhandari: Sir, thanks for giving me opportunity again. I wanted to ask that the thermal power plant of SKS, will be under Sarda Energy only or it will be a separate vertical?

P K Jain: It will come under Sarda Energy only.

Rajesh Bhandari: No, no, it will not be a subsidiary of Sarda Energy.

P K Jain: It will be a part of Sarda Energy directly.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference back to the management for their closing comments. Thank you, and over to you.

P K Jain: Yes. Thank you, dear moderator. We thank all the participants. The company has been able to report consistent performance on the strength of the backward integration and diversification include mining and hydropower, which will continue to be the core strength and focus of the company. We have perfect synergies in place, the acquisition of SKS Power through IBC should take the company to the next level of growth.

We hope we have been able to address most of your questions. Please feel free to reach out for our IR team if you have any further questions. Look forward to connect again in the next con call. Thank you all.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Sarda Energy & Minerals Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.