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An ISO 9001, ISO 14001 & ISO 45001
Certified Company



19th November 2022

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The Department of Corporate Services
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National Stock Exchange of India Ltd.
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Symbol: **SARDAEN**

Series: **EQ**

Dear Sir,

Sub: Transcript of the earnings call conducted on 14th November 2022

Please find enclosed herewith the transcript of the Q2 / FY 23 Earnings Conference Call conducted on 14th November 2022. 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 Sarda Energy & Minerals Ltd.

Company Secretary

Encl: As above



“Sarda Energy & Minerals Limited (SEML)
Q2 FY 23 Earnings Conference Call”

November 14, 2022



MANAGEMENT:

**MR. PANKAJ SARDA, JOINT MANAGING DIRECTOR
MR. P.K. JAIN, DIRECTOR AND CFO
MR. MANISH SARDA, DEPUTY MANAGING
DIRECTOR, SARDA METALS AND ALLOYS LTD**

Moderator:

Ladies and gentlemen, good day and welcome to the Sarda Energy & Minerals Q2 H1 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only 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 “*” then “0” on your touchtone telephone. I now hand the conference over to Mr. Pankaj Sarda, Joint Managing Director, Sarda Energy & Minerals Limited. Thank you, and over to you, sir.

Pankaj Sarda:

Thanks a lot. A very good afternoon, everyone. I extend a very warm welcome to all of you to the Q2 FY'23 earnings call of Sarda Energy & Minerals Limited. Our press release and investor presentation containing details of performance has been uploaded.

Today's presentation and discussions may include forward-looking statements, which must be considered in conjunction with the risks that the industry in general and our business in particular, face, and actual results may vary materially.

As our name speaks, we are in the business of energy and minerals with diverse revenue streams and the effect of our diversification strategy is reflected in the results of this quarter, which are already before you. The diversification has helped in reducing volatility into our earnings.

Global economies are facing macro headwinds on account of war between Russia and Ukraine and sanctions. This has resulted into supply disruptions creating high inflation. Globally, Central banks are adopting tighter monetary policies to rein in the inflation resulting into liquidity tightening and higher interest rates. World Steel production has gone down in nine months of CY 2022 from 1,461 million tons to 1,405 million tons Y-o-Y. All countries except India and Middle East have reported negative growth. In spite of falling exports and increase in imports, India has reported positive growth in steel production from 87 million tons to 93 million tons in nine months of CY 2022. This reflects inherent strength of Indian economy and domestic steel industry.

Domestic steel industry softened post imposition of export duties. This coupled with increased coal prices has put pressure on margins in steel business. New capacity addition in ferro alloys and fall in demand due to shutdown of steel capacities has affected ferro alloy prices and margins. Price of high-grade coal remains at an elevated level due to supply concerns and have seen price volatility.

Grid power prices have also been increased by most of the state utilities due to increased fuel cost on account of compulsory mixing of imported coal and thermal generation. This has reduced profit margins in steel and ferro alloys manufacturing. However, we are much less affected because:

- 1) We are not exporting any steel products.
- 2) We are captively consuming about 35% to 40% of the iron ore pellets.

- 3) With the captive coal, our fuel and power cost is lower and stable.
- 4) The company procured majority of its iron ore requirement from market where prices have corrected. This has also provided cushion against falling prices of steel.
- 5) Our Forex exposure of imports is hedged by exports at the consolidated level.
- 6) We are least affected by increasing interest rates due to low net debt.
- 7) And finally, our diversification into hydropower sector provides consistent cash flows.

The overall performance of manufacturing facilities except for ferro alloys has been steady Q-o-Q and Y-o-Y. The ferro alloy production and sales was down because of maintenance stoppage of captive power plant at our Vishakapatnam subsidiary for two months. The Company recorded Highest ever Quarterly production of HB wire and Highest ever Half Yearly Production of Pellet and HB wire. One of the power generation units at Raipur was also under maintenance shutdown for part of the quarter, which had a bearing on generation of power and production of steel. However, it was partly offset by importing power from grid.

We exported 16,740 metric tons of ferro alloys valued about INR175 crore against 24,131 metric tons in Q2 FY'22 valued at INR255 crore and 26,300 metric tons in Q1 FY'23 valued at INR338 crore. The monsoon was delayed, but extended to October, majorly compensating the loss of generation in the initial months.

The 113-megawatt Sikkim hydropower project billed 312 million units in H1 FY'23. At generation bus level, the plant achieved PLF of around 63% in the half year. However, due to delay in arrival of monsoon and scattered rains, the Gullu hydropower plant in Chhattisgarh generated only 44.39 million units against 69.96 million units in first half of the previous year. The Uttarakhand project generated 12 million units against 13.81 million units in H1 FY'22.

Ongoing projects: the installation of ferro alloys expansion project of 36 MVA at Vizag is over. The Company has moved an application for consent to operate the plant. We expect to start trial runs in this month and commercial operation by end of this quarter. We are also evaluating installation of waste heat recovery power plant and waste utilization facility in Vizag. Final decision will be taken after TEV study.

The Government has approved mining plan of the company for mining of Shahpur West coal mine in Madhya Pradesh and for increase in the mining capacity of Gare Palma IV/7 coal mine from 1.2 million ton to 1.8 million ton. The process of environmental clearances is going on. The company plans to increase it in future to 3 million tons per annum.

Construction work at 25 megawatt Rehar hydro project is progressing as per schedule. Order has been placed for long delivery items. We expect to complete the project before the end of FY'24-'25. We have received permission for increasing the capacity of Uttarakhand hydropower project from 4.8 megawatt to 8.3 megawatt. We are taking steps for other approvals required in this regard.

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.

P K Jain:

Thanks, Pankaj. The Company has achieved quarterly consolidated revenue of INR967 crore during Quarter 2 FY'23 against INR1,261 crore reported in last quarter and INR1,025 crore in corresponding quarter of the previous year. The Company has

reported operating EBITDA of INR281 crore during the quarter against INR365 crore in the previous quarter and operating EBITDA of INR404 crore in Quarter 2 FY'22. Maintenance shutdown of plant by Sarda Metals for 2 months, delayed monsoon and inventory losses on account of fall in the prices and shrinkage of profit margin post export ban are the reasons for fall in the revenue and profitability. The Company's profit after tax at the consolidated level stood at INR181 crore against INR170 crore in the previous quarter and INR256 crore in the Quarter 2 of the previous year.

Debt position: At the stand-alone level, the company is net debt-free with surplus funds. As on 30th September 2022, gross debt at the consolidated level stood at INR1,380 crore. Bank balances and liquid investments as on 30th September stood at INR675 crore. Total debt net of cash and current investments stood at about INR 700 crore and net of loans given as a part of treasury operations, the net debt is around INR350 crore. Loans repayable within next 1 year, which is to be serviced by the company is INR166 crore. Ongoing Capex, including the coal mines, has been financed from internal accruals. The Company is not exposed materially to the currency rate fluctuations. Foreign currency exposure is mostly covered by natural hedge by import/ export.

External credit ratings: During the quarter long-term external rating of Chhattisgarh Hydropower LLP was upgraded from ICRA 'A-' to ICRA 'A', with this the external credit rating of the company and all its operating subsidiaries have been upgraded during the current year. Upgradation of credit rating of all the companies is clear reflection of improving financial and long-term sustainable business outlook. I now hand over to Mr. Manish Sarda, who will brief about steel and ferro alloy industry scenario and outlook. Over to Manish.

Manish Sarda:

Thank you, Mr. Jain. The imposition of export duty has adversely affected India steel production export. Import of steel has gone up in Quarter 2 FY'23. India produced 30.1 million metric tons of steel recording degrowth of 2.9% quarter-on-quarter. However, year-on-year India recorded growth of 4.15%. Global steel production was 452 million metric tons in the quarter recording degrowth of 9% quarter-on-quarter and 1.2% year-on-year. India exported 1.8 million tons of steel against 2.8 million metric tons in previous quarter.

In the six months India exported 4.68 million tons steel against 10.75 million tons steel during same period of previous year. The domestic consumption increased from 27.36 million metric tons to 27.93 million metric tons quarter-on-quarter. Energy and logistic prices, which constitute a substantial portion of cost of production and distribution of steel, are at elevated levels. As such, prices of finished steel may not go down substantially. Having our own coal mine, we are largely insulated from increase in energy costs.

Outlook: With the end of monsoon, steel demand in India is expected to improve in second half of year '23. The demand will be driven by increase in governmental spending, revival and construction activities and auto sector revival. That should push up Indian steel prices. Any relaxation in export duty on steel products will be positive from demand and pricing perspective. Depreciation of rupee will keep imports in check. Cost of production is also moderating due to correction in raw material prices. China steel production may moderate due to winter restrictions. However, the demand is likely to find support as COVID restrictions ease and pave way for pent-up demand from the housing sector. Coke, coal and energy prices may remain range bound with downward bias, iron ore and pellet prices may also remain subdued on surplus domestic supply and heavy export duties.

Manganese prices have also corrected on falling demand. Ferro alloy prices have started rising again due to production cuts after correction due to oversupply on account of fall in global steel production and capacity additions. However, higher energy prices in other parts of the world may help in improving price realizations. The coal mine gives us a competitive advantage of lower fuel cost from captive consumption and better margins on the sale of coal. The Company is further evaluating various growth opportunities in its field of operations.

This is all about the performance and outlook. Now we leave the forum open for question-and-answer session.

Moderator:

The first question comes from the line of Shubham Agarwal from Aequitas Investment Consultancy Private Limited.

Subham Agarwal:

First of all, congratulations on a decent set of number. So my question is to Mr. Manish Sarda ji on ferro alloy division. So sir, last quarter we saw multiple companies both in Raipur and Vizag taking or preponing their maintenance shutdown in ferro alloy division and we also did that and that's why the volume availability in the market was low. But even after that, the prices went down significantly. Now sir, I wanted to understand how will be the situation in the current quarter and next quarter probably because now most of the maintenance shutdown is also over and availability in terms of volume would be very high this quarter. So, is the demand good enough to take the volume and what's your outlook in that regard?

Manish Sarda:

See, domestic demand is quite robust and we are not seeing any major issues in the domestic markets. What we are facing issues are with the international markets where the war is still continuing between Ukraine and Russia. And we have seen the high electricity prices in the European continent where steel plants are mostly closed or not running at a high level. So the demand pockets in Europe and the Western continent is little poor. But Middle East, Africa, all these places, Asia, we are seeing good demand. So overall, the demand will be a little subdued for sure and domestic demand will remain good. So domestic demand has also gone up with all the steel plants running at good capacity now.

Subham Agarwal:

Okay. And so we will be able to maintain our historical number of more than 40,000 tons in Q3?

Manish Sarda:

Yes, we should be able to do it. Maybe we'll sell more tonnages in India looking at the demand constraints that we are facing in Europe right now.

Subham Agarwal:

Sir, what was our Europe exposure before this when things were normal?

Manish Sarda:

We did around 12,000 tons and it depends on the price fluctuation in different parts of the world and accordingly we take the calls because we are exporting to almost 50 to 60 nations. So what are the best prices available like Japan has been a traditional market for us.

Subham Agarwal:

And the new plant will be available only from Q4. That's right?

Manish Sarda:

Yes.

Subham Agarwal:

Got it. And secondly, coming on to the metal division. So we did a very good quarter in spite of decrease in realization. So, are we confident of maintaining such results if the realization stays where it is?

Manish Sarda:

See, frankly speaking, nobody can predict the market pricing as to what happens with the fluidity in the situation where we are seeing very high cost of coal and gas and everything in Europe because, as you are aware, that India is the single largest exporter of ferro alloys to the world. So it all depends upon how things shape up in the next three to four months. Domestic demand, as I said, the domestic steel industry is doing well. The domestic demand looks to be pretty good at the moment. It's quite strong and firm and we are hopeful that the government will take a lenient view on the export duties also, which they've been working on. And it's only a matter of time that we hear some form of reductions in the export duty so that the domestic market is also protected and the international markets are also serviced by the Indian companies. So once that opens up, we are seeing a firm recovery there as well because European steel plants are not working at full capacity and they will be requiring lot of steel. Steel demand will be there. When they will not be able to produce themselves, they'll be definitely importing from India. It's basically the duty structure, which has been imposed by the government has been a bit of a hindrance for the moment.

Subham Agarwal:

Got it. And finally, sir, my question was on the hydropower division. So, in the opening remark, you mentioned that one of our power plant we have got approval of increasing the capacity to 8-odd megawatts from current 4.8 megawatts. So, when we will start this production or we will require some CapEx in this also?

P K Jain:

Subham, we have already stated in our initial address also, we will be going for further approvals. Since government has approved the expansion of the capacity, now we have to go for other approvals for execution of the project. So, it will take some more time before we start work on the project.

Moderator:

Our next question comes from the line of Rajesh Bandari, an Investor.

Rajesh Bandari:

Good afternoon Sir. this is Rajesh Bandari. Sir, our export is mainly of ferro alloys. Steel items are domestic consumption. And whatever export of Ferro alloys we used to do, so in this quarter first of all our production was also less, but otherwise is the demand for Ferro alloys the same?

- Manish Sarda:** No. Ferro alloys demands internationally has gone down a bit because of the ongoing war between Ukraine and Russia. The European markets are a little down because of their steel production being cut down due to high electricity costs. So, we will see a bit of a demand constraint from the European sector, but domestic demand is pretty good and robust and Middle East demand, the Asian demand is almost at the same levels. So, the only demand constraint what we are seeing is in the European sectors.
- Rajesh Bandari:** But normally, whatever production we do, it is sold by this time. Are we not supplying ferro alloys in India or...
- Manish Sarda:** We are very much supplying in India also.
- Rajesh Bandari:** But the price in India may be lower and price outside is higher.
- Manish Sarda:** It's always fluid so you have to maintain a balance between the export prices and the domestic prices as well. So it's not necessary that domestic prices are down and export prices are up. Many times we see domestic prices also being very good. So right now we are seeing a constraint in demand in Europe. But America will be opening up. Because a lot of plants which were supplying from Europe to America, they are also shut because of the high electricity costs. So American demand will be looking out for ferro manganese and people are looking at that avenue as well.
- Rajesh Bandari:** So like, from the next quarter, our production of ferro alloys will increase in Vizag, so we will be able to sell everything?
- Manish Sarda:** Yes, we are hopeful that we'll be able to sell off everything.
- Rajesh Bandari:** And as you said, prices are also improving, ferro alloy prices.
- Manish Sarda:** Yes, because a lot of production centers are also being affected. Like in Slovakia there's a plant which has just shut down because of high electricity cost. So we are seeing that some demand will come up in the near future because plants are slowly shutting down there because of high electricity costs.
- Rajesh Bandari:** And we are nowhere affected by this export duty directly? Indirectly, there could be an effect on the price and all that.

- Manish Sarda:** Yes. Directly we are not impacted by the export duties because we do not produce those kind of products which have been affected. But overall, it does impact us as well.
- Rajesh Bandari:** Yes, on the prices it does impact. And sir, the production and realization for ferro alloys in this quarter, on stand-alone INR190 crore approximately, INR36 crore profit, and on consolidated, it is approximately INR345 crore segment realization and INR37 crore profit. Our production for ferro alloys in Vizag was shut down for two months, but at the consolidated level, the value has increased but not the profit. So, from where did this increase in value come from?
- Padam Jain:** No, there are also some trading activities involved in this. We also traded out something. Like, we did some coal trading and some other goods. So there is very nominal margin in the trading that we did.
- Rajesh Bandari:** Okay, so because of that reason. And sir, there is a lot of demand for Sarda Energy in the market, but there is very little float. So kindly consider a split of shares so that the float in the market increases.
- Padam Jain:** Yes, definitely, your request came in last time also, and...
- Rajesh Bandari:** Oh, I salute your memory. I had requested this. So, please think about it because there is a need for float in the market.
- Padam Jain:** Yes, yes, definitely.
- Rajesh Bandari:** So now, going forward, based on the demand etc, things will be moving positive only for us?
- Pankaj Sarda:** It seems like that. But nothing is sure in this market.
- Manish Sarda:** One of the major factors that will determine as to how we will progress as a country will also depend upon the ongoing war between Russia and Ukraine because it's not only Russia and Ukraine fighting, it's basically engulfing the entire European continent in terms of the energy. Energy costing has an impact on the overall global economic situation. So that will be a major factor. If things ease out there between Ukraine and Russia, I think a lot of things will fall in place and it will be positive for the entire economy of the world.

- Rajesh Bandari:** But the ease out will not happen soon.
- Manish Sarda:** So, I won't be able to predict.
- Rajesh Bandari:** But there are some positives and negatives of that too. There are some positives that all the ferro alloy plants over there have been shut down. China also is not exporting ferro alloys
- Manish Sarda:** Yes, China is not exporting ferro alloys at the moment, but Scandinavian plants are still operating. The European plants have been under pressure. They have shut down.
- Rajesh Bandari:** European plants have shut down. So, naturally we will benefit from it somewhat.
- Manish Sarda:** Absolutely.
- Rajesh Bandari:** Yeah. And, please think about the split.
- Manish Sarda:** Sure.
- Moderator:** Our next question comes from the line of Vivek Mehta, an Investor.
- Vivek Mehta:** So I have two questions. So what is the current trend in thermal coal pricing? And second is how are we hedged due to the currency fluctuation?
- Manish Sarda:** Thermal coal prices, in the last one week we are seeing a bit of a drop down in terms of the pricing as the overall energy prices have gone down little bit so we are seeing a drop of around \$10 to \$15 in the South African grade of coal. I don't think that the pricing of coal will now be heading upwards and I think it will be more or less subdued only for the next three months or so. And how we are insulated is that we have our own coal mines. So our Raipur plant is completely insulated from any energy fluctuations. And our Vizag plant primarily we are trying to use our own coal from our mines and trying to blend it with the Indonesian and the RB3 coal and trying to make it economical blend for our consumption in our Vizag power plant. As far as currency fluctuations are concerned, we have seen a sharp recovery in the rupee right now and the pound has also appreciated to 95, 96 levels. But overall I think the rupee will again be range bound between -- I think roughly between 81.5 to 83.5 and the pound will also be range bound between 93 and 96. We have a natural hedge as we are exporters of ferro alloys and primarily we are importing coal and

manganese ore. So we don't have too much of a currency exposure in the company because of the natural hedge that we have. I hope that suffices your question.

Moderator: Our next question comes from the line of Samuel Sunendran from Argus Media.

Samuel Sunendran: This is Samuel Sunendran from Argus Media. Sir, can you provide me your tonnage capacity in ferro alloy? What is your current capacity for ferro alloy and after expansion, how much it would be?

Pankaj Sarda: Currently we are 111 MVA and after expansion we'll become 147 MVA.

Samuel Sunendran: And sir, in terms of tonnage?

Manish Sarda: See that tonnage will depend upon the product that we choose to produce. If we choose to produce ferro manganese, our capacity will be roughly 240- odd thousand tones and if we don't choose to produce ferro manganese and we choose to produce silico manganese depending upon the profitability and the pricing in the market, we should be roughly around 200,000 tons or close to 180,000 tons. Because there's a lot of play between power and ferro alloys. At times we sell our power as well from Vizag so that time we reduce our capacities also. So it all depends upon the best available profitability and pricing of products that we get at a particular given point of time.

Samuel Sunendran: Okay. Understood. Sir, basically at overall total capacity would be around 240,000 tons if you're going to...

Manish Sarda: Install capacity if we produce - let's say in 3 furnaces we produce ferro manganese.

Samuel Sunendran: Is this about the Vizag plant or other plants?

Manish Sarda: Even in Raipur also, if we produce like suppose -- the pricing of ferro manganese goes up and we produce more ferro manganese, we'll have more production.

Samuel Sunendran: Okay. Sir, what would be overall total capacity of the plant, both plants including if we talk about ferro manganese. That would be the most capacity you could produce..

Manish Sarda: Around 240,000 odd tons.

- Moderator:** Our next question comes from the line of Niraj Mansingka from White Pine Investment Management.
- Niraj Mansingka:** I just wanted to know how is the rainfall in the catchment area of Sikkim and how you will see impacting it Q3?
- Pankaj Sarda:** Rainfall has been normal in that area overall. But now since the Q3 will definitely be the off season so October has been reasonably good. Now November, December practically it's the lean season so the capacity utilization presently has come down to maybe about 20%, 25%. It will gradually go down now. Until 15th March generally rains are very, very low so it's very less in that.
- Niraj Mansingka:** Actually because rains have delayed so that is the reason I asked for Q3.
- Pankaj Sarda:** We got good comparatively. it was better as compared to the other years. But November, December will definitely be lean season.
- Moderator:** Our next question comes from the line of Vivek Mehta, an Investor.
- Vivek Mehta:** Okay. So my next question is, sir, what is the total coking coal requirement per annum? What is the mix between captive and external? And do we purchase the balance coal from Coal India or do we import from other countries?
- Padam Jain:** Our coal consumption at Raipur is about 1 million tons per annum. Maybe 50%, 60% we have -- 60% we will be consuming from captive mines. Remaining we are procuring from the linkages and some small quantity we use the imported coal also.
- Moderator:** Our next question comes from the line of Rajesh Bhandari, an Investor.
- Rajesh Bhandari:** Sir, just one more question. From third quarter, our Vizag ferro alloy production will start? We'll be able to sell it from the third quarter itself?
- Padam Jain:** No, assume it to start from the fourth quarter. By November-end, the trial runs will start. One or two months will go in the trial run. We may have some production. Fourth quarter only we should consider for full production.

Rajesh Bhandari: And per annum capacity will be approximately 40,000 tons depending upon which product we are doing?

Pankaj Sarda: Correct.

Rajesh Bhandari: So sir, like, now our capacity will increase by approximately 10,000 tonnes per quarter, we'll be able to sell it in the market.

Manish Sarda: Yes, sir.

Rajesh Bhandari: Means demand for ferro alloy is absolutely no issue, no problem.

Manish Sarda: In fact if this war eases out and steel plants start back - they kick in, all the European plants and all will start up, demand will be actually quite huge.

Rajesh Bhandari: Yeah, then it will be a golden situation for us. But this is a very big if. Let's hope it eases out as early as possible. This was my main question. And the realization also now onwards will be better for all the things steel as well as the ferro?

Manish Sarda: We are very optimistic that the markets in India are very, very good. And globally also the Indian steel demand will be good because in the absence of the European steel and the absence of exports from China, we are seeing that India will have an opportunity and everybody is looking towards India as an alternative good option to replace China.

Rajesh Bhandari: Yes. And the realization has improved a little bit compared to the earlier quarters?

Manish Sarda: It's fluid -- I would say it's little fluid right now.

Moderator: Our next question comes from the line of Suraj Kokate, an Investor.

Suraj Kokate: Just wanted to understand how do you see the threat of rising steel imports in India? I think our prices are trading -- the domestic prices are trading at a healthy premium to the landed cost of import. So just wanted to understand what is driving this healthy premium in the market and is it sustainable?

Manish Sarda: Can you be more specific about your question as to which steel are you talking about?

Suraj Kokate: General steel product imports HRC or coated steel products?

Manish Sarda: So we basically do not produce any flat products. We are into long products. So we primarily would not be able to give you the correct picture of the HRC and the flat products, which are not being produced by us.

Suraj Kokate: Okay. Yes, because you had highlighted that imports in the Q2 were on the higher side so that's why just wanted to get sense of that.

Pankaj Sarda: That was given from overall steel demand supply perspective because if some import is happening to other integrated producers who are producing flat products, they change their product mix that has a bearing on the overall domestic market. That was from that perspective.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Pankaj Sarda for closing comments.

Pankaj Sarda: Thanks. We thank all the stakeholders for their whole-hearted support. The company has been able to report good performance on the strength of backward integration and diversification into hydro sector, which will continue to be our core strength. We hope we have been able to address most of your questions. The presentation made and the discussions held in the conference will help the investors to evaluate the performance in better way. Please feel free to reach out if you have any further questions. Look forward to connect again in the next con call. Thank you all.

Moderator: Thank you. On behalf of Sarda Energy & Minerals Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.