



“Sarda Energy & Minerals Limited Q3 FY20 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and welcome to the Sarda Energy Minerals Limited Q3 FY20 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 ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Pankaj Sarda -- Joint Managing Director. Thank you and over to you, sir.

Pankaj Sarda: Thank you, Good Morning everyone. On behalf of the management, I extend a very warm welcome to all of you to the Earning Call of Sarda Energy and Minerals Limited to discuss Performance and Results of Q3 FY20. Our press release and investor presentation containing details of performance has been updated which you may find to be relevant for the performance review.

We draw your kind attention to the fact that today’s discussions may include some forward-looking statements which must be considered in conjunction with the risks that industry in general & our business in particular face and actual results may vary materially.

The ongoing trade war had an impact on global economic activity. Global steel production for CY 19 was 1869.9 million ton up 3.4% YoY. China produced 996.3 million ton up 8.3% YoY constituting more than 53% of global steel production.

Ex-China production saw degrowth to 873.6 million ton down 1.6% YoY. India’s domestic crude steel production during CY 19 was 111.2 million tons against 109.3 million ton in CY 2018 registering a growth of 1.8%. In the Q3 FY20 India produced 27.189 million ton steel recording nominal growth of 0.24% QoQ and degrowth of 2.74% YoY.

Due to declining demand prices of steel started falling from June 2019 and that trend continued in the third quarter. In the following months, India’s exports grew substantially whereas imports have contracted. In 9 months India was net exporter of steel. The cascading effects of NBFC defaults and credit defaults in banking system also affected credit availability and private investment. The government has proactively announced various steps to boost the demand and credit flow in the economy, the effect of which is reflected in demand and price pick up in current quarter.

The green shoots of economic revival are reflected in different sectors; however, global headwinds are posing a challenge to the revival. In anticipation of supply disruption due to expiry of existing leases in Orissa, prices of iron ore have moved up in last few months, however the Central government has taken proactive steps to minimize disruption in transition. Recent ordinance notified by Central Government allows successful bidder to carry on mining operations with existing clearances and approval for a period of 2 years. A few of the mines have already been auctioned. Government has allowed Steel Authority of India Limited to liquidate

their dumps/ tailings of approximately 70 million ton. Existing lessee has given a time period of 6 months to lift the piled up stocks and infrastructure.

Ferroalloy prices also fell substantially in the third quarter but have seen substantial improvement of 15% in current quarter. The reduced corporate tax rates from 34% to 25% has directly benefitted the company because we were in highest tax bracket. The benefit is reflected in the tax provisions for the quarter and period ended December 2019.

Coming to operations:

For the 9 months FY20 the company has achieved a highest ever production of sponge iron, steel billets and wire rods. This also helped in improved capacity utilization of captive power plant reporting highest ever thermal power generation of 440 million kWh. The extended monsoon adversely affected production at captive iron ore mines in third quarter too but the same reached normal levels in November 2019. In the quarter, we produced 86,816 metric tons iron ore against 114,109 metric tons during corresponding period of PY. The performance of Ferroalloy division in Sarda Energy was affected on account of inventory losses and loss in variable price contract in falling price scenario.

Coming to Sarda Metals:

The refractory relining work of Ferroalloys furnace in Sarda Metals was completed in last week of November 2019 and now both furnaces are operating at full capacity. The improved price of Ferroalloys and full capacity utilizations in current quarter will help in achieving much better results in this quarter. Lower prices and lower production affected both financial and operating performance. Due to good and extended monsoon, power prices in open access market remained sluggish. Hence power could not be sold on exchange affecting power plant capacity utilization. Sarda Metals has recently renegotiated interest rates with existing lenders which will provide substantial or recurring savings in current and ensuing quarters.

Hydro Power performance:

Extended monsoon helped in achieving better capacity utilization factor in hydro power generation during the quarter. The hydro power generation during the quarter was 37 million units against 16 million units in corresponding quarter of the previous FY, recording a growth of 136%. During the 9 months period we have generated 97 million units against 77 million units in corresponding period of PY registering a growth of 27%.

Financial Performance:

Steel, Ferroalloy and merchant power price remained subdued during the quarter owing to demand side pressure. In the backdrop of subdued prices and reduced capacity utilization of Ferroalloys, the company has reported consolidated operating income of Rs. 456 crores during

the quarter against Rs. 550 crores in the previous quarter and 614 crores in corresponding quarter of the PY. The EBITDA stood at Rs. 97 crores against Rs. 99 crores in the previous quarter and Rs. 155 crores in corresponding quarter of the PY.

Progress of Sikkim Hydro Power Project:

The construction work of the Sikkim hydro power project is progressing steadily towards completion. Most of the equipments have reached to site and erection work is going on. The project is expected to be commissioned in first quarter of the next financial year. The required equity has been fully infused. The company has signed long-term PPA for full power of the project.

Debt:

At the standalone level the company is net debt free company. At the consolidated level the total gross debt as at 31st December 2019 stood at Rs. 1,450 crores. The debt net of cash liquid investments and current loans stood at Rs. 1,100 crores. Loan repayable with the next 1 year is Rs. 81 crores. The debt equity ratio is well below 1.

Budget Impact:

Budget is focused on infrastructure development. Budget has proposed development of 100 airports. Time limit for completion of affordable housing projects is extend by 1 year up to 31st March 2021. All these factors will boost demand for steel.

Outlook:

Interim trade agreement signed between USA and China was a sign of relief for the global economy in general and steel industry in particular. However, the Coronavirus has affected China which may have effect on global markets. For the company next financial year will see growth in revenue and EBITDA on account of commissioning of the Sikkim hydro power project.

This is all about the performance and outlook. Now we will leave the house open for questions from the participants. Thank you.

Moderator:

Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We take the first question from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh:

Sir, the question basically pertains to the iron ore pellet production versus iron ore pellet sales, so if I see the sponge production also so sponge production has been a little bit weaker in this

quarter, but despite that our pellet sales has not gone up so any particular reason or we have kept the inventory and we would be liquidating it in fourth quarter?

Padam Kumar Jain: Yes we had built up inventories. Actually at the second quarter our inventory was at its lowest level then prices have moved up so at the quarter end we have basically intentionally held back the sales and built up the inventory results.

Vikas Singh: So how much inventory you are carrying right now for in terms of pellet?

Pankaj Sarda: It was about 40,000 tons.

Vikas Singh: And sir second question we have talked about the renegotiation of interest rate, so can we know that what kind of basis point or lower we have renegotiated and if anything has changed in terms of payback period also?

Padam Kumar Jain: No, there is no change in the payback period it is basically pure and pure reduction on account of basically improvement in the financial performance of the company and the group purely on account of the risk assessment it is between 1% and 1.5% depending upon the different lenders.

Vikas Singh: So 1% to 1.5% is lower right?

Padam Kumar Jain: Also part of debt was refinanced, with more than 2.5% reduction in the last quarter we had refinanced.

Vikas Singh: Sir, does this pertains to the Sikkim project also or is the entire debt has been done or some part of the debt has been done if you can explain?

Padam Kumar Jain: This is with regard to the Sarda Metals.

Vikas Singh: Only Sarda Metals right?

Padam Kumar Jain: Sarda Metals.

Vikas Singh: And once this Sikkim project would complete we were thinking of renegotiating rate on that also, so we maintain that stands currently?

Padam Kumar Jain: Yes that always happens you know, all the hydro power projects that once the project is completed the risk profile totally changes and there is a drastic reduction in the financing rate because in case of hydro power project most of the risks are associated with the execution not with the operation. So once the project is completed the total risk profile changes and the refinance is at a much lower rate.

- Vikas Singh:** And sir just one more thing this PPA for the Sikkim project we have said that you have signed for the entire capacity, so what is the rate for that?
- Padam Kumar Jain:** No, this is basically rate will be determined based on the project specific it takes its own time through regulator process. If the project specific rate will be approved by the regulator and we are also trying for generic, generic what has been approved I think Rs. 5.70 paisa for a generic tariff we may get better than that or generic also we may opt for, but we might be going for the projects specifics which will be approved by the regulator based on the complete assessment of the project cost and all those things.
- Vikas Singh:** But then in any case it should be Rs. 5 up right that is our assessment?
- Padam Kumar Jain:** Definitely.
- Vikas Singh:** And sir just one last thing last time you used to give the product wise realizations, so can I have that for pellet and sponge?
- Padam Kumar Jain:** This time we have given in our presentation also if you see there one chart is given. So if you see from there you can get the product wise realization also otherwise I think pellet is about somewhere about 6,000 and sponge iron it was 16,000 for the Quarter 3.
- Vikas Singh:** And sir specifically these two product what is the current prices versus Q3 rate?
- Pankaj Sarda:** Prices has improved in all the.....
- Vikas Singh:** So basically I was just asking that that Q3 average versus current average how much it has increased on the product wise?
- Pankaj Sarda:** Majorly increase is in the pellet side pellet and sponge iron these are the 2 items where there is a major increase.
- Vikas Singh:** So how much we are up as of January end?
- Pankaj Sarda:** January it was 7,000 plus for the pellet.
- Vikas Singh:** And sponge would be 19,000 or more?
- Pankaj Sarda:** 19,000.
- Moderator:** Thank you. We take the next question from the line of Ashish Kejrival from IDFC Securities. Please go ahead.

- Ashish Kejriwal:** So this is ongoing Orissa mining auctions on an industry level because the way premium has been quoted by players to acquire the mines so first of all do you think that any merchant mines can make profit out of it and secondly the way steel producers are also paying the huge premium, so how do you see iron ore prices going forward?
- Pankaj Sarda:** I think the way price premium have been quoted from here we can definitely look at price increase or maybe matching with the global market. So in my personal view I think prices of iron ore will move up and initially they are basically most of them are taking a long term call. I think difficult, but definitely the bidding is very aggressive.
- Ashish Kejriwal:** But do you think that merchant minors can make profit out of it?
- Pankaj Sarda:** No, I think here the merchant minor will not be able to make profit in the immediate future because see at the end of the day the iron ore prices will be governed by the international prices and the international prices are governed by mostly Vale and BHP Billiton and the big minors the big 5. So I do not see that the prices will cross beyond the international pricing at a certain point because imports will start coming in.
- Manish Sarda:** I just want to add one thing here that minimum 75% to 80% of volumes they have to produce 80% they have to produce otherwise they have to pay the royalty of minimum 80% of the total volumes of the year.
- Ashish Kejriwal:** So are you seeing any risk of crash in iron ore prices maybe a year after?
- Pankaj Sarda:** No, there would not be a risk of crash in iron ore pricing because you have to understand one thing very clearly that China has clamp down on illegal and rat hole mining of iron ore or any other minerals. They are very clear on the pollution norms in China.
- Ashish Kejriwal:** I want to know Indian iron ore prices sir?
- Pankaj Sarda:** So you have to understand that Indian iron ore pricing is also linked to international iron ore pricing it cannot be seen independently. So iron ore pricing in short, medium and long term is not going to crash right now at least for a year and half.
- Moderator:** Thank you. We take the next question from the line of Saumil Mehta from BNP Mutual. Please go ahead.
- Saumil Mehta:** So my first question is on what is the PPA rate we have done for the new hydro power project and how different is from the existing one?
- Pankaj Sarda:** The rate is not signed it will be approved by the regulator; project specific rate will be approved by the regulator after following the due process of the fixation of the pricing.

- Saumil Mehta:** But ballpark range if you can give?
- Padam Kumar Jain:** Ballpark range as I told the tariff approved for the smaller projects is I think last is somewhere about Rs. 5. 70 paise. So we should get at least minimum rate amount because we might be going for the project specific it might be little bit on higher side, but on conservative side the general regulated tariff that is the generic tariff at least definitely we should get.
- Saumil Mehta:** Sir, my second question is you know, I understand why sales of pellets would have been down because of maybe higher captive consumption, but why was production down last year was 171 KT versus 158 so any specific reason for production being down, was there a demand issue?
- Padam Kumar Jain:** Our total capacity constraints is 6 lakh tons so we have accordingly planned in a way as of now we do not have the approval for production beyond 6 lakh tons, we have built up some inventory for our captive consumption requirement.
- Saumil Mehta:** And in continuation to one of the previous question you know hypothetically if the miners who have won this mines if they do not produce up to 75% or 80% of the EC limit, is there a risk of mine being taken away or they will only have to pay the royalty for the 80% that is the only risk?
- Pankaj Sardar:** Actually they have to pay the royalty of minimum 80% of the volumes. So of 6 million tons EC limit I can still produce only 2 million tons there is no risk of mine being taken away, but I will have to pay royalty for the entire 6 million tons at least 80% of that.
- Saumil Mehta:** And sir in terms the prices where there are and sponge iron prices I think last Q3 16,000 is what we got for sponge and about 26,000 odd for billets, so what would be the spot prices as of now?
- Pankaj Sardar:** As of now it is 19,000 for sponge iron and is somewhere about I think 29,000 for billets, 29,000 plus.
- Saumil Mehta:** So roughly Rs. 3,000?
- Pankaj Sardar:** Rs. 3,000 odd which has been gone up.
- Saumil Mehta:** And in terms of last question on coal what is the landed cost of coal because coal India production has not been that great, so any specific availability issues or have the rates gone up, any guidance on that?
- Pankaj Sardar:** No, their pricing depends upon the grade there are multiple grades and it was definitely the price of the coal had gone up, but recently it has seen basically reduction in the pricing, recent auctions of coal India have gone at a much lower rate, but in between price of coal has moved up substantially now it is seeing the reduction in the pricing.

- Saumil Mehta:** And sir my last question while we believe that the conversion margins in sponge would have gone up because prices have gone up, but between sponge to billets the conversion margins has not gone up I mean is that a fair assumption?
- Pankaj Sarda:** Yes that is a fair assumption.
- Saumil Mehta:** So making billets is still not a very profitable proposition?
- Pankaj Sarda:** Yes definitely there is not much of the improvement in the margins on the billet side.
- Management:** On a standalone basis basically billet on a standalone basis.
- Moderator:** Thank you. We take the next question from the line of Chirag Singhal from First Water Fund. Please go ahead.
- Chirag Singhal:** I just wanted to ask one question on the Ferroalloys industry, so you mentioned that there has been a 15% price hike in ferro manganese pricess, so is this just in India or is it backed by the international prices?
- Pankaj Sarda:** No, the pricing increase is basically linked to international pricing as well if you see the Chinese prices are much higher than the Indian prices in the Chinese domestic market currently.
- Chirag Singhal:** So is this some effect from Indonesia we are seeing like is it sustainable going ahead?
- Pankaj Sarda:** I did not understand the Indonesia thing here.
- Chirag Singhal:** Like we saw recently lot of stainless steel plants are getting shifted to Indonesia and banning of nickel ore in China & hike in the prices of lot of raw material that are used in stainless steel, so is it because of this that the ferro manganese which is essentially used in stainless steel production the price hike is backed by that?
- Pankaj Sarda:** No, basically you have to understand that India is not producing ferro manganese to that extent India is a major producer of silico manganese. India is the single largest seaborne producer of silico manganese not ferro manganese. So in India in fact ferro manganese production is very minimal compared to silico manganese. So basically silico manganese I do not think so there is a much impact in terms of stainless steel being shifted to Indonesia. What we are seeing is the price increase in silico manganese in India and the price increase is also because the international markets have gone up and the domestic market is also looking good at the moment.
- Chirag Singhal:** And sir my second question and the last question sir you said that there has been like the sale has been given the permission to sell the 70 million tons of the low grade inventory which they had and we saw that due to the auctioning of iron ore mines there seems to be a shortage of 60

to 65 million tons as mines are getting auctioned right now. So this 70 million tons cannot substitute the shortage completely?

Pankaj Sarda: I think you are confused this is basically sale of tailings/ dumps , the tailings which are there in their plans I think they have got the permission to sell that, but that needs to be beneficiated and you cannot replace iron ore.

Moderator: Thank you. We take the next question from the line of Gansh Jaiswani from Mittal Analytics. Please go ahead.

Gansh Jaiswani: Sir we have been waiting for all these mine auctions wherein large steel players have been bidding aggressively and they are paying like 90%, 110%, 120% premium, so just wanted to understand what does this premium exactly mean is it a onetime payment or is it a regular payment or linked to the market price of iron ore and how does it impact players like us who have captive mines and who have pellet capacity build up?

Padam Kumar Jain: Yes this is basically the premium is percentage of the basic price of the average basic price of that take if the average basic price is 3,000 and premium is 110% means they will be paying 3,300 for the mine. So there are different rate for different grades of the lumps and fines that is qualified by IBM.

Gansh Jaiswani: So this price keeps changing in reference to monthly market price going forward?

Padam Kumar Jain: Yes.

Gansh Jaiswani: So basically if the iron ore today on an average just say Rs. 3,000 per ton then steel company which has bid at 110% premium will have to pay more, will have to pay 3,300 to the government on monthly basis?

Padam Kumar Jain: Yes this is the premium they have to pay.

Gansh Jaiswani: In addition to this they will have to incur cost of mining and use and all those things will be extra.

Pankaj Sarda: Plus royalty also.

Gansh Jaiswani: So in effect their captive cost will be much higher than the market price if they have bid at more than 100% premium.

Padam Kumar Jain: It is basically total gain you have to use finally basic price how the basic price go; basic price may go down. Ultimately, if everyone is paying the premium to somewhere to some extent it will get adjusted to some extent, but definitely the premium the way premiums are going definitely iron ore price will go up.

- Pankaj Sarda:** It is a long term gain you have to see that iron ore prices if you look you know it can range from \$60 to \$180 odd okay internationally. So it is a long term gain that they are playing because in a scenario where the prices drop then it becomes viable for them and it gives raw material security. At this point in time it is \$100 so it is looking very expensive and it is very expensive.
- Gansh Jaiswani:** But the premium is linked to market price like when the price fall to \$60 then also their cost will be higher than \$60.
- Pankaj Sarda:** So it is basically for the larger companies it is also a raw material security base for them and when they are using it they are looking at the value addition and at the end of the day if in the value addition they are able to make money that is what they are looking at.
- Gansh Jaiswani:** Okay so somewhere they will absorb that additional cost in their whole entire value chain, but they want raw material security that is the only point here.
- Pankaj Sarda:** One of the most important point is raw material security for the larger plants who are having capacity beyond 10 million tons.
- Gansh Jaiswani:** So what does it mean for players like us who are having captive source and who have build pellet capacity and all?
- Pankaj Sarda:** That is a big positive for us because we are going to be competitive in any scenario we are going to be extremely competitive.
- Gansh Jaiswani:** So does this bring more stability to these pricing going forward?
- Pankaj Sarda:** Definitely the stability is going to be there because at some point of time they will have to pass on at least some part of the premium that they are trying to get the mines at. So in some way they will try to keep the prices because these are the players who are going to make the markets.
- Gansh Jaiswani:** Sir in reference to the China uncertainty that has happened recently, what has been the impact on the pellet prices or the demand in the near term as of now in last 15 days or so?
- Pankaj Sarda:** We have seen that the products are being exported in a big way if you look at year-on-year impact on pellet export is India is 59% year-on-year exports have been more in terms of the pellets going to China.
- Gansh Jaiswani:** I am asking sir in last 15 days or something have you seen any gradual?
- Pankaj Sarda:** No, last 15 days there is nothing so specific that I can talk about last 15 days, but definitely there will be a bit of trade disruption in terms of the coronavirus which has happened. So yes there are some movements which are difficult right now in China. We are seeing a lot of material is being stuck at Chinese ports and then not moving, but I think it is a temporary phenomenon. I

think they will get everything under control in the next 15, 20 days and the trade flow should start back again until and unless this coronavirus really goes out of proportion and goes out of hand.

Gansh Jaiswani: So as of now situation is okay and has it impacted the pricing also?

Pankaj Sarda: No, pricing is not being impacted in that way, pricing would not be impacted until and unless they declare that there is a serious issue and it will be difficult for them to contain it in the next 6 months or something then there will be impact on pricing and stuff like that otherwise I do not think there is going to be much impact except for the fact that logistic part from trade to the plants and for different provinces maybe a little difficult which we are seeing that there is a slowdown in terms of the logistics movements.

Gansh Jaiswani: Sir I have one more question given the mining disruption that the industry was expecting we had also mentioned about building up inventory in the last quarter and in this quarter, but as the government has ease out the rules how do you see the scenario going forward?

Pankaj Sarda: I did not exactly understand what you are trying to say?

Gansh Jaiswani: Sir, the industry was thinking of a big mining disruption to happen because of the auction in Orissa and all, but the government has provided EC approvals to the plants to the new bidders because of this change in stance has anything changed for us as a strategy or something?

Pankaj Sarda: No, there is nothing which has changed. See we had in anticipation of the disruption we had procured a little bit of raw material and the prices have moved up. So whatever stocks we have, we have at a very good price so that is positive for us. Apart from that the disruption we did not anticipate as a group level we did not anticipate that there would be a disruption of more than 2 and 2.5 months because that would lead to abnormal price size which will not be able to be passed on to the consumers at the end of the day and I do not see that there will be a major disruption even now I think there will be a very slight disruption and there is nothing which is negative for us as a group.

Moderator: Thank you. We take the next question from the line of Vikas Singh from PhillipCapital. Please go ahead.

Vikas Singh: Sir, just wanted to understand in terms of term loan repayment what is our repayment schedule for this and next year?

Padam Kumar Jain: We have 81 crores for next 1 year.

Vikas Singh: Only 81 crore right?

Padam Kumar Jain: 81 crores.

- Vikas Singh:** And in terms of this Sikkim power projects sir how much of the spending is pending in terms of total CAPEX amount what is the pending amount which we need to spend?
- Padam Kumar Jain:** Maybe about 200 crore.
- Vikas Singh:** 200 crore is still pending so the debt may go up further, is that a correct understanding from current level?
- Padam Kumar Jain:** Yes slightly.
- Vikas Singh:** Because you have said that equity portion is fully invested, so whatever the new would be coming it would be from debt?
- Padam Kumar Jain:** Yes.
- Moderator:** Thank you. The next question is from the line of Nandish Shah from Nirmal Bang Securities. Please go ahead.
- Nandish Shah:** Sir, can we have the gross debt number as on 31st December 19?
- Padam Kumar Jain:** Yes gross also I have given 1450 crores it includes working capital loans also everything included.
- Nandish Shah:** And sir the cash and investments?
- Padam Kumar Jain:** Cash and investments must be somewhere about 200 crores.
- Nandish Shah:** The investments which we had in CanFin Homes, you continue to hold it?
- Padam Kumar Jain:** Yes we continue to hold.
- Moderator:** Thank you. We take the next question from the line of Nm Modi an Individual Investor. Please go ahead.
- Nm Modi:** Sir, this thermal power we have generated less in comparison to quarter-on-quarter and year-on-year what could be the main reason?
- Padam Kumar Jain:** The reason is as in you are aware in Ferroalloy is Vishakhapatnam our furnace was closed in both the quarter so captive consumption was on lower side and even in Raipur plant also one unit was under shutdown in the second quarter it had a bearing on the overall generation.
- Nm Modi:** But we are selling at the same time sir we could not sell it?

- Padam Kumar Jain:** Thermal power we are not selling thermal power is basically for captive consumption if we get a good price sometimes we sell on the IEX, but this time because of good monsoon prices on the IEX were very low so we did not sell that much.
- Nm Modi:** Sir, second question regarding Sikkim hydro power plant what is sir roughly our total project cost?
- Padam Kumar Jain:** Total project cost will be somewhere about 1,400 crore plus.
- Nm Modi:** And sir what is the present price of this iron pellet sir presently as on date?
- Padam Kumar Jain:** As on date is somewhere about maybe Rs. 6,800 to 7,000 a ton.
- Nm Modi:** So it has come down sir?
- Padam Kumar Jain:** Yes some correction plus minus goes on in last two days some Rs. 100, 200 has got corrected otherwise it was 7,000 plus.
- Nm Modi:** Sir, it went up to 7,400 also in January?
- Padam Kumar Jain:** It has gone up for few days.
- Nm Modi:** But as on date it is 6,800 to 6,900??
- Padam Kumar Jain:** Somewhere about Rs. 7,000 on the slightly on low side.
- Moderator:** Thank. The next question is from the line of Pritesh Chheda from Lucky Investment. Please go ahead.
- Pritesh Chheda:** Sir, I wanted to know the replacement cost of your assets for the 6 lakh ton pellet plant plus the sponge and billet of about 200,00 right?
- Padam Kumar Jain:** 200,000 you are talking about the expansion.
- Pritesh Chheda:** No, the current capacity that we have so current capacity of sponge plus the iron ore pellet and the Ferroalloy this would give the capacity and the replacement cost for that capacity.
- Pankaj Sarda:** We cannot give you this at the moment. We can work out off line, but I do not think immediately I can rate from that and as far as capacity is concerned pellet we have 6 lakh ton capacities presently and our capacity announcement for 8 lakh tons is under process. Hopefully, within next 2, 3 months we should be able to get the final approval for enhance capacity. So effectively we have 8 lakh ton capacity installed. For sponge iron we have like capacity of 3,60,000 tons.

- Pritesh Chheda:** And now Ferroalloys?
- Padam Kumar Jain:** Ferroalloy we have total effectively if you see about 1,80,000 tons in totality.
- Pritesh Chheda:** So just on a Ferroalloy plant if you have to set up this plant of 180 how much capital you will need CAPEX you need?
- Padam Kumar Jain:** I think very difficult to say immediately, but off line we can definitely discuss this.
- Moderator:** Thank you. The next question is from the line of Ayush D from Equitas Investment. Please go ahead.
- Ayush D:** What is the main reason for the increase in Ferroalloy prices, has the demand improved overall demand situation?
- Manish Sarda:** The demand overall has improved the steel plants have started producing more. We have seen Essar Steel also which has expanded their production base. So there is a bit of demand which has improved the prices also you must understand that the prices had gone way below the standard pricing norm that was also a correction which was long overdue in the Ferroalloy pricing and overall we have seen a reasonable demand in domestic industries and in export markets also in certain pockets in the export market also.
- Ayush D:** So now going ahead do you feel that these are sustainable now going ahead prices?
- Manish Sarda:** Yes I think these prices will be sustainable plus and minus little bit here and there Rs. 1,000 here and there, but at least in the shorter term in the next 6 months I think these prices are manageable, these prices are quite sustainable.
- Ayush D:** And what is our outlook on the overall steel prices like even they have started increasing from I believe October onwards?
- Manish Sarda:** See the steel prices anything, but needs to go up only because the latent demand which is there is definitely long pending also we have got the announcements of infrastructure push that is from the government side. What we are waiting to see is that when are these projects actually going to take off in the near future, but the entire planning and the entire flow of the government is to really push the infrastructure in a big fashion and which will help the steel prices to go up only because there is a lot of production which will be build up over a period of time once these projects start and we have not seen any major expansion projects also in steel industry in the last 2, 3 years we have not seen a major infrastructure push in terms of the steel companies. We have not seen new blast furnaces of 4,000 cubic meter coming up something like that we have not seen in the last 2, 3 years.

- Ayush D:** And sir coming to the mining options, so you said that the iron ore prices are likely to increase, or they will remain stable. So for Sarda we have 50% capacity right?
- Manish Sarda:** Yes.
- Ayush D:** And balance 50% where do we source from?
- Padam Kumar Jain:** We are sourcing from Orissa and we are also sourcing from Madhya Pradesh Katni area, we are also sourcing from the local market, wherever sponge plants are there they are basically selling their iron ore fines.
- Ayush D:** So do we think that the prices for the balance 50% likely the cost for us might increase?
- Padam Kumar Jain:** For iron ore prices, definitely that will increase, but to that extent the selling prices will also go up because that will change the cost structure of the steel production.
- Ayush D:** So just wanted to understand the overall impact on a company like Sarda which has a 50% captives it should be positive right?
- Padam Kumar Jain:** Definitely.
- Ayush D:** And sir lastly so why is this approval for 2 lakh tons pellet getting delayed again and again like we have been waiting for it since long time right?
- Padam Kumar Jain:** Yes in between there was some issues with NGT had come out wherever pollution levels were higher in the city areas particularly in the capital cities there are certain restrictions when gradually that was presentation, so the process has taken longer than expected time. These are getting clear.
- Manish Sarda:** No in general also you have to understand that nowadays where there is heavy industrialization they are taking a very cautious view and they take a lot of time in giving the clearances.
- Padam Kumar Jain:** For examination of all the aspects or dimensions.
- Moderator:** Thank you. The next question is from the line of Nandish Shah from Nirmal Bang Securities. Please go ahead.
- Nandish Shah:** Sir, what kind of absolute savings can we look at once we get the advantage of a lower interest rate?
- Padam Kumar Jain:** Absolute I think somewhere it should be 5 crores per annum in Sarda Metals major benefit will come in hydro once it is completed, but as of now Sarda Metals whatever renegotiated it should reduce in absolute terms by about 5 crores per annum.

- Nandish Shah:** Sir, when I look at the finance cost it has increased what was sequentially FOREX gain or any other component in it?
- Padam Kumar Jain:** No FOREX gain I think FOREX loss is built-up as a part of the finance cost.
- Moderator:** Thank you. The next question is from the line of Jyoti Singh from B&K Securities. Please go ahead.
- Jyoti Singh:** Sir may I know how much is the CAPEX plan for 23 megawatt Chhattisgarh hydro project?
- Padam Kumar Jain:** This should be somewhere about 250 crore.
- Jyoti Singh:** And when will this project begin?
- Padam Kumar Jain:** I think soon we will start work on that project.
- Moderator:** Thank you. The next question is from the line of Amit Kochar an Individual Investor. Please go ahead.
- Amit Kochar:** Of this 1400 crore Sikkim project, how much is the capital subsidy which we have to receive from the government side?
- Padam Kumar Jain:** No, there is no capital subsidy except maybe small or minor amount not much of the subsidy anymore.
- Amit Kochar:** And what will be the tax benefit in the hydro projects?
- Padam Kumar Jain:** There are no tax benefits.
- Amit Kochar:** And what is a difference between large hydro project and small hydro project that is 24 megawatt and below and above that?
- Padam Kumar Jain:** No earlier there was a difference, earlier less than of 25 megawatt projects were considered is renewable energy projects and getting all the benefits of renewable energy. Now government has come out with a policy all the new hydro power plant larger one also not the old one. New hydro project which are commissioning now will be treated as a renewable energy project and they will be eligible for all the benefits of renewable energy.
- Moderator:** Thank you. Ladies and Gentlemen this seems to be the last question for today. I would now like to hand the floor back to Mr. Pankaj Sarda for his closing comments.



*Sarda Energy & Minerals Limited
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Padam Kumar Jain: On behalf of the company I thank all the investors who have spare time and participated in this concall we hope that we have clarified the questions to their satisfaction. If any of the investors have any questions they can always approach off line. Thank you all for participation.

Moderator: Thank you very much. On behalf of Sarda Energy Minerals Limited, we conclude today's conference. Thank you for joining and you may disconnect your lines.