



“Sarda Energy & Minerals Limited
Q1 FY’25 Earnings Conference Call”

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Moderator:

Ladies and gentlemen, good day and welcome to the Q1 FY '25 Earnings Conference Call of Sarda Energy & Minerals Limited. 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

Today, we are honored to have with us from the management team, Mr. Pankaj Sarda, Joint Managing Director of Sarda Energy & Minerals Limited; Mr. Manish Sarda, Deputy Managing Director of Sarda Metals & Alloys Limited; Mr. P.K. Jain, Director and Chief Financial Officer; and Mr. Nilay Joshi, Head, Corporate Finance at Sarda Energy & Minerals Limited.

This call may contain some of the forward-looking statements, which are completely based upon our beliefs, opinions and expectations as of today. These statements are not a guarantee of our future performance and involve unforeseen risks and uncertainties. The company also undertakes no obligation to update any forward-looking statement to reflect developments that occur after a statement is made.

I would now like to hand the conference over to Mr. Pankaj Sarda for opening remarks. Thank you, and over to you, sir.

Pankaj Sarda:

Thank you, and a very good afternoon, ladies and gentlemen. Welcome to Sarda Energy's earnings call. I hope you have had a chance to go through the results and presentation uploaded on our website and the websites of stock exchanges.

Economies across the globe continue to face macro headwinds. China's GDP growth slowed to 4.7%, reflecting weakened private consumption and waning effect of fiscal stimulus. In China, the property sector continues to remain a challenge. The intensified conflict between Israel and Hamas and disruptions in the Red Sea has impacted sea transport and fuel costs, with geopolitical risks remaining a concern.

During the quarter, we reduced production of steel billets and downstream products to sell power on commercial consideration. Hydropower generation decreased by 13% due to delayed monsoon. Detailed operational data is available on our website and in the press release uploaded on the website of stock exchanges.

Mine opening work of Shahpur West coal mine will start after we receive Stage 2 forest clearance and mining lease. We expect to get mine opening permission during current financial year.

Process of mining plan, preparation and approval for the Kalyani coal mine was held back to resolve overlapping boundary issues with adjacent mines of SECL, which are now resolved.

Work for the 50-megawatt captive solar power project is progressing as per schedule. The plant is scheduled to be operational by end of the current financial year.

The 25-megawatt Rehar hydropower project is nearing completion. Dry run test has started for the first turbine. The power evacuation infrastructure in area passing through forest patches is pending for want of final approval from forest department, which is expected in this month. We aim to commission the plant by the end of this quarter, ahead of the March 2025 schedule.

So far as acquisition of SKS Power is concerned, NCLT has completed rehearing of the application for approval of our resolution plan and reserved it for orders. Order is expected soon.

Now I request Mr. P.K. Jain to talk about the financial performance.

Moderator: Ladies and gentlemen, we have lost the managements line connection. Please stay connected while we reconnect them.

Padam Jain: Yes. So with regard to the financial performance, the company has achieved consolidated quarterly revenue of INR926 crores in quarter 1 FY '25 as compared to INR889 crores in the last quarter and INR1,052 crores in quarter 1 FY24. Consolidated profit after tax was INR199 crores, up from INR88 crores last quarter and INR172 crores in quarter 1 of FY '24. Prices across the value chain rose in the first 2 months, but reverted in June due to dumping from China.

During the quarter, we spent approximately INR150 crores on ongoing capexes. The company is net debt free with consolidated long-term debt at around INR1,300 crores. Long-term loans repayable within next 1-year total to ~ INR240 crores. The company holds strong liquidity with cash and liquid investments of around INR1,300 crores as of June 30.

Now I hand over to Sri Manish Sarda to discuss the steel and ferro alloys industry scenario and outlook. Over to Manishji.

Manish Sarda: Thanks, Mr. Jain. Good afternoon, everyone. Global steel production in the first 6 months of 2024 remained flat at 955 million tons, with China recording a decline of 1.1% and India growing by 7.4%, reaching 74 million metric tons.

Due to slowdown in domestic economy, Chinese steel export remained at elevated levels. Higher exports from China due to subdued domestic demand weighed on global steel prices. In India, steel demand was stable despite impact of elections and heat wave. Price realizations improved during the quarter but moderated in June and further in July.

Steel imports moderated quarter-on-quarter, but in absence of safeguard measures, fall in exports was much sharper by around 50% year-on-year. Imports increased and exports fell. India remains a net importer of steel. The EU imposed additional safeguards to moderate high steel imports. Ferro alloys prices rose sharply due to supply disruptions in Australia but corrected quickly.

Merchant power prices remained high due to elections and heat wave. Domestic crude steel production in quarter 1 of financial year '25 grew by 5% year-on-year but declined by 2% quarter-on-quarter to 36.61 million tons. Domestic finished steel consumption grew by ~14%

year-on-year but was slightly lower quarter-on-quarter due to seasonal effects and labor migration during the elections. Our Ferro alloys exports have been stable, during the quarter we exported 32,500 metric tons of Ferro alloys worth INR273 crores in quarter 1 FY25 compared to 27,000 metric tons worth INR203 crores last quarter and ~ 29,400 metric tons worth INR242 crores in quarter 1 of '24.

Outlook. The Indian economy remains stable despite high inflation environment. Interest rates across the globe are expected to fall as inflation declines. Strong tax collection and sharp rise in dividend from RBI has strengthened government finances, allowing for increased infrastructure spending.

Strong foreign capital inflows aided by Global Bond Index inclusion are set to further bolster the robust macroeconomic growth. Good credit offtake and a strong capital market, particularly primary insurances, indicate rise in private capex. That should boost capex-heavy projects and real estate sector creating demand for steel.

However, China's slowing economy and subdued real estate sector has created surplus in global steel markets. Increased Chinese exports are pressuring steel prices. In the absence of trade barriers, India's imports especially through the FTA countries are rising, which may affect the steel sector's performance.

That concludes the performance and outlook. We now open the forum for question and answer. Thank you, all participants.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Vikash Singh from PhillipCapital.

Vikash Singh: Sir, you mentioned that the prices have started to decline from June. Just wanted to understand what are the current prices with respect to 1Q averages? How much it is down?

Padam Jain: Prices of what?

Vikash Singh: The steel products basically Pellet, Billet, Wire Rods and HB wires, including Ferromanganese, which you would like to tell us.

Padam Jain: The prices have corrected by around 6% to 8% as compared to the first quarter average.

Vikas Singh: Understood. And correspondingly, the cost of production, any guidance in terms of production in the cost of product numbers? The coal, iron ore cost for you?

Padam Jain: There remains a time gap. In the falling market, it takes some time to get corrections into the raw material prices.

Vikas Singh: So as of now, we haven't experienced anything. Sir, if you could give us spot basis then it would also be okay for me.

Padam Jain: Spot prices?

- Vikas Singh:** Spot basis, the iron ore as well as the coal cost which you would experience versus 1Q averages?
- Padam Jain:** There has not been any material correction in the raw material prices when you compare with the Q1 average.
- Vikas Singh:** Understood, sir. Secondly, we spent INR150 crores in 1Q. I wanted to understand the overall FY'25 capex, how much is left for spending?
- Padam Jain:** It should be -- total capex should be somewhere in the range of INR700 crores, out of which we have already spent about INR150 crores in the first quarter.
- Vikas Singh:** Sir, we have done -- we have almost completed the hydropower thing. So remaining money is going where, if you could give us an idea?
- Padam Jain:** There are three coal mining projects, then we are doing this waste utilization project in Vishakhapatnam, then turbine replacement project is going on. So major capexes will be going towards the expansion of three coal mines.
- Vikas Singh:** Understood. And any timeline for these coal mines to start production?
- Padam Jain:** As we stated in our opening remarks, first will be the Shahpur West Coal Mine. So, we will start working on that mine once we receive the forest Stage 2 clearance, which we expect to get within the current financial year. And remaining mines will take time to get started, but land acquisition and all other processes will be going on where we will be spending money on those projects. Then in addition to that, we have solar power project also which is going on.
- Vikas Singh:** Understood. Sir, just one last question. For Gare Palma IV/7, we were in the process of increasing the limit for the mining capacity. Have we received it or at what stage we are in?
- Pankaj Sarda:** Currently, the mining capacity is 1.44 million tons. We have already got the EC for increasing it to 1.68 million tons, consent to establish and consent to operate, we'll get it in this quarter.
- Moderator:** The next question is from the line of Balasubramanian from Arihant Capital.
- Balasubramanian:** Sir, regarding our Raipur captive power plant, it's been shut down in last quarter. So, it's in the progress of overhauling FBC, boilers and turbines. So, when do you expect re-start production in this unit? And hydropower project is also expected to be operational by this quarter, and what's the status on the project side?
- Pankaj Sarda:** That was statutory overhauling that was done. So, it has again, restarted, I mean. So the Raipur captive power plant one of the turbines was taken under shutdown and boiler was taken under shutdown for statutory overhauling, and it is again restarted. And what was your second question?
- Balasubramanian:** Sir, regarding hydropower project, 25-megawatt?

- Pankaj Sarda:** As mentioned, the 25-megawatt Rehar hydro project will be commissioned in this quarter. And the target date was considered 31 March 2025 and we'll be commissioning it in this quarter.
- Balasubramanian:** Got it, sir. Sir, also, we have placed 30-megawatt TG set to save the energy under carbon footprint side. So, when we can expect it to be operational and what is the status on that?
- PankajSarda:** Right. So, we have already given purchase orders to BHEL and it will take at least 24 to 28 months to commission that. BHEL will take 18 months to supply us the turbine. And we have to take a shutdown and we have to change it. It will take 24 to 28 months.
- Balasubramanian:** Got it sir. Thank you. I will come back in the queue.
- Moderator:** Thank you very much. The next question is from the line of Rakesh Roy from Omkara Capital. Please go ahead.
- Rakesh Roy:** First question regarding, sir do you see more margin improvement in coming quarters, sir?
- Padam Jain:** It depends upon the market condition. As we stated in our opening remarks presently the prices have gone down. And the correction in the raw material prices is awaited. So as of now margins as compared to the first quarter are on the lower side, but how the things move post the rainy season and how the developments come in it depends on that.
- Rakesh Roy:** My next question sir we see a sharp drop in pellet, billet and wire rod volume numbers -- sales volume number. Is this due to demand or pellet import?
- Padam Jain:** No. We have already stated in our opening remarks also, the production of billet was intentionally curtailed to supply power on the IEX for merchant sale where we were getting better realization or better margins.
- Rakesh Roy:** Okay. So, you supply power to the IEX instead of making billets?
- Padam Jain:** We have captive power plant. So, we cut down our production of billet and whatever the surplus power we could have, that was sold through IEX.
- Rakesh Roy:** And sir, how is the current scenario for July?
- Padam Jain:** There have been ups and downs, in between we get the opportunities to sell for a few hours. It's not that throughout that is happening because presently it's rainy season. So comparatively the power demand remains on the lower side.
- Rakesh Roy:** Okay. So, can we see again the production be normalized from Q2?
- Padam Jain:** Yes.
- Rakesh Roy:** Okay. And sir can you give....
- Padam Jain:** It remains normalized, but in between if we get the opportunity to sell power at high prices again we may decide to cut production of steel. And as far as raw material prices are

concerned that question has come in between. So, in case of manganese ore Moil has reduced the prices from 10% to 27%. For higher grade, it is in the range of 10% and for lower grade they have reduced prices by 27% in case of manganese ore.

Rakesh Roy: Okay. Right, sir. And sir my next question sir can you give some detail about the power project of SKS? Where is it and how much time it takes because it's already more than [inaudible 18:39] has happened.

Padam Jain: The matter has been heard by NCLT after revert from NCLAT and everyone is waiting for the orders.

Rakesh Roy: Okay. So we expect by September Q2 we'll get the order?

Padam Jain: Yes. Hopefully, that should be clear. Maybe by end of this month or latest in this quarter.

Rakesh Roy: Okay. And sir, one -- last question, our net debt stood at INR 1,300 crores?

Padam Jain: No, net debt is 0. That is gross debt. Net debt is 0.

Rakesh Roy: Okay. Gross debt is INR 1,300 crores.

Padam Jain: That is gross long-term debt.

Rakesh Roy: Okay. I understand. And sir your comment on sir steel demand in terms of looking for imports from China, how you look in domestic consumer demand probably in the next 1 year?

Padam Jain: Manish ji?

Manish Sarda: So the steel -- see I'll tell you something, the government is very clear on infrastructure boost and they are planning for infrastructure development in a big way. And going forward the imports which are happening from China and from FTA nations will be looked in by the new steel ministry which is just in place right now, but they have not yet formed up any proper protocols for the same. They are looking into it because there has been a sharp rise in terms of imports and especially through the FTA routes, so they are planning some policy but we are all waiting for that policy. That should be out in the next couple of months.

Moderator: Thank you. The next question is from the line of Rajesh Bhandari from Nakoda Engineers. Please go ahead.

Rajesh Bhandari: Congratulations for good numbers. In fact, there was a little doubt about the turnover, so you told us that you sold power by reducing the steel. Will the problem of steel settle in the next 2-4 months?

Manish Sarda: No, it will not. It will not settle in the next 2-4 months. Because the Chinese economy is also in doldrums right now, they want to come out with some stimulus in terms of consumer spending, and they're looking at their rates, interest rates and everything. But with the ongoing multiple issues across Russia, Ukraine, Gaza, Palestine, all these things, I think -- and with Japan, we have seen what has happened in Japan.

I don't think within the next 2 or 3 months, things will be resolved because WTO matters are quite huge in terms of duties and FTAs are also in place. So, the government -- the Steel Ministry can only take cognizance of the fact that there has been sharp rise in imports. But at the same time they have to coordinate it with the Ministry of Finance, DGFT, DGTR, regulations, everything. So it is not that simple that it will happen in 2, 3 months. But they are definitely planning to put some QCOs in place like for Ferro alloys we already have a QCO in place.

Rajesh Bhandari: Okay, for Ferro alloys it is there. That is the reason your Ferro alloys prices have not gone down.

Manish Sarda: No, that is not the reason. QCO is basically quality control order. So, everybody who's exporting to India will need to register themselves in the system BIS, so that is a little long-drawn process and kind of a lengthy process. So, they are trying to see and they're trying to curb cheap imports into India, which are not quality oriented and all those things. They're looking into all those things now.

Rajesh Bhandari: So ferroalloy will be imported sir?

Manish Sarda: Little Ferro alloy gets imported. We are getting imports of Ferro silicon from Bhutan and we were getting Ferro Moly, which had an inverted duty structure but it's now been removed. So, all these things are taking place and the ministry has just formed.

Rajesh Bhandari: But the prices of Ferro alloy have not dropped that much?

Manish Sarda: No, Ferro alloys prices have also dropped. Ferro alloy prices have also come down considerably. At the same time, Moil prices have also come down.

Rajesh Bhandari: So, means margins it is more or less.

Manish Sarda: Yes, so the margins are intact it is okay, because prices will go up and down according to the demand and supply.

Rajesh Bhandari: Correct. And will SKS power be within 1 or 2 months?

Manish Sarda: That Mr. P.K. Jain and Nilay Joshi can comment upon that.

Nilay Joshi: Sir, the matter has been heard in the NCLT court and it is reserved for order. So, we are also awaiting the outcome.

Rajesh Bhandari: I would say 99.99% is in your favour.

Nilay Joshi: Going by the precedent, you may say that

Rajesh Bhandari: Sir, I am saying a small thing. The money that you are taking from the market. Why don't you take the whole in QIP, People will come running.

- Padam Jain:** No, we don't have any intention of raising funds. It is just an enabling resolution. We are taking the enabling resolution every year. If we ever need it...
- Rajesh Bhandari:** We know that sir.
- Padam Jain:** We don't have any plan to raise funds.
- Rajesh Bhandari:** But SKS will come, right?
- Padam Jain:** SKS will come. We have taken Enabling. We will decide at an appropriate time. As of now we don't have any plan in the immediate future to raise any funds.
- Moderator:** Thank you very much. The next question is from the line of Balasubramanian from Arihant Capital. Please go ahead.
- Balasubramanian:** Sir, SKS acquisitions, what is the status on it. It's under NCLT. And how much capex we are planning for this operation?
- Padam Jain:** For?
- Balasubramanian:** SKS. Thermal power plant.
- Padam Jain:** SKS has no capex in immediate. In immediate we have acquisition of an operating plant. We will be acquiring it. As of now, no capex is involved. It is a running plant, which we are acquiring.
- Balasubramanian:** Okay. Sir, after acquisitions, what kind of capacity we are targeting?
- Padam Jain:** That we will decide independently after getting it. So, it will be very difficult to comment on that at the moment.
- Balasubramanian:** Ok sir got it.
- Nilay Joshi:** As of now it's a 2*300 MW operational thermal power plant that we are acquiring. The matter is sub judice and reserved for orders. So, once it is resolved then we will be able to comment.
- Balasubramanian:** Okay, sir. So post elections, like what kind of revamp on the operations side? Because I heard a lot of companies are facing issues because of shortage of laborers. So, like post-election, how you are seeing the operations level especially on the labor.
- Padam Jain:** We are operating at normal levels.
- Moderator:** Thank you. Next question is from the line of Rajesh Bhandari from Nakoda Engineers. Please go ahead.
- Rajesh Bhandari:** Sir, I had a question, is power selling has better margin than steel selling?
- Padam Jain:** Power selling does not happen 24 hours. It is rainy season. So, when demand is good for a few hours, then we get a better price. So, we do power supply.

- Rajesh Bhandari:** Because when SKS comes to us now?
- Padam Jain:** Yes.
- Rajesh Bhandari:** So, from that point of view, I was just asking.
- Padam Jain:** The power market is strengthening year-on-year. Power prices are going up year-on-year. So, the demand for power is good and the power prices are going up.
- Moderator:** Thank you very much. The next question is from the line of Atul from ULJK. Please go ahead.
- Atul:** There are a couple of questions from my side. First question is on, as you know, global situation is not good due to China factor, especially China is facing issues in Real Estate part. Domestic story is good, sir. So how do we foresee second half of FY '25? Is it a similar performance will be continued or we can see some improvement in coming quarters on the revenue part?
- Padam Jain:** As far as volumes are concerned, those will remain at the normal levels, whatever operations we have achieved that will continue. So far as pricing is concerned, the markets are volatile and projecting in advance for the second half may be difficult, how the China story evolves and how the overall other scenarios, geopolitical conditions evolve, then interest rate scenario, there are multiple factors that will decide the future course of action. But so far as the operations are concerned, quantitative performance or operational performance is concerned, it will remain at the normal level throughout the year.
- Atul:** Got it. Sir, second question is on the profit side. We have been following a backward integration strategy. We are using our own mining and power plants now. So going forward, though there won't be any top line growth or even a moderate growth. Do we see further profitability improvement or situation will persist under current level?
- Padam Jain:** Top line one is the addition on account of the increase in the capacity of the coal mine. Another is the commissioning of our hydropower project and the third one is the commissioning of our waste utilization project. Waste utilization project will be coming next year only. But for the current year, there will be 2 more additions on account of the increase in the coal mining capacity and starting of the hydro power project.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Padam Jain:** Thank you, all the participants of this con call. To summarize, our diversification has resulted in better performance during volatile times. The commissioning of 25-megawatt Rehar hydropower project this quarter, the 50-megawatt solar power project and waste utilization project will help reduce our carbon footprint. Starting 3 more coal mines and hydropower projects will drive our future growth. Please feel free to reach out to us or our IR team with any further questions. Thank you all.

Moderator:

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