



## Sarda Energy & Minerals

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,802	SEML IN
	REUTERS CODE
S&P CNX: 4,137	SAEM.BO

27 June 2008

Neutral

Previous Recommendation: Neutral

Rs285

Equity Shares (m)	34.0
52-Week Range	695/191
1,6,12 Rel. Perf. (%)	-4/-22/49
M.Cap. (Rs b)	9.7
M.Cap. (US\$ b)	0.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	3,642	428	14.5	56.4	19.7	4.7	24.0	10.9	2.8	14.8
3/08A	6,248	1,214	35.7	146.6	8.0	2.6	33.0	20.7	2.0	7.4
3/09E	10,276	1,566	45.6	27.9	6.3	1.9	30.3	23.0	1.3	4.9
3/10E	11,672	3,201	93.3	104.4	3.1	1.2	38.8	33.4	0.8	1.8

- For 4QFY08 reported PAT increased 19.4% QoQ to Rs439m due to lower taxes. However, the results of the fourth quarter are not comparable with 4QFY07 due to the merger with its group company, CEC (power). During FY08 net sales increased 72% to Rs6.25b, EBITDA rose 141% to Rs1.7b, and PAT was up 184% YoY to Rs1.2b due to increase in production of sponge iron ore, steel and better prices.
- Net sales increased 32.1% QoQ to Rs2.2b driven by 54% QoQ increase in realizations to ~Rs89,000 in ferro alloys. Production during the quarter suffered due to shortage of power on account of unplanned CPP shutdown for 20 days during March. Sponge iron production increased 11% to 41k ton QoQ, while saleable steel production declined 18% QoQ to 20k ton. Ferro alloy production too declined 18% to 13k tons. EBITDA increased 8% QoQ to Rs 576m, while margins declined 600bp QoQ to 26.7% due to: (1) doubling of low margin trading; (2) higher costs owing to purchase of iron ore as captive mines were not operational due to labor unrest.
- The new sponge iron capacity of 150k tpa and 30MW captive power plant will be operational by August 2008. Coal mines will start production by October 2008 and the 600k tpa pelletization plant is expected to be commissioned by March 2009. The stock is trading at P/E of 6.3x FY09E and EV/EBITDA of 4.9x FY09E. Maintain **Neutral**.

### QUARTERLY PERFORMANCE (CONSOLIDATED)

(RS MILLION)

Y/E MARCH	FY07				FY08				FY07	FY08
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Sales</b>	<b>412</b>	<b>451</b>	<b>541</b>	<b>649</b>	<b>1,126</b>	<b>1,333</b>	<b>1,633</b>	<b>2,156</b>	<b>3,642</b>	<b>6,248</b>
Change (%)	-0.4	-23.4	28.6	37.7	173.2	195.3	201.8	232.1	68.9	71.6
Total Expenditure	344	388	466	584	873	1,012	1,098	1,580	2,944	4,564
As a % of net sales	84	86	86	90	78	76	67	73	81	73
<b>EBITDA</b>	<b>68</b>	<b>64</b>	<b>75</b>	<b>66</b>	<b>253</b>	<b>321</b>	<b>534</b>	<b>576</b>	<b>698</b>	<b>1,685</b>
Change (YoY %)	21.7	55.5	65.3	14.9	273.0	405.5	613.5	777.2	249.0	141.2
As % of Net Sales	16.4	14.1	13.8	10.1	22.5	24.1	32.7	26.7	19.2	27.0
Interest	10	13	18	9	15	28	30	48	135	121
Depreciation	19	18	20	23	55	53	57	57	226	221
Other Income	32	3	3	3	9	29	9	3	170	50
<b>PBT (after EO Inc.)</b>	<b>72</b>	<b>36</b>	<b>40</b>	<b>36</b>	<b>193</b>	<b>269</b>	<b>457</b>	<b>474</b>	<b>508</b>	<b>1,392</b>
Total Tax	24	13	13	13	25	28	89	35	80	177
% Tax	33.7	34.7	32.7	36.5	13.0	10.4	19.5	7.5	15.8	12.8
<b>Reported PAT</b>	<b>48</b>	<b>24</b>	<b>27</b>	<b>23</b>	<b>168</b>	<b>241</b>	<b>367</b>	<b>439</b>	<b>428</b>	<b>1,214</b>
<b>Adjusted PAT</b>	<b>48</b>	<b>24</b>	<b>27</b>	<b>23</b>	<b>168</b>	<b>241</b>	<b>367</b>	<b>439</b>	<b>428</b>	<b>1,214</b>
Change (YoY %)	133.9	76.8	92.8	-68.4	252.6	924.3	1,271.1	1,807.5	253.5	183.9

E: MOSt Estimates

## Sarda Energy: an investment profile

### Company description

Sarda Energy & Minerals (SEM) is an integrated mini mill producing steel via the sponge iron route at Siltara, Raipur (Chhattisgarh). Captive iron ore mines meet up to 30% of the requirement. This percentage would increase to 100% on start-up of the pelletization plant in March 2009. Captive coal mines too are expected to start by October 2008. Rs4.4b capex has raised its steel making capacity to 240,000 tpa and captive power to 78MW, recently. SEM is a play on sponge iron prices and power.

### Key investment arguments

- ☞ Sponge iron and steel making capacity has increased to 360,000 tpa and 240,000 tpa a few months ago. The company will benefit from rising sponge iron and steel prices due to timely capacity expansion.
- ☞ The operational iron ore mine, with total reserves of 20m tons currently, meets 30% of the company's requirement. A pellet plant is expected to start by April 2009, thereby increasing iron ore integration to 100%.

### Key investment risks

- ☞ Earnings are highly leveraged to steel and ferro alloy prices.

### Recent developments

- ☞ The new sponge iron capacity of 150k tpa and 30MW captive power plant will be operational by August 2008.

### Valuation and view

- ☞ The stock is trading at P/E of 6.3x FY09E and EV/EBITDA of 4.9x FY09E.

### Sector view

- ☞ The strong growth in global demand for steel, rising industry consolidation (ex-China) leading to greater production discipline, declining steel exports from China due to (a) rising cost of metallics, (b) trade friction with the Western world, and (c) shortage of metallics is keeping steel prices high. We prefer companies that will deliver stronger volume growth, reduce operating costs and have the security of raw material supply.

#### COMPARATIVE VALUATIONS

		SARDA	GODAWARI	MONNET
P/E (x)	FY08E	8.0	5.5	16.4
	FY09E	6.3	4.1	8.1
P/BV (x)	FY08E	2.6	1.5	2.3
	FY09E	1.9	1.1	1.8
EV/Sales (x)	FY08E	2.0	0.9	2.8
	FY09E	1.3	0.6	1.6
EV/EBITDA (x)	FY08E	7.4	4.5	12.9
	FY09E	4.9	3.7	5.4

#### SHAREHOLDING PATTERN (%)

	MAR-08	DEC-07	MAR-07
Promoter	69.0	69.0	61.1
Domestic Inst	10.5	10.3	9.7
Foreign	10.0	10.2	1.9
Others	10.6	10.6	27.4

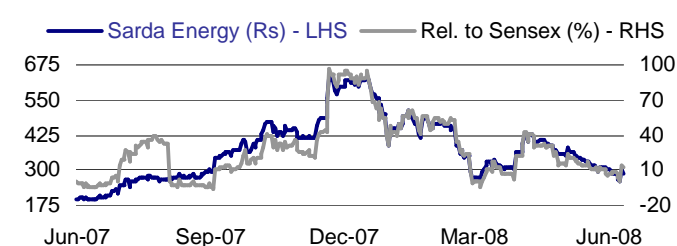
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	45.6	48.4	-5.6
FY10	93.3	85.1	9.6

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
285	292	2.4	Neutral

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
<b>Net sales</b>	<b>2,157</b>	<b>3,642</b>	<b>6,248</b>	<b>10,276</b>	<b>11,672</b>
Change (%)	-5.1	68.9	71.6	64.5	13.6
Total Expenses	1,956	2,944	4,564	7,633	6,754
<b>EBITDA</b>	<b>200</b>	<b>698</b>	<b>1,685</b>	<b>2,643</b>	<b>4,919</b>
% of Net Sales	9.3	19.2	27.0	25.7	42.1
Depn. & Amortization	66	226	221	452	522
<b>EBIT</b>	<b>134</b>	<b>473</b>	<b>1,463</b>	<b>2,191</b>	<b>4,397</b>
Net Interest	59	135	121	190	225
Other income	70	170	50	86	96
<b>PBT before EO</b>	<b>145</b>	<b>508</b>	<b>1,392</b>	<b>2,087</b>	<b>4,268</b>
EO income					
<b>PBT after EO</b>	<b>145</b>	<b>508</b>	<b>1,392</b>	<b>2,087</b>	<b>4,268</b>
Tax	24	80	177	522	1,067
Rate (%)	16.6	15.8	12.8	25.0	25.0
<b>Reported PAT</b>	<b>121</b>	<b>428</b>	<b>1,214</b>	<b>1,566</b>	<b>3,201</b>
Minority interests					
Preference dividend					
<b>Adjusted PAT</b>	<b>121</b>	<b>428</b>	<b>1,214</b>	<b>1,566</b>	<b>3,201</b>
Change (%)	-33.3	253.5	183.9	28.9	104.4

BALANCE SHEET					
(Rs million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Share Capital	131	296	340	343	343
Reserves	568	1,786	3,686	5,179	8,259
<b>Share holders funds</b>	<b>699</b>	<b>2,082</b>	<b>4,026</b>	<b>5,522</b>	<b>8,602</b>
Loans	1,035	2,087	2,887	3,587	3,587
Secured	864	1,925	2,725	3,425	3,425
Unsecured	171	162	162	162	162
Deferred tax liability (net)	132	171	171	432	965
<b>Capital Employed</b>	<b>1,866</b>	<b>4,340</b>	<b>7,085</b>	<b>9,541</b>	<b>13,155</b>
Gross Block	1,262	2,955	5,455	7,455	7,455
Less: Accum. Deprn.	401	999	1,221	1,672	2,194
<b>Net Fixed Assets</b>	<b>861</b>	<b>1,955</b>	<b>4,234</b>	<b>5,782</b>	<b>5,260</b>
Capital WIP	366	947	947	947	947
Investments	1	219	219	219	219
<b>Curr. Assets</b>	<b>696</b>	<b>1,744</b>	<b>2,374</b>	<b>3,724</b>	<b>8,012</b>
Inventories	336	683	1,027	1,689	1,919
Sundry Debtors	196	483	770	1,267	1,439
Cash and Bank	10	215	213	403	4,290
Loans and Advances	153	364	364	364	364
<b>Curr. Liability &amp; Prov.</b>	<b>86</b>	<b>530</b>	<b>693</b>	<b>1,135</b>	<b>1,288</b>
Sundry Creditors	56	521	685	1,126	1,279
Other Liabilities & prov.	30	9	9	9	9
<b>Net Current Assets</b>	<b>610</b>	<b>1,215</b>	<b>1,681</b>	<b>2,589</b>	<b>6,724</b>
<b>Misc. Exp. (not w/off)</b>	<b>27</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>Application of Funds</b>	<b>1,866</b>	<b>4,340</b>	<b>7,085</b>	<b>9,541</b>	<b>13,155</b>

E: MOSL Estimates

RATIOS					
Y/E MARCH	2006	2007	2008	2009E	2010E
<b>Basic (Rs)</b>					
EPS	9.3	14.5	35.7	45.6	93.3
Cash EPS	14.3	22.1	42.2	58.8	108.5
BV/Share	41.4	60.2	108.1	150.8	240.6
DPS	2.0	2.0	2.0	2.0	2.0
Payout (%)	24.7	15.8	9.8	7.7	3.8
<b>Valuation (x)</b>					
P/E		19.7	8.0	6.3	3.1
Cash P/E		12.9	6.8	4.9	2.6
P/BV		4.7	2.6	1.9	1.2
EV/Sales		2.8	2.0	1.3	0.8
EV/EBITDA		14.8	7.4	4.9	1.8
Dividend Yield (%)		0.7	0.7	0.7	0.7
<b>Return Ratios (%)</b>					
EBITDA Margins	9.3	19.2	27.0	25.7	42.1
Net Profit Margins	5.6	11.7	19.4	15.2	27.4
RoE	22.4	24.0	33.0	30.3	38.8
RoCE	7.2	10.9	20.7	23.0	33.4
RoIC	9.2	16.0	25.7	27.5	57.1
<b>Working Capital Ratios</b>					
Fixed Asset Turnover (x)	1.7	1.2	1.1	1.4	1.6
Asset Turnover (x)	1.2	0.8	0.9	1.1	0.9
Debtor (Days)	33	48	45	45	45
Inventory (Days)	57	68	60	60	60
Creditors (Days)	9	52	40	40	40
<b>Growth (%)</b>					
Sales	-5.1	68.9	71.6	64.5	13.6
EBITDA	-44.4	249.0	141.2	56.9	86.1
PAT	-33.3	253.5	183.9	28.9	104.4
<b>Leverage Ratio (x)</b>					
Current Ratio	8.1	3.3	3.4	3.3	6.2
Interest Cover Ratio	2.3	3.5	12.1	11.5	19.5
Net Debt/Equity	1.9	1.1	0.7	0.6	-0.1

CASHFLOW STATEMENT					
(Rs million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Pre-tax profit	145	508	1,392	2,087	4,268
Depreciation	33	598	221	452	522
(Inc)/Dec in Wkg. Cap.	-30	-400	-468	-717	-249
Tax paid	-7	-55		-261	-533
<b>CF from Op. Activity</b>	<b>141</b>	<b>651</b>	<b>1,145</b>	<b>1,561</b>	<b>4,007</b>
(Inc)/Dec in FA + CWIP	-385	-2,273	-2,500	-2,000	
(Pur)/Sale of Investments	-1	-218			
<b>CF from Inv. Activity</b>	<b>-386</b>	<b>-2,490</b>	<b>-2,500</b>	<b>-2,000</b>	
Equity raised/(repaid)		165	850	50	
Debt raised/(repaid)	296	1,053	800	700	
Dividend (incl. tax)	-30	-67	-119	-120	-120
Other financing activities	-23.3	893.9			
<b>CF from Fin. Activity</b>	<b>243</b>	<b>2,044</b>	<b>1,531</b>	<b>630</b>	<b>-120</b>
<b>(Inc)/Dec in Cash</b>	<b>-2</b>	<b>204</b>	<b>176</b>	<b>191</b>	<b>3,887</b>
Add: opening Balance	12	10	215	213	403
<b>Closing Balance</b>	<b>10</b>	<b>215</b>	<b>213</b>	<b>403</b>	<b>4,290</b>



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**Disclosure of Interest Statement**

**Sarda Energy**

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|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

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