

Sarda Energy

BSE SENSEX	S&P CNX	CMP: INR106	TP: INR120	Neutral
16,739	5,049			
Bloomberg	SEML IN			
Equity Shares (m)	34.0			
52-Wk Range (INR)	326/72			
1,6,12 Rel. Perf. (%)	31/-41/-52			
M.Cap. (INR b)	3.6			
M.Cap. (USD m)	71.6			

Consolidated

- Sarda Energy and Mineral (SEML) posted standalone adjusted PAT of INR187m (up 35% QoQ) for 3QFY12. Higher coal production, stabilization of pellet plant, and higher merchant power volumes and rates boosted earnings.
- Net sales increased 13% QoQ to INR2.8b (v/s our estimate of INR2.5b), driven by higher pellet and power sales, and increase in sponge iron prices.
- EBITDA increased 34% QoQ to INR481m, driven by increase in production of pellets and coal, higher power generation, and higher sponge iron prices. Pellets are currently enjoying superior margins due to shortage of DRI grade iron ore and strong sponge iron prices.
- Reported standalone PAT was INR278m. This includes INR137m MTM impact of forex loss reversal, as SEML has adopted new guidelines for amortization of forex loss over a longer period.

Valuation and view: After a couple of quarters of subdued performance, the pellet plant has stabilized. The coal washery, which was started in August 2011, is also ramping up well and mining production has increased. We are increasing our earnings estimate for FY13 to factor in stabilization of the pellet plant and coal washery, and ramp-up of coal mining. The stock trades at an EV of 5.3x FY12E EBITDA. Maintain **Neutral**.

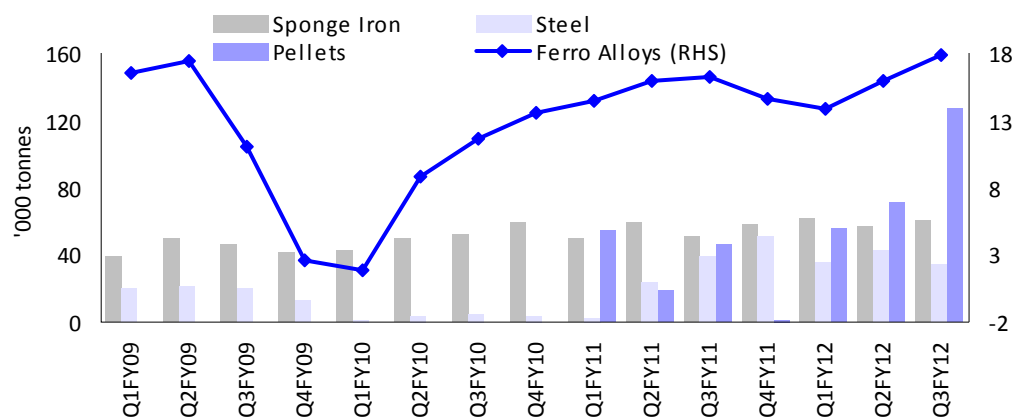
Y/E March	FY11				FY12				(INR Million)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	FY11	FY12E
DRI sales ('000 tons)	51	33	24	31	39	37	36	42	139	154
Steel sales ('000 tons)	2	24	40	51	35	43	34	34	117	146
Steel (Rs/ton estimate)	37,328	27,377	26,750	31,992	32,564	32,780	33,449	33,949	29,430	33,125
Ferro Alloys Sales ('000 tons)	14	15	16	16	15	16	16	18	61	65
Ferro Alloys (Rs/ton)	58,190	67,385	63,751	57,750	53,900	56,121	55,645	55,645	61,839	55,368
Net Sales	2,167	2,002	2,136	2,445	2,539	2,513	2,848	2,861	8,750	10,762
Change (%)	132.8	96.3	38.9	40.5	17.2	25.5	33.4	17.0	67.4	23.0
Total Expenditure	1,669	1,841	1,931	2,132	2,174	2,154	2,367	2,366	7,573	9,061
As a % of Net Sales	77	92	90	87	86	86	83	83	87	84
EBITDA	498	161	205	313	366	359	481	495	1,177	1,701
Change (YoY %)	973.1	162.1	-34.5	-9.6	-26.6	122.7	135.0	57.9	53.4	44.5
As % of Net Sales	23.0	8.1	9.6	12.8	14.4	14.3	16.9	17.3	13.5	15.8
EBIT Steel	163	37	110	178	220	240	286	216	488	962
EBIT Ferro-alloy	264	138	85	60	71	103	50	135	547	359
Interest	27	57	21	47	57	53	61	62	152	234
Depreciation	136	136	138	167	144	147	172	174	576	638
Other Income	8	26	34	40	24	37	29	29	109	118
PBT (before EO Inc.)	343	-5	80	140	188	195	276	288	558	947
EO Income(exp)	-137	252	12	28	-32	-335	135	135	155	-232
PBT (after EO Inc.)	206	247	92	168	156	-140	411	288	713	715
Total Tax	69	71	29	49	46	-41	133	89	216	227
% Tax	33.2	28.6	31.0	28.9	29.4	29.4	32.4	31.0	30.3	31.8
Reported PAT	138	176	63	119	110	-99	278	199	497	488
Adjusted PAT	229	-4	55	99	133	138	187	199	380	656
Change (YoY %)	-695.8	- na -	-66.6	-43.7	-42.2	- na -	238.5	100.1	61.0	72.6

E: MOSL Estimates

EBITDA up 34% QoQ helped by significant improvement in Pellet plant and higher coal production

- EBITDA increased 34% QoQ to INR481m due to increase in Pellet, coal production, power generation and higher sponge iron prices. Pellets are enjoying superior margins due to shortage of DRI grade iron ore and strong sponge iron prices.
- SEML has adopted the new guidelines for amortization of forex loss over a longer period. This has resulted in higher depreciation on account of amortization of forex loss by INR20m, as INR527m was added to the cost of foreign assets acquisition. Forex gain (write-back) of INR 137m was a result of reversal of forex loss booked in 2QFY12 as SEML adopted new guidelines.

Quarterly trend in Production - Pellet plant stabilized



Source: Company/MOSL

Increasing FY13 earnings by 21% on pellet plant and coal washery stabilization, coal mining ramp up; Vizag project on schedule: Maintain Neutral

- INR5.5b Ferro project at Vizag is progressing on schedule to get commissioned by 1QFY13. Production capacity would be 125ktpa with 2*33 MVA submerged arc furnace and 80MW CPP.
- After couple of quarters of subdued performance pellet plant has finally stabilized. Coal washery which was started in August 2011 is also ramping up well and mining production has been increased to support higher requirement due to washery.
- We are increasing FY13 earnings by 21% to factor pellet plant and coal washery stabilization, and coal mining ramp up. The stock trades at an EV of 5.3 FY12E EBITDA. Maintain **Neutral**.

Sarda Energy: an investment profile

Company description

Sarda Energy and Minerals (SEML) produces steel via sponge iron route, having 240ktpa of crude steel capacity and 360ktpa of sponge at Siltara, Raipur (Chhattisgarh). It is also one of the largest ferroalloy producers, with a capacity of 72ktpa and 81.5MW of captive power plant. The company has been allotted captive iron ore as well as coal mines. SEML is a play on sponge iron prices and power.

Key investment arguments

- Volumes of steel business are likely to move up gradually through asset sweating as there is sufficient scope to improve capacity utilization. Stabilization of pellet plant and coal washery and ramp up in coal production will driver earnings.
- SEML is investing INR5.5b into a Greenfield ferro project (125ktpa with 2*33 MVA submerged arc furnace and 80MW CPP) at Vizag. The project is expected to get commissioned by 1QFY13.

Key investment risks

- Earnings are highly leveraged to ferroalloy and steel prices.

Recent developments

- 2 MW Solar Power Plant was commissioned in January. It would approximately generate 10,000

units of power per day. The life of the plant is 25 years; also arrangement of selling the units is through Power Purchase agreement with state utility spanning 25 years with price of Rs. 15.84/unit.

Valuation and view

- The stock trades at an EV of 5.3 FY12E EBITDA. Maintain **Neutral**.

Sector view

- Global steel demands still remains subdued due to European economic problems and slow down in construction in China. Certain raw material side issues have prevented costs correction for steel mills thereby forcing them to cut production. Global crude steel production is down 11% to 115m tons in November 2011 from peak production of 130m tons in May 2011. Global economic growth slowdown mainly in China continues to cloud demand outlook.
- Indian real steel demand too has slowed down growing only 4.2% YoY to 45.2m tons during April-November 2011. We believe Indian demand will still grow 7-8% over couple of years. Depreciation of INR against USD and appreciating Yuan has increased competitiveness of Indian producer's vis-à-vis their Chinese counterparts, therefore lowering Chinese imports threat

Comparative valuations

		Sarda Energy	Monnet Ispat	Godawari Power
P/E (x)	FY12E	5.5	8.6	2.9
	FY13E	4.2	6.7	2.1
P/BV (x)	FY12E	0.4	1.1	0.5
	FY13E	0.4	1.0	0.4
EV/Sales (x)	FY12E	1.2	2.9	0.6
	FY13E	0.9	2.0	0.7
EV/EBITDA (x)	FY12E	7.6	10.9	3.8
	FY13E	5.3	8.3	4.1

Shareholding pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	66.5	66.5	70.1
Domestic Inst	2.1	2.2	7.9
Foreign	11.9	12.3	6.6
Others	19.5	19.0	15.4

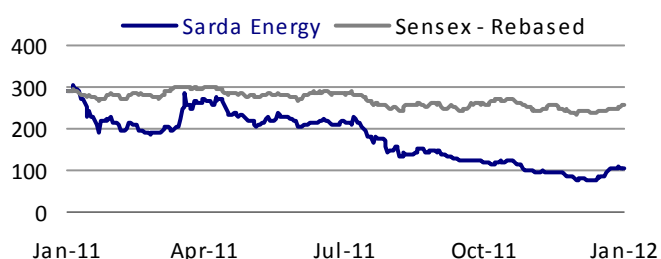
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	19.4	16.6	16.4
FY13	25.4	19.2	31.9

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
106	120	13.0	Neutral

Stock performance (1 year)



Financials and Valuation

Income Statement (Consolidated)		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Net Sales	9,488	5,277	8,814	10,826	14,520	
Change (%)	51.8	-44.4	67.0	22.8	34.1	
Total Expenses	7,251	4,465	7,598	9,086	12,092	
EBITDA	2,237	812	1,216	1,740	2,428	
% of Net Sales	23.6	15.4	13.8	16.1	16.7	
Depn. & Amortization	281	409	598	670	892	
EBIT	1,956	403	619	1,070	1,536	
Net Interest	7	3	47	184	407	
Other income	89	781	313	118	119	
PBT before EO	2,038	1,180	885	1,004	1,248	
EO income	-451	408	48	-232		
PBT after EO	1,587	1,588	933	772	1,248	
Tax	262	145	213	246	339	
Rate (%)	16.5	9.1	22.8	31.9	27.1	
Reported PAT	1,325	1,444	720	526	910	
Adjusted PAT	1,701	1,073	683	694	910	
Change (%)	39.5	-36.9	-36.3	1.6	31.0	

BALANCE SHEET

Y/E March	2009	2010	2011	2012E	2013E
Share Capital	340	340	359	359	359
Reserves	4,908	6,173	7,709	8,110	8,893
Share holders funds	5,249	6,514	8,068	8,468	9,252
Loans	7,438	6,221	7,821	10,581	10,081
Secured	7,356	6,077	7,638	10,398	9,898
Unsecured	83	143	183	183	183
Deferred tax liability (r	283	287	361	361	361
Capital Employed	12,970	13,279	16,526	19,686	19,970
Gross Block	5,011	6,673	7,465	8,095	13,710
Less: Accum. Depn.	1,473	1,899	2,497	3,167	4,058
Net Fixed Assets	3,538	4,774	4,968	4,928	9,651
Capital WIP	3,605	4,290	6,000	8,700	3,800
Investments	3,767	2,112	1,976	1,976	1,976
Curr. Assets	2,658	3,106	4,726	5,978	7,046
Inventories	996	1,520	2,588	2,966	3,978
Sundry Debtors	226	227	527	445	597
Cash and Bank	367	628	156	1,112	1,016
Loans and Advances	1,069	731	1,455	1,455	1,455
Curr. Liability & Prov.	598	1,002	1,153	1,905	2,512
Sundry Creditors	479	883	1,028	1,780	2,387
Other Liabilities & prov.	119	119	125	125	125
Net Current Assets	2,060	2,104	3,573	4,074	4,534
Application of Funds	12,970	13,279	16,526	19,686	19,970

E: MOSL Estimates

Ratios

Y/E March	2009	2010	2011	2012E	2013E
Basic (INR)					
EPS	50.0	31.5	19.1	19.4	25.4
Cash EPS	58.2	43.5	35.7	38.1	50.2
BV/Share	154.2	191.3	224.8	236.0	257.8
DPS			3.0	3.0	3.0
Payout (%)	9.0	8.3	17.5	23.9	13.8
Valuation (x)					
P/E			5.6	5.5	4.2
Cash P/E			3.0	2.8	2.1
P/BV			0.5	0.4	0.4
EV/Sales			1.3	1.2	0.9
EV/EBITDA			9.4	7.6	5.3
Dividend Yield (%)			2.8	2.8	2.8
Return Ratios (%)					
EBITDA Margins	23.6	15.4	13.8	16.1	16.7
Net Profit Margins	17.9	20.3	7.7	6.4	6.3
RoE	37.1	18.2	9.2	8.4	10.3
RoCE	20.0	9.0	6.3	6.6	8.3
RoIC	43.7	7.0	8.5	13.2	14.6
Working Capital Ratios					
Fixed Asset Turnover (x)	1.9	0.8	1.2	1.3	1.1
Asset Turnover (x)	0.7	0.4	0.5	0.5	0.7
Debtor (Days)	9	16	22	15	15
Inventory (Days)	38	105	107	100	100
Creditors (Days)	18	61	43	60	60
Leverage Ratio (x)					
Current Ratio	4.4	3.1	4.1	3.1	2.8
Interest Cover Ratio	297.5	124.4	13.1	5.8	3.8
Net Debt/Equity	1.3	0.9	1.0	1.1	1.0

Cashflow Statement

Cashflow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Pre-tax profit	1,587	1,588	933	772	1,248	
Depreciation	256	426	598	670	892	
(Inc)/Dec in Wkg. Cap.	-84	218	-1,942	456	-557	
Tax paid	-173	-141	-213	-246	-339	
CF from Op. Activity	1,563	2,290	-500	1,652	1,245	
(Inc)/Dec in FA + CWIP	-2,721	-2,347	-2,502	-3,330	-715	
(Pur)/Sale of Investmen	-3,587	1,655	136			
CF from Inv. Activity	-6,308	-692	-2,366	-3,330	-715	
Equity raised/(repaid)	39		920			
Debt raised/(repaid)	4,200	-1,218	1,600	2,760	-500	
Dividend (incl. tax)	-119	-119	-126	-126	-126	
Other financing activitie						
CF from Fin. Activity	4,119	-1,337	2,395	2,634	-626	
(Inc)/Dec in Cash	-626	261	-472	956	-96	
Add: opening Balance	993	367	628	156	1,112	
Closing Balance	367	628	156	1,112	1,016	

N O T E S

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Sarda Energy

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Motilal Oswal Securities Ltd

3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: reports@motilaloswal.com