

Sarda Energy & Minerals Limited
March 31, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Rating reaffirmed at CARE A/ CARE A1; Outlook revised from Positive to Stable and Withdrawn
Short term Bank Facilities	-	-	
Total	-	-	
Commercial Paper (Carved Out)	-	-	

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reaffirmed the ratings and revised the outlook to stable from positive and subsequently withdrawn the outstanding ratings of CARE A; Stable [Single A; Outlook: Stable] assigned to the bank facilities of Sarda Energy & Minerals Limited (SEML) with immediate effect. The above action has been taken at the request of Sarda Energy & Minerals Limited and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

Outlook:

The outlook was revised to 'Stable' from 'Positive' on account of expected stable financial risk profile on the back of muted demand conditions in the domestic market which is likely to keep the prices under pressure in the short to medium term period.

Detailed description of the key rating drivers**Key Rating Strengths****Experienced promoters in the steel and ferro alloy industry**

SEML is managed by Mr. K. K. Sarda (Chairman & Managing Director) who has over four decades of experience in steel industry. He is assisted by his son Mr. Pankaj Sarda (Joint Managing Director) who has over thirteen years of experience in the industry. The promoters are also supported by qualified & experienced management with more than two decades of experience in the industry.

Steady operational and financial performance in FY19 albeit decline in performance in 9MFY20

During FY19 on consolidated basis, SEML's total operating income grew by 5.72% on a Y-o-Y basis primarily on account of improvement in sales in the ferro alloys segment as well as better capacity utilisation. The PBILDT margins also improved to 20.84% in FY19 from 19.80% in FY18 on account of overall improvement in sales realisation across segments

SEML has reported a decline in 9-month revenue to Rs. 1599.19 crore in 9MFY20 from Rs.1820.02 crore in 9MFY19. The revenue declined by 12.13% on a Y-o-Y basis. SEML has attributed the decline on account of shutdown of one of the two ferro alloys furnaces at Vizag till November 2019. SEML has confirmed it was a planned shutdown for maintenance and it has impacted the revenue & EBITDA during Q3FY20.

Comfortable capital structure and improved debt coverage indicators

With healthy accretion to reserves and repayment of debt overall gearing improved from 0.92x in FY18 to 0.77x in FY19.

The working capital cycle of the company improved to 73 days as on March 31, 2019 as against 77 days as on March 31, 2018 on account of liquidation of inventory due to increase in demand of steel as well as better collection cycle. Debtor days marginally improved from 24 days in FY18 to 20 days in FY19.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Captive source of power with partial coal linkages

SEML has 81.50 MW captive coal based power plant at Raipur which meets almost entire power requirement of its Raipur facility. The company has coal linkages with South Eastern Coalfields Limited (SECL) and Coal India Limited towards 75% of its requirement and is also planning to participate in further coal auctions to meet its balance requirements which are currently met through open markets. Additionally, the company has also set up 80 MW captive power plant at Vizag in its wholly owned subsidiary – Sarda Metals and Alloys Limited to support its ferro alloys operations. The coal requirement for SMAL is met through external market.

Key Rating Weaknesses***Financial support to Sarda Metals & Alloys (SMAL) provided during shut down of furnace.***

Furthermore, in Q1FY20, both ferro alloy furnaces were shut down for 15 days each for regular maintenance and from August end to Nov end, one furnace was shut down completely for repairing the furnace lining, this also affected power production.

This resulted in significant loss of both top line and EBITDA for the company. SMAL repaid around Rs.24.21 crore for 9MFY20 wherein apart from Rs.7.64 crore from internal accruals, remaining payment is supported by Sarda Energy & Minerals Ltd by ways of loans from parent. Funding support to group companies through loans & advances may affect the financial risk profile of SEML.

Project risk with time and cost over run in the Madhya Bharat Corporation Limited

The power project has been delayed significantly from its scheduled COD of July 2014 on various accounts such as delays in land acquisition, damages on account of earthquake, unforeseeable geological challenges, change in civil contractor etc. that were beyond the control of the company. At the same time, the project cost had also increased significantly due to price variations, additional work, change in designs, size and scope etc. The lenders had accordingly accepted a cost overrun of Rs. 643.45 crore taking the total cost to Rs. 1,187.45 crore. As per the above mentioned revision in the project, the project was expected to achieve COD on June 30, 2018. However, the same was not achieved on account of continued geological difficulties faced by the company which led to subsequent delay in executing other project activities. Due to change in scope and size of the project, the revised SCOD was set to be March 31, 2020. The project cost saw a modification from the earlier project cost of Rs. 1,250 crore to Rs. 1,453.34 crore. The COD of the project however remains unchanged at March 2020. Moreover, any further cost overrun will be funded by promoter/company. As per the LIE report dated June 30, 2019, the company has achieved physical progress of 75.33%. Also, the company has incurred expenditure of Rs. 1296.29 crore, which was funded through debt of Rs. 698.76 crore and equity/unsecured loan of Rs. 597.53 crore as on December 31, 2019. The revised cost per MW has been more than doubled since the cost overrun from Rs 5.67 crore to Rs 15.14 crore. As a result, the company would have to enter into a PPA with higher tariff to keep the project viable.

Inherent cyclicity of the steel industry

Also, SMAL has repaid around Rs.24.21 crore for 9MFY20 wherein apart from Rs.7.64 crore from internal accruals, remaining is paid by Sarda Energy & Minerals Ltd by ways of loans from parent.

Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz. automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. When downturns occur in these economies or sectors, steel industry may witness decline in demand, thereby impacting volumes, revenue and margins of steel makers. The producers of steel construction materials are essentially price-takers in the market, which directly exposes their cash flows and profitability to volatility in the steel prices.

Liquidity: Strong

With healthy accretion to reserves and repayment of debt overall gearing improved from 0.92x in FY18 to 0.77x in FY19. The working capital cycle of the company improved to 73 days as on March 31, 2019 as against 77 days as on March 31, 2018. Debtor days marginally improved from 24 days in FY18 to 20 days in FY19. Inventory holding period increased from 77 days in FY18 to 84 days in FY19. The average utilisation of fund based working capital limits remained comfortable at 63.34% for the last trailing twelve month ended October, 2019. SEML on consolidated basis had cash and bank balance of Rs. 36.48 crore as on March 31, 2019 (PY: Rs. 21.01 crore). Apart from this, SEML also had current investment holding of Rs. 166.01 crore as on March 31, 2019 (PY: Rs. 185.92 crore). Moreover, the liquidity profile of the company is also supported by unutilized working capital limits.

Analytical approach:

CARE has adopted a consolidated approach on account of operational and financial linkages among entities. The list of entities whose financials have been consolidated is mentioned in Annexure 3.

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating methodology – Steel Companies](#)

About the company

Since its incorporation as Raipur Wires & Steel Limited in 1973, Sarda Energy & Minerals Ltd (SEML) has converted itself from a standalone steel melting shop to an integrated steel, power and ferro alloys producer in a phased manner. Presently, the company is engaged in the manufacturing and selling of pellets, sponge iron, steel billets, wire rods, ferro alloys and power from its plant located at Raipur.

In March 2013, SEML commissioned an 80 MW power plant at its wholly owned subsidiary Sarda Metals & Alloys Ltd while the 1,00,000 mtpa ferro alloy plant at the same premises became operational in June 2014. Under Parvatiya Power Ltd, 4.8 MW hydro power project is operational. SEML's 24 MW hydro power project executed under Chhattisgarh Hydro Power Ltd. (CHPLLP) was completed in March, 2017 and started generation from July, 2017. The 96 MW hydro power project under MBPCL and 24 MW Rehar project are under project stage. Apart from the above, SEML has invested in several other subsidiaries/Special Purpose Vehicles (SPVs)/Joint Ventures (JVs) with interests in power plants and mining blocks. However, most of these subsidiaries are yet to commence operations.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2229.79	2357.43
PBILDIT	441.60	491.20
PAT	205.68	207.13
Overall gearing (times)	0.92	0.77
Interest coverage (times)	4.57	4.96

A-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Fund-based - ST-Term loan	-	-	-	0.00	Withdrawn
Commercial Paper	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A; Positive (27-Mar-19)	1)CARE A; Stable (22-Mar-18)	1)CARE A (24-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1 (27-Mar-19)	1)CARE A1 (22-Mar-18)	1)CARE A1 (24-Oct-16)
3.	Term Loan-Long Term	LT	-	-	-	1)CARE A; Positive (27-Mar-19)	1)CARE A; Stable (22-Mar-18)	1)CARE A (24-Oct-16)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (22-Mar-18)	1)CARE A (24-Oct-16)
5.	Fund-based - ST-Term loan	ST	-	-	-	1)CARE A1 (27-Mar-19)	1)CARE A1 (22-Mar-18)	1)CARE A1 (24-Oct-16)
6.	Commercial Paper	ST	-	-	-	1)CARE A1 (27-Mar-19)	1)CARE A1 (22-Mar-18)	1)CARE A1 (12-Jan-17)

Annexure-3: List of subsidiaries, associates and joint ventures consolidated (list as on March 31, 2019)

Subsidiaries		
Name of Entity	Country of Origin	%
Sarda Energy & Minerals Hong Kong Limited	Hong Kong	100.00
Sarda Global Ventures Pte Limited	Singapore	100.00
Sarda Global Trading DMCC	Dubai	100.00
Sarda Metals & Alloys Limited	India	100.00
Sarda Energy Limited	India	100.00
Chattisgarh Hydro Power LLP	India	60.00
Parvatiya Power Limited	India	51.00
Madhya Bharat Power Corporation Limited	India	68.31
Shri Ram Electricity LLP	India	51.00
Sarda Hydro Power LLP	India	60.00
Raipur Fabritech Private Limited	India	52.38
Raipur Industrial Gases Private Limited	India	51.00
Natural Resources Energy Private Limited	India	71.55

Associates		
PT. Tigadiya Minergy	Indonesia	49.00
Joint Ventures		
Raipur Infrastructure Company Limited	India	33.33
Madanpur South Coal Company Limited	India	20.13

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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