



Farsight

## MORNING FARSIGHT

Thursday, June 21, 2018

**SARDA ENERGY**

**CMP:RS 398**

**TRGT:RS 450**

**TIME HORIZON: 1 YEAR**

Sarda Energy, looking a good buy post recent correction, as Q1FY19 is set to be even stronger than Q4FY18 earnings, with continued price hikes seen in April and May, and full impact of Price hikes taken in Q4FY18 will be played out in Q1FY19 as well. For Q4FY18, company had reported good earnings for Q4FY18, with Income rising to Rs 392 cr from Rs 355 cr QoQ and Rs 256 cr YoY (+10% QoQ, 53% YoY) and PAT rising to Rs 55 cr from Rs 34 cr QoQ and Rs 17.5 cr YoY (+62% QoQ, 214% YoY), leading to an EPS of Rs 15.30 for Q4FY18 and Rs 52.27 for FY18. Segment wise, company's Steel Division has seen its EBIT rising to Rs 94.6 cr (EBIT margin 37.2%) from Rs 47.2 cr QoQ and Rs 20.9 cr YoY, which has remained key growth driver for the company. Latest developments in global steel sector are very interesting and media reports are highlighting continued news flow of further environment inspections in China. As per Bloomberg, China has once again re-started environmental and pollution checks between June 5th and July 5th for one month and is part of a wider program of 1 month checks in 10 provinces that include Hebei and Henan among others Chinese HIRC prices are broadly flat at -\$590/t, and from here in the next few months, the winter shutdown process would start again, which would once again result in sharp buying interest in domestic steel names. Further, We have seen domestic steel price hikes continuing in April and May, which is ironic, as steel price hikes in May month are very rare, given seasonally lower offtake. Hence, Steel realization in 10FY19 has been better than 4QFY18 and as a result EBITDA/ton should increase QoQ for all domestic steel players. Sarda Energy is an integrated steel maker, with presence across entire value chain, right from mining iron ore to manufacturing wire rods. Its manufacturing facility at Raipur is backed with high-quality inputs via captive mines and power resources -90 MW thermal and 6 MW hydro power and coal mines (236 mn MT estimated reserve) in Chhattisgarh, iron ore mines in West Bengal and Manganese ore mines in Goa and Madhya Pradesh. Company's current capacity stands at 3.6 lakh MTPA of sponge iron, 2.4 lakh MTPA of steel ingots and billets, 1 lakh MTPA construction steel and 1 lakh MTPA Manganese based ferro alloys. It exports Manganese-based ferro alloys to over 60 countries such as Japan (-50% of exports), Pakistan, Taiwan, UAE, Korea, Iran and UK. Share ruling at Rs 398 is trading at PE of about 7x on reported consolidated EPS of Rs 56, which is seen attractive and share can move Rs 450 in the next 1 year. Buy as an investor.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

**Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.**