

METALS · MINING · POWER GENERATION

Sarda Energy & Minerals Ltd

Corporate Transformation, Segment Economics & Structural Cost Moat
— An Institutional Business Case Study on India's Diversifying Metals-to-Power Conglomerate

HEADQUARTERS

**Raipur,
Chhattisgarh**

CREDIT RATING

**CRISIL AA- /
Positive**

MARKET CAP

₹17,957 Cr

FY26 EBITDA MARGIN

~40%

01 Executive Summary & Transformation Blueprint

Sarda Energy & Minerals Ltd (SEML) represents a profound corporate transformation case study within the Indian industrial landscape. Over the past decade, the company has systematically engineered a transition from a regional, cyclical steel manufacturer into a vertically integrated energy and metals conglomerate spanning sponge iron, billets, wire rods, ferro alloys, captive coal mining, independent thermal power, and run-of-the-river hydroelectric power generation.

THE STRATEGIC TRANSFORMATION THESIS

Historically, pure-play secondary steel and ferro alloy producers have been vulnerable to extreme commodity super-cycles, raw material volatility, and power tariff hikes. SEML's multi-decade strategic pivot was constructed around backward integration (iron ore and coal) and aggressive captive power generation. The FY25 acquisition of SKS Power (600 MW thermal IPP) permanently de-risked the business model, shifting energy from a cost-centre to the largest profit driver of the consolidated entity.

By FY26, the Operating Profile Reached a Decisive Inflection Point

POWER & MINING SHARE 44% Rev / ~65% EBIT	CONSOLIDATED NET DEBT ₹215 Cr (- 85%)	LIQUIDITY RESERVE ₹2,380 Cr	CAPTIVE POWER COST EDGE 30-40% vs Grid
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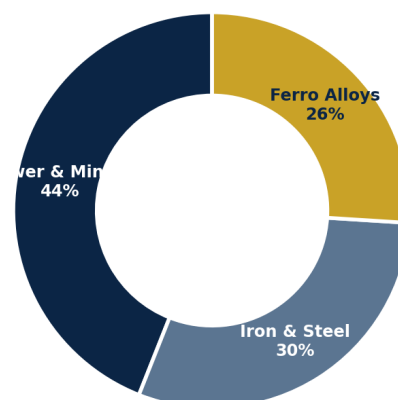
The structural segment shift toward Power & Mining has materially reduced the cyclicity historically associated with commodity metals. The balance sheet has strengthened substantially, with consolidated net debt down 85% year-on-year, supported by an extraordinary liquidity reserve and a conservative Debt-to-Equity ratio of 0.42x despite aggressive M&A execution. Electricity generated internally at ₹2-₹3/unit provides a durable 30%-40% operational cost advantage over peers relying on commercial grid tariffs of ₹6-₹7/unit — an integrated moat that underpins margin resilience across every downstream product line.

02 Detailed Business Segment Architecture

SEML operates an interconnected manufacturing and power generation network structured into three primary operating divisions. Each division provides strategic synergy, cost optimization, or raw material self-sufficiency to the consolidated business.

2.1 Power & Mining Division — 44% of Revenue, ~65% of EBIT

The Power & Mining segment has emerged as the cornerstone of SEML's cash-flow stability and margin resilience. With a total generation capacity of ~920 MW, the portfolio combines thermal baseload generation, waste heat recovery, and high-margin hydroelectric assets.



Asset / Facility	Capacity	Type	Strategic & Operational Role
SKS Power (Raigarh)	600 MW	Thermal IPP	Commercial merchant power producer; achieved 90% PLF in FY26
Captive Thermal Plant	161.5 MW	Thermal (Captive)	Dedicated low-cost baseload power for steel & ferro alloy smelting
Sikkim Hydro Power	113 MW	Hydroelectric	Run-of-the-river clean power; ~72% EBITDA margin
Waste Heat Recovery	21.5 MW	Captive WHR	Captures hot flue gases from sponge iron kilns; zero-fuel electricity
Other Hydro Facilities	24 MW	Hydroelectric	Regional clean power installations
Total Power Portfolio	~920 MW	Diversified	Combines baseload commercial supply with zero-cost captive power

KEY MINING ASSET

SEML controls the Gare Palma IV/7 coal block with an extraction capacity of 1.44 MTPA (currently expanding to 1.80 MTPA). This captive fuel security directly feeds the thermal generation assets, insulating the company from imported coal price shocks and domestic e-auction premiums.

2.2 Iron & Steel Division — 30% of Revenue

The Iron & Steel business is focused on the construction and infrastructure sectors through a diversified long-product portfolio, operating with deep backward integration:

- **Iron Ore Pellet Plant (600,000 MT/yr):** Converts iron ore fines into high-grade pellets for sponge iron kilns, reducing dependence on open-market pellet purchases
- **Sponge Iron / DRI (320,000 MT/yr):** Utilizes captive coal and iron ore pellets to produce direct reduced iron

- **Steel Billets (~210,000 MT/yr):** Intermediate manufacturing facility transforming liquid steel into casting billets
- **Wire Rod & TMT Bars (180,000 MT/yr):** Finished steel products supplied to infrastructure and housing construction projects across Central and Western India
- **Captive Iron Ore Mines:** Provides ~40% raw material self-sufficiency, buffering against domestic iron ore price swings

2.3 Ferro Alloys Division — 26% of Revenue

SEML ranks among India's top three manufacturers and exporters of ferro alloys, producing Silico Manganese (the highest-volume line, an essential deoxidizer and alloying agent in carbon and stainless steel manufacturing), Ferro Silicon (a high-value specialty alloy exported to automotive and electrical steel producers), and Ferro Chrome (a niche alloy feeding international stainless steel demand).

Because ferro alloy smelting requires between 3,500 and 4,500 kWh of power per tonne of finished output, electricity constitutes 40%–50% of total cash manufacturing cost. SEML's internal captive power pricing gives the company a structural global export advantage over unintegrated competitors.

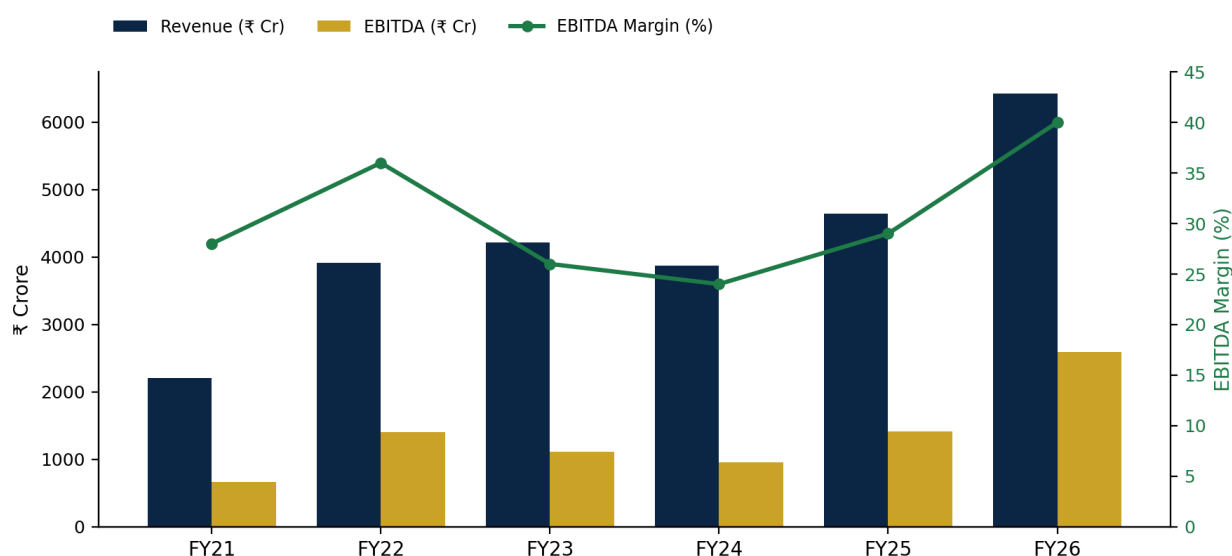
03 Consolidated Historical Financial Track Record

A comprehensive review of SEML's consolidated financial performance over the FY21-FY26 cycle reveals how backward integration and power capacity additions have structurally supported earnings quality and liquidity.

3.1 Profit & Loss Dynamics (FY21-FY26)

Metric (₹ Cr)	FY21	FY22	FY23	FY24	FY25	FY26
Consolidated Revenue	2,199	3,914	4,212	3,868	4,643	6,423
Operating EBITDA	664	1,406	1,110	952	1,410	~2,588
EBITDA Margin	28.0%	36.0%	26.0%	24.0%	29.0%	~40.0%
Profit After Tax	375	807	604	521	702	~1,109
PAT Margin	16.0%	20.0%	14.0%	13.0%	15.0%	~17.0%

Revenue & EBITDA Trend with Margin Overlay (FY21-FY26)



CYCLE INSIGHTS

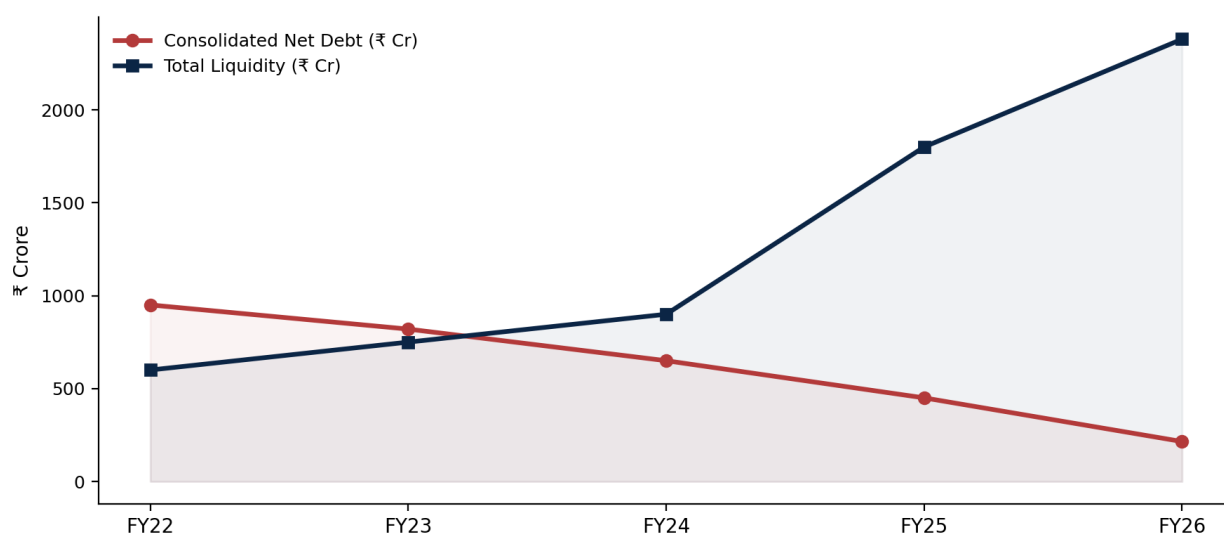
FY22 represented the peak of the global commodity upcycle, characterized by peak steel and ferro alloy realizations. When global commodity pricing normalized across FY23 and FY24, SEML's EBITDA margins contracted to 24%-26%. However, rather than continuing to follow cyclical metal prices downward, SEML experienced an operating margin breakout in FY25-FY26 (reaching ~40%), driven by the commercial ramp-up and consolidation of the SKS Power facility.

3.2 Balance Sheet Strength & Capital Structure

Balance Sheet Item (₹ Cr)	FY22	FY23	FY24	FY25	FY26
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Total Assets	5,288	5,481	6,000	10,125	~11,200
Total Net Worth / Equity	3,004	3,410	3,870	6,206	~7,150
Total Borrowings	1,185	1,063	1,050	2,342	~3,000
Debt-to-Equity Ratio	0.40x	0.31x	0.27x	0.37x	0.42x
Consolidated Net Debt	~950	~820	~650	~450	215
Total Consolidated Liquidity	~600	~750	~900	1,800	2,380

Deleveraging Trajectory: Net Debt vs. Liquidity Reserve (FY22-FY26)



3.3 Cash Flow & Capital Expenditure Profile

Cash Flow Summary (₹ Cr)	FY22	FY23	FY24	FY25
Cash Profit (PAT + Depreciation)	~920	~710	~680	1,200 (+69% YoY)
Capital Expenditure	301	217	266	400
Investing Cash Flow Outflow	-450	-310	-380	-2,132 (SKS Acquisition)
Free Cash Flow	635	485	477	395

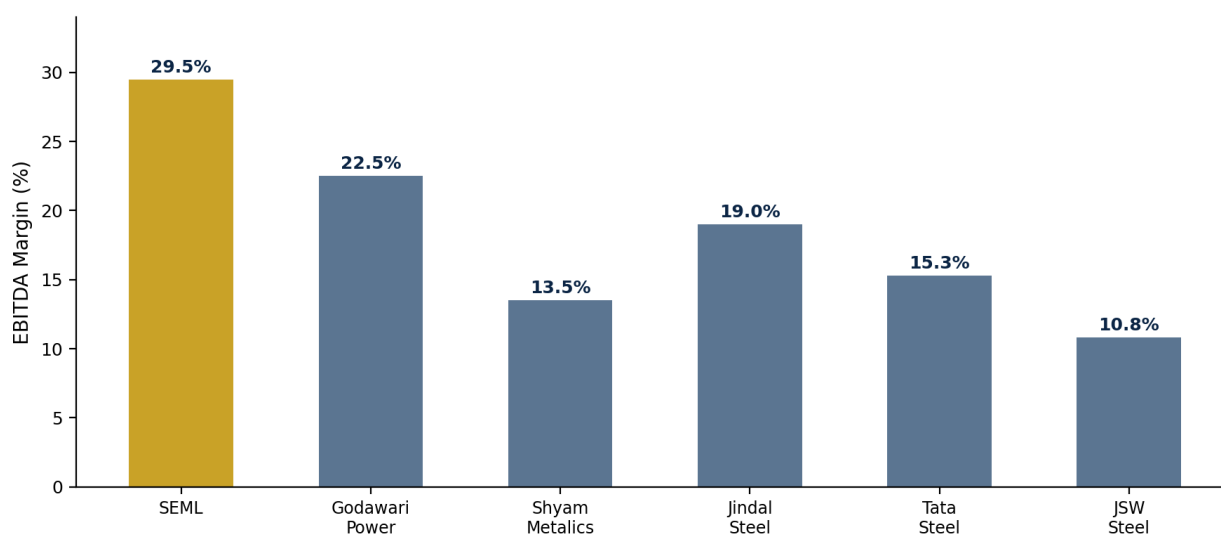
04 Peer Benchmarking & Operational Efficiency

To understand SEML's structural standing, the table below compares its operating metrics against leading integrated steel producers and diversified mining companies in India.

Company	Mkt Cap (₹ Cr)	EBITDA Margin	D/E Ratio	ROCE	Current Ratio
Sarda Energy & Minerals	17,957	29.5%	0.42x	12.9%*	2.3x
Godawari Power & Ispat	16,177	22.5%	0.10x	21.0%	1.8x
Shyam Metals	29,097	13.5%	0.08x	11.5%	1.9x
Jindal Steel & Power	1,19,350	19.0%	0.42x	13.9%	1.2x
Tata Steel	2,33,192	15.3%	0.96x	12.6%	0.9x
JSW Steel	3,27,079	10.8%	1.10x	12.4%	0.8x

**Note on Return Ratios: SEML's return metrics (ROE at 13.8%, ROCE at 12.9%) experienced temporary dilution following the ₹1,800 Cr SKS Power balance sheet expansion in FY25. As this asset scales to its 90% PLF benchmark through FY26-FY27, the enlarged capital base is expected to drive higher capital turnover and normalized returns.*

EBITDA Margin — Peer Comparison



KEY COMPARATIVE TAKEAWAYS

At 29.5%, SEML's EBITDA margin substantially outperforms major primary steel producers like JSW Steel (10.8%) and Tata Steel (15.3%), reflecting the disproportionate contribution of high-margin hydro and merchant power assets. SEML also maintains a Current Ratio of 2.3x — the highest among peer steel and mining groups — providing significant working capital flexibility.

05 Competitive Moat & Structural Cost Architecture

SEML's competitive advantages are structural, self-reinforcing, and virtually impossible for single-location or unintegrated producers to replicate:

01

Captive Power Cost Leadership

In ferro alloy production, power constitutes up to half of total manufacturing expense. By generating thermal and waste-heat electricity internally at ₹2-₹3/unit, SEML operates with a 30%-40% cost advantage against global competitors paying commercial grid rates of ₹6-₹7/unit.

02

Irreplaceable Hydro Assets

The 113 MW Sikkim hydro plant is a long-life, perpetual cash-generation asset operating at ~72% EBITDA margin, with zero raw material input risk and premium green grid-balancing capabilities.

03

Captive Fuel Security

The Gare Palma IV/7 coal mine secures baseload fuel requirements at statutory extraction cost, protecting power margins from global coal price shocks and transport bottlenecks.

04

Geographic Clustering Advantage

Located in the mineral-dense industrial belt of Raipur and Raigarh, Chhattisgarh, SEML minimizes freight logistics for iron ore, coal, and finished steel transport across Central India.

06 Macroeconomic Environment & Stated Strategic Roadmap

6.1 Secular Industry Tailwinds

- **Infrastructure Capex Cycle:** Long steel demand (TMT bars and wire rods) is structurally supported by the Central Government's capital spending push (₹11.11 lakh crore budget allocation)
- **Steel Consumption Headroom:** India's per capita steel consumption remains at ~90 kg, compared to the global average of ~230 kg, indicating long-term domestic volume demand
- **Structural Power Demand Deficit:** Fast-growing peak power demand and 24x7 industrial consumption have supported merchant power prices on power exchanges (IEX), directly benefiting SKS Power's un-tied merchant capacity
- **Global Ferro Alloy Expansion:** The Indian ferroalloy market is projected to expand from USD 5.1 Bn in 2025 to USD 10.8 Bn by 2034 (CAGR 8.45%), driven by automotive, renewable, and stainless steel demand

6.2 Management's Stated Medium-Term Growth Catalysts

Strategic Project / Initiative	Target Timeline	Expected Operational Impact
SKS Power Capacity Doubling	FY28-FY30	Expands Raigarh IPP from 600 MW to 1,000–1,200 MW; potential ₹5,000–6,000 Cr segment revenue
Coal Block Expansion (Gare Palma IV/7)	FY27	Ramping extraction from 1.44 MTPA to 1.80 MTPA for enhanced thermal fuel security
Arunachal Pradesh Hydro Project	FY28-FY29	Commissioning 66 MW hydro project, expanding high-margin green generation portfolio
Solar Capacity Additions	Late 2026	Commissioning 30 MW solar plant to fulfil corporate green power commitments
Iron Ore Pellet Plant Expansion	FY30-FY31	Scaling pellet capacity to enhance upstream input integration for steelmaking
Renewable Portfolio Demerger	Under Review	Potential corporate restructuring to unlock independent market value for green assets

07 Corporate Governance, Shareholding & Risk Factors

7.1 Shareholding Pattern & Governance Framework

The shareholding structure demonstrates strong promoter alignment with zero pledged shares:

- **Promoter Holding (73.16%):** High, stable insider ownership providing strategic continuity and alignment
- **Institutional Participation:** FII holding has expanded steadily from 0% to 3.51% over three years, while DII holding stands at 3.47%

- **Public Free Float (15.65%):** Restricted public float limits large institutional transaction volume but maintains concentrated ownership
- **Board Composition:** The 6-member Board of Directors includes 3 independent directors, led by Managing Director Pankaj Sarda and Chief Financial Officer Padam Kumar Jain

7.2 Key Operational & Regulatory Risks

MARKET	Commodity Price Cycles: Exposure to global steel price fluctuations and potential dumping from overseas manufacturers with excess capacity.
REGULATORY	Environmental & Regulatory Compliance: Mining clearances, forest clearances, and evolving emission standards for thermal assets require ongoing compliance.
OPERATIONAL	PPA Variations: Merchant power realizations fluctuate based on seasonal electricity demand, monsoon hydro output, and exchange tariffs.
CONCENTRATION	Geographic Concentration: Heavy concentration of manufacturing and power assets within Chhattisgarh exposes operations to localized supply chain disruptions.

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