

Estimate change	↓
TP change	↔
Rating change	↔

Bloomberg	SAIL IN
Equity Shares (m)	4131
M.Cap.(INRb)/(USDb)	363.4 / 4.4
52-Week Range (INR)	104 / 74
1, 6, 12 Rel. Per (%)	-2/-3/-1
12M Avg Val (INR M)	1499
Free float (%)	35.0

Financials & Valuations (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	1,044	1,051	1,126
EBITDA	80	87	109
APAT	19	20	42
EBITDA Margin (%)	7.7	8	10
Cons. Adj. EPS (INR)	4.6	5	10
EPS Gr. (%)	-85	5	110
BV/Sh. (INR)	133	138	144
Ratios			
Net D:E	0.6	0.5	0.4
RoE (%)	3.5	3.6	7.3
RoCE (%)	4.8	4.9	7.5
Payout (%)	32.3	40.0	40.0
Valuations			
P/E (x)	18.9	18.1	8.6
P/BV (x)	0.7	0.6	0.6
EV/EBITDA(x)	8.3	7.2	5.7
Div. Yield (%)	1.7	2.2	4.6
FCF Yield (%)	-24.2	16.2	8.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	65.0	65.0	65.0
DII	14.6	13.6	9.4
FII	3.7	3.8	4.3
Others	16.7	17.6	21.3

FII Includes depository receipts

CMP: INR88
TP: INR85 (-3%)
Neutral

Net debt declines further; limited deleveraging ahead with capex lined up

- In 2QFY24, SAIL received a one-time revenue and EBITDA gain of INR17.5b related to rail price revision for FY22. This is as per the recommendation of the Office of the Chief Adviser (Cost), Ministry of Finance. For a like-to-like comparison, we have adjusted 2QFY24 financials by excluding this one-time gain.
- SAIL's revenue was up 7% YoY at INR280b in 2QFY24, higher than our estimate of INR255b, driven by better-than-expected volumes, which was offset by lower ASP. ASP for 2QFY24 stood at INR58,256/t, lower than our estimate of INR60,679/t.
- SAIL recorded its highest 2Q crude steel production at 4.8mt (up 18% YoY), higher than our estimate of 4.2mt. SAIL also achieved the highest-ever 2Q sales volume at 4.8mt (up 14% YoY), higher than our estimate of 4.2mt.
- EBITDA grew 189% YoY to INR21b, in line with our estimate of INR23b. EBITDA was supported by lower coking coal prices and better volume mix.
- SAIL reported APAT of INR3b, which was lower than our estimate of INR7b. Lower than expected other income and higher tax outgo impacted APAT.
- In 2QFY24, SAIL made a provision for the settlement of contractual disputes amounting to INR4.1b under Vivad se Vishwas Scheme - II.
- Bhilai plant clocked one of the highest revenues at INR100b (up 45% YoY). Its major five plants posted profits in 2QFY24 and 1HFY24.
- Net debt inched down to INR247b at 2QFY24 end (vs. INR250b at FY23-end).

Highlights from the management commentary

- SAIL has kept its FY24E production guidance unchanged at ~19mt.
- Coal cost, which was around INR23,000/t in 2QFY24, is expected to increase to 1QFY24 levels of INR27,000/t in 3QFY24.
- Capex of ~INR55b is earmarked for FY24 and similar capex is also expected in FY25E. Capex is expected to peak in FY27-28.
- SAIL has kept its long-term leverage threshold at 1x D/E.
- The company is expected to set up two casters at Rourkela and Bhilai, which will add incremental 2mt to its capacity in the next two years.

Valuation and view

- SAIL has earmarked INR1t for expansions across all its facilities over the next decade.
- As the intensity of capex is expected to pick up post FY25E, it would limit the deleveraging going ahead and thereby put pressure on the balance sheet and cash flow. In line with the increase in coal cost and capex guidance, we have reduced our EBITDA estimates for FY24/FY25 by 10%/1%.
- SAIL trades at FY25E EV/EBITDA of 5.7x. We reiterate our **Neutral** rating on the stock with an unchanged TP of INR85.

Quarterly performance (INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY23E	vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net Sales	240	262	250	291	244	280	260	268	1,044	1,051	255	9.5
Change (YoY %)	16.4	-2.2	-0.8	-5.3	1.4	6.5	3.8	-7.9	0.9	0.7		
Change (QoQ %)	-21.9	9.2	-4.6	16.3	-16.4	14.8	-7.1	3.2				
Total Expenditure	217	255	230	262	227	258	235	244	964	965		
EBITDA	23	7	21	29	16	21	25	24	80	87	23	-7.6
Change (YoY %)	-64.9	-89.6	-39.1	-33.0	-28.4	189.2	17.9	-16.6	-62.4	7.8		
Change (QoQ %)	-47.1	-68.1	182.7	40.7	-43.6	28.9	15.3	-0.5				
Interest	4	5	6	5	6	6	4	4	20	21		
Depreciation	12	12	12	14	13	13	13	13	50	51		
Other Income	2	4	1	3	5	1	2	2	10	10		
PBT (before EO Inc.)	9	-6	3	13	2	3	9	9	20	24		
EO Income(exp)	0	0	3	-0	0	13	0	0	3	13		
PBT (after EO Inc.)	9	-6	6	13	2	17	9	9	22	37		
Total Tax	2	-1	2	4	1	5	2	2	7	10		
% Tax	26.9	20.3	29.9	31.3	33.7	27.7	25.2	26.2	31.9	27.1		
PAT before MI/sh. of Asso./pr. on invest	7	-4	4	9	1	12	7	7	15	27		
Share of Asso/JV/profit on investments	1	1	1	3	1	1	0	1	6	3		
Reported PAT (after MI/sh. of Asso./pr. on invest)	8	-3	5	12	2	13	7	7	22	30		
Adjusted PAT	8	-3	2	12	2	3	7	7	19	20	7	-51.3
Change (YoY %)	-79.8	PL	LP	-53.5	-73.6	LP	189.4	-37.8	-84.8	4.7		
Change (QoQ %)	-65.6	PL	LP	392.1	-82.3	62.3	104.6	5.7				

Note – 2QFY24 financials have been adjusted by excluding one-time INR17.5b revenue and EBITDA benefit recognized due to rail price revision pertaining to FY22

Source: MOFSL, Company

Highlights from the management commentary

Guidance:

- SAIL has kept its FY24 production guidance unchanged at ~19mt.
- Coal cost, which was around INR27,800/t in 1QFY24 and INR23,000/t in 2QFY24, is expected to increase to INR27,000/t in 3QFY24.
- Flat steel prices are currently at ~INR57,000/t. Long steel prices are at ~INR54,000/t and are expected to remain at this level for the rest of Nov'23.
- The management expects to further reduce debt by INR35b in FY24.
- Semi as a percentage of total volumes was at 14.6% in 2QFY24 and, excluding external conversion service for long products such as TMT and structural steel, the share of semi was ~8%.
- All incremental volumes from semis are now taken over by flat steel.
- 15% of the total coal requirements are met via indigenous sources (including 3-4% via its own washery/collieries).
- SAIL has also signed an MoU with BCCL for the supply of coal at a price linked to imported prices.
- The company, which had an inventory of 1.4mt in 1QFY24, has liquidated ~0.3mt in 2QFY24.
- Employee cost is expected to be ~INR120b for FY24.

Capex:

- SAIL has earmarked INR55b capex for FY24 and most of the capex is for maintenance capex (1H FY24 capex stood at INR21b).
- SAIL plans to undertake greenfield expansion at IISCO facility and brownfield expansion at Durgapur and Bokaro in a phased manner.
- It is also setting up two casters at Rourkela and Bhilai over the next two years, which will add incremental 2mt to the total crude steel capacity of SAIL.
- The intensity of capex is expected to pick up post FY25E as SAIL focuses on growth capex via modernization of its existing facilities.
- The company has earmarked INR1t over next decade for multiple capex projects.
- Major capex will accrue between in FY27 and FY29.

Debt:

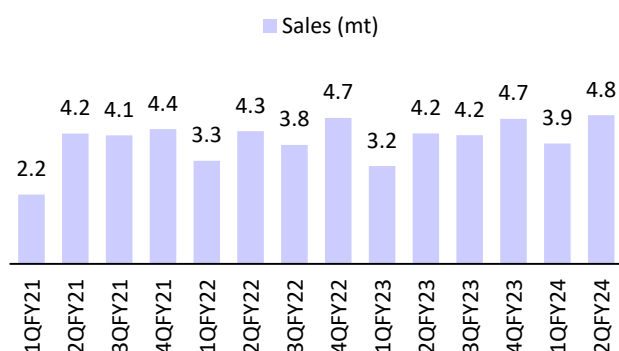
- SAIL repaid ~INR39b in 2QFY24. The current debt is around INR255b.
- The company is expected to reduce debt further by INR35b in 2H FY24.
- It currently has D/E of 0.48:1 and would look to maintain its long-term sustainable threshold limit at 1x.

Rail contract:

- SAIL dispatched 0.92mt to railways in FY22 at an original price of INR67,000/t, which was revised to INR85,300/t due to higher costs.
- It recognized the entire amount of INR17.5b pertaining to FY22 in 2QFY24.
- The company is expected to submit a proposal for FY23 soon.

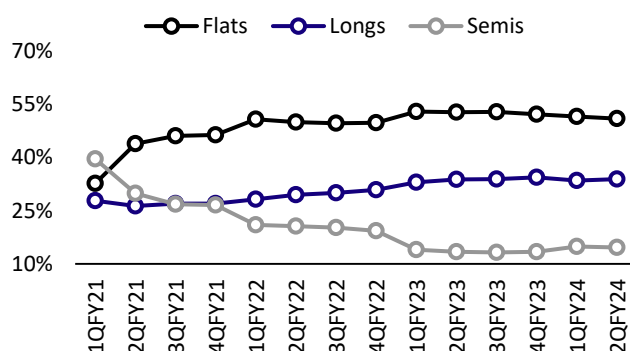
Story in charts

Exhibit 1: Sales volume (mt) improved in 2QFY24



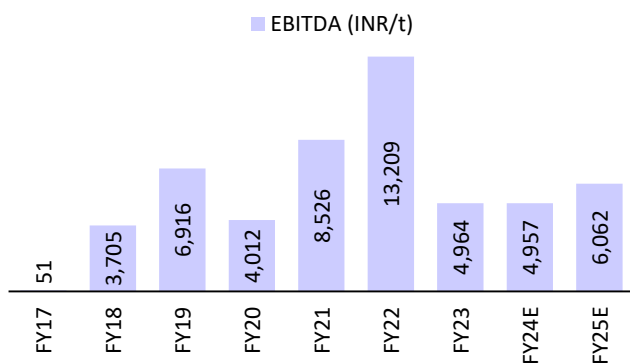
Source: MOFSL, Company

Exhibit 2: Break-up of longs-semis-flats; share of semis declined in 2QFY24



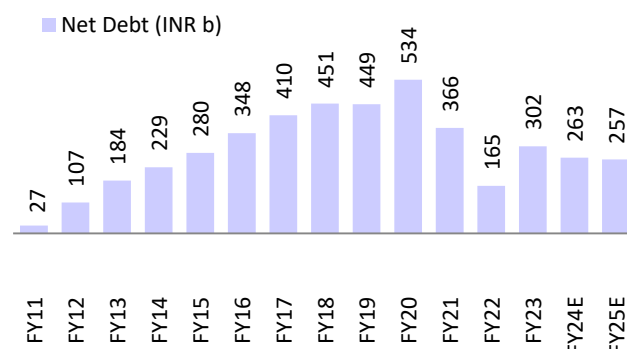
Source: MOFSL, Company

Exhibit 3: EBITDA/t to improve in FY25E after bottoming out in FY24E



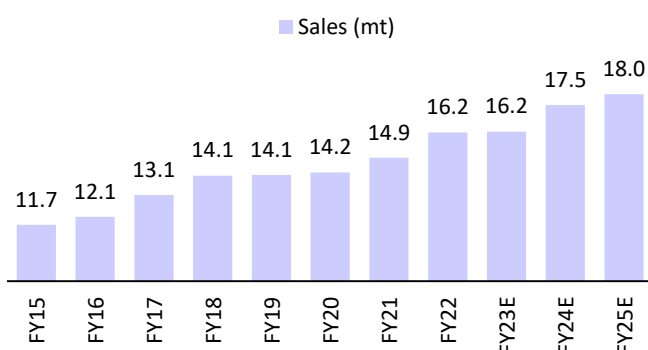
Source: MOFSL, Company

Exhibit 4: Net debt rose in FY23 after massive deleveraging in the last two years; expected to reduce in FY24E and FY25E



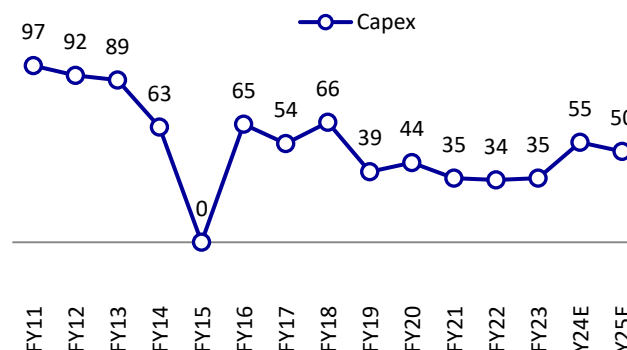
Source: MOFSL, Company

Exhibit 5: Sales (mt) growth momentum to continue



Source: MOFSL, Company

Exhibit 6: Capex (INR b) to increase in FY24; a total of INR1t capex has been earmarked over the next decade



Source: MOFSL, Company

Exhibit 7: Key financials and revisions to our estimates

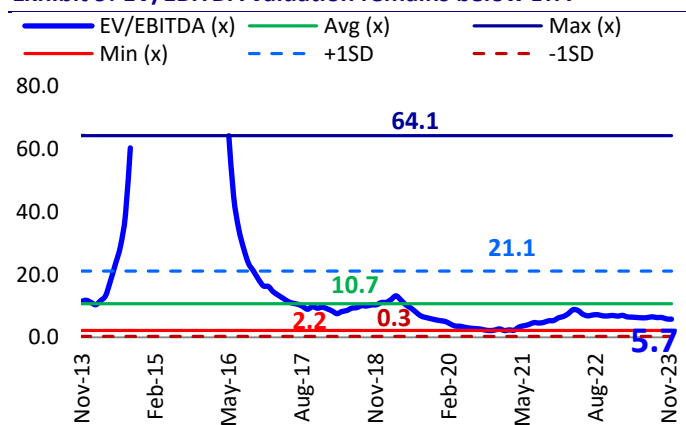
	FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	17.5	17.1	2.4	18.0	17.6	2.2
Realization/t	60,148	60,355	-0.3	62,582	61,560	1.7
EBITDA/t	4,957	5,656	-12.3	6,062	6,256	-3.1
Revenue	1,051	1,030	2.1	1,126	1,084	3.9
EBITDA	87	97	-10.2	109	110	-1.0
PAT	20	32	-36.8	42	42	-0.7

Source: MOFSL

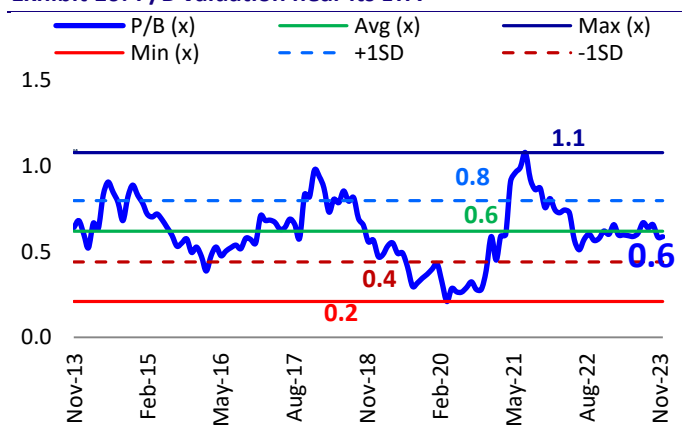
Exhibit 8: Valuation

YEAR	UoM	FY25E
Volumes	mt	18.0
EBITDA	INR/t	6,062
EBITDA	INR b	109
Target EV/EBITDA(x)	x	5.5
Target EV	INR b	600
less: Net Debt (INR m)	INR b	2570
Equity value	INR b	343
No. of shares o/s	b	4
Target price (INR/sh.)	INR	85

Source: MOFSL

Exhibit 9: EV/EBITDA valuation remains below LTA

Source: Company, MOSL

Exhibit 10: P/B valuation near its LTA

Source: Company, MOSL

Exhibit 11: Global comparable valuations

Company	M-Cap USD mn	P/E (x)		EV/EBITDA (x)		P/B (x)		RoE (%)	
		CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24
India									
Tata*	17,716	17.7	21.0	6.8	9.5	1.6	1.7	8.3	7.7
JSW*	22,277	52.3	15.5	13.2	7.8	2.8	2.5	5.3	17.0
JSP*	7,801	17.8	12.7	7.2	7.5	1.7	1.5	9.9	12.5
SAIL*	4,368	18.9	18.1	8.3	7.2	0.7	0.6	3.5	3.6
Japan									
JFE	9,091	8.3	6.7	7.0	6.0	0.6	0.6	7.4	8.6
Nippon Steel	20,498	4.7	7.3	5.2	5.9	0.8	0.7	17.3	9.8
Kobe Steel	4,506	10.9	5.7	7.9	5.1	0.8	0.7	7.5	12.2
Korea									
POSCO	28,892	13.3	11.1	6.0	5.4	0.7	0.6	5.2	5.9
Hyundai Steel	3,404	5.4	5.2	5.2	4.1	0.2	0.2	4.4	4.4
US									
Nucor	37,520	8.5	12.9	5.3	7.3	1.8	1.7	21.8	12.8
US Steel	7,661	8.3	14.4	4.6	5.8	0.7	0.7	9.3	5.4
Steel Dynamics	17,641	7.5	11.9	5.2	7.7	2.0	1.8	27.6	15.9
Europe									
AM	18,618	4.4	5.1	3.2	3.4	0.3	0.3	7.8	6.8
SSAB	6,640	5.8	9.3	2.7	4.0	1.0	1.0	18.3	11.1
TKA	4,387	24.4	9.1	0.4	0.4	0.3	0.3	0.8	3.4
VOE	4,780	4.5	8.5	2.7	3.7	0.6	0.6	13.8	6.8
China									
Baosteel	18,744	12.3	10.1	5.3	4.4	0.7	0.7	5.5	6.4

Source: MOFSL, Company, Bloomberg (*) denotes MOFSL estimates.

Financials and valuation

Income Statement (Consolidated)

	(INR b)								
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E
Net Sales	445.0	575.6	669.7	616.6	691.1	1,034.8	1,044.5	1,051.4	1,126.5
Change (%)	13.8	29.3	16.4	-7.9	12.1	49.7	0.9	0.7	7.1
EBITDA	0.7	52.2	97.6	57.1	127.4	213.4	80.4	86.7	109.1
Change (%)	-102.3	7,677.0	87.1	-41.5	123.1	67.5	-62.3	7.8	25.9
EBITDA per tonne (INR)	51	3,705	6,916	4,012	8,526	13,209	4,964	4,957	6,062
Depreciation	26.8	30.7	33.9	37.6	41.0	42.8	49.6	51.5	50.5
EBIT	-26.1	21.5	63.8	19.5	86.4	170.7	30.8	35.2	58.6
Interest	25.3	28.2	31.5	34.9	28.2	17.0	20.4	21.0	16.8
Other income	4.5	4.2	4.9	9.1	8.6	8.6	9.5	9.5	9.5
PBT before EO	-46.9	-2.6	37.2	-6.3	66.8	162.3	19.9	23.7	51.3
Extraordinary Item	-2.2	-5.6	-3.9	37.3	0.6	-3.5	2.6	13.3	0.0
PBT after EO	-49.1	-8.1	33.3	31.1	67.4	158.7	22.5	37.0	51.3
Total Tax	-19.6	-2.5	12.0	11.8	30.6	40.5	7.2	10.0	12.9
Effective Rate (%)	39.9	30.2	36.1	38.0	45.4	25.5	31.9	27.1	25.2
PAT before MI/sh. of Asso./pr. on invest	-29.5	-5.7	21.3	19.3	36.8	118.3	15.3	27.0	38.4
Change (%)	-29.4	-80.8	-475.4	-9.4	91.1	221.3	-87.1	76.3	42.1
Share of Asso/JV/profit on investments	1.9	2.8	2.2	1.9	4.7	4.2	6.5	2.7	3.8
Reported PAT (after MI/sh. of Asso./pr. on invest)	-27.6	-2.8	23.5	21.2	41.5	122.4	21.8	29.7	42.2
Adjusted PAT	-25.4	2.7	27.4	-16.1	40.9	126.0	19.2	20.1	42.2
Change (%)	-39.2	-110.8	898.7	-158.9	-353.5	208.0	-84.8	4.7	110.0

Balance Sheet (Consolidated)

	(INR b)								
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E
Sources of Funds									
Share Capital	41	41	41	41	41	41	41	41	41
Reserves and Surplus	329	328	355	374	413	501	506	528	553
Shareholders' funds	370	369	396	415	454	542	547	569	594
Loans	414	454	452	538	374	173	308	273	268
Deferred Tax Liability	-38	-42	-29	-20	13	54	58	58	58
Minority Interest	0	0	0	0	0	0	0	0	0
Capital Employed	746	782	819	933	842	769	913	900	920
Application of Funds									
Gross Fixed Assets	842	956	1,017	1,131	1,158	1,248	1,288	1,343	1,388
Less: Depreciation	339	370	403	441	482	511	553	604	655
Net Fixed Assets	503	586	614	690	676	737	735	739	733
Capital WIP	233	184	160	88	89	40	49	49	54
Investments	25	26	30	32	34	38	42	42	42
Curr. Assets									
Inventory	157	170	195	238	196	242	278	279	299
Sundry Debtors	29	39	45	88	72	48	54	54	58
Cash and Bank Balances	4	3	3	4	8	8	6	10	11
Other assets	81	99	98	100	110	83	135	124	131
Loans and Advances	5	5	6	7	8	6	7	7	7
Current Liabilities									
Sundry Creditors	52	75	72	63	70	169	143	156	168
Other Current Liabilities	174	193	193	188	215	198	178	178	178
Provisions	65	63	66	65	66	65	70	70	70
Net Current Assets	-15	-15	16	123	42	-46	87	70	91
Application of Funds	746	782	819	933	842	769	913	900	920

Financials and valuation

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	-6.1	0.7	6.6	-3.9	9.9	30.5	4.6	4.9	10.2
Cash EPS	-0.6	6.1	13.3	13.8	18.8	39.0	15.7	19.0	21.5
Book Value per Share	89.7	89.4	96.0	100.5	109.9	131.2	132.5	137.8	143.9
Dividend Per Share			0.5	0.0	2.8	8.8	1.5	1.9	4.1
Valuation (x)									
P/E	-14.3	132.6	13.3	-22.5	8.9	2.9	18.9	18.1	8.6
Cash PE	-135.4	14.5	6.6	6.4	4.7	2.3	5.6	4.6	4.1
EV/EBITDA	1153.2	15.6	8.3	15.7	5.7	2.5	8.3	7.2	5.7
EV/Sales	1.7	1.4	1.2	1.5	1.1	0.5	0.6	0.6	0.6
Price-to-Book Value	1.0	1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.6
Profitability Ratios (%)									
EBITDA Margin	0.2	9.1	14.6	9.3	18.4	20.6	7.7	8.2	9.7
RoE	-6.9	0.7	7.1	-4.0	9.4	25.3	3.5	3.6	7.3
RoCE (pre-tax)	-2.9	3.4	8.6	3.3	10.7	22.3	4.8	4.9	7.5
RoIC (pre-tax)	-5.3	4.1	10.7	2.7	11.4	24.5	4.1	4.4	7.3
Turnover Ratios									
Debtors (Days)	24.1	24.5	24.5	52.4	37.8	16.8	18.8	18.8	18.8
Inventory (Days)	129.1	108.0	106.3	141.1	103.4	85.2	97.0	97.0	97.0
Creditors (Days)	42.9	52.5	46.1	41.3	45.4	75.2	54.3	54.3	54.3
Asset Turnover (x)	0.6	0.7	0.8	0.7	0.8	1.3	1.1	1.2	1.2
Leverage Ratio									
Debt/Equity (x)	1.1	1.2	1.1	1.3	0.8	0.3	0.6	0.5	0.4

Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E
EBITDA	1	52	98	57	127	213	80	87	109
(Inc.)/Dec. in WC	17	11	-27	-107	101	95	-137	21	-19
Direct Taxes Paid	0	-1	0	-1	0	-1	-4	-10	-13
Other Items	3	0	1	44	7	3	8	16	4
CF from Oper. Activity	22	62	72	-6	234	310	-53	114	81
(Inc.)/Dec. in FA & CWIP	-54	-66	-39	-44	-35	-34	-35	-55	-50
Free Cash Flows to Firm	-33	-4	33	-50	199	276	-88	59	31
Interest and Dividend	0	0	1	1	1	2	2	10	10
(Pur.)/Sale of Invest.	0	1	1	0	0	-7	-1	0	0
CF from Inv. Activity	-55	-65	-37	-43	-34	-40	-34	-45	-40
Issue of Shares									
Inc./(Dec.) in Debt	58	31	-2	89	-163	-224	120	-35	-5
Interest Paid	-25	-29	-33	-37	-29	-19	-21	-21	-17
Dividends Paid	0	0	0	-3	-4	-31	-13	-8	-17
CF from Finan. Activity	33	3	-35	50	-197	-274	86	-64	-39
Inc./(Dec.) in Cash	0	0	0	1	3	-4	-1	4	1
Add: Opening cash Balance	1	1	1	1	2	5	1	1	5
Closing cash balance	1	1	1	2	5	1	1	5	6
Bank Balance	2	3	2	3	3	7	5	5	5
Closing Balance (incl. Bank Balance)	4	3	3	4	8	8	6	10	11

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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