

# Steel Authority of India

## SELL

Stronger volumes lead to profitability beat

### Summary

SAIL's Q2FY24 profitability was above our and street expectation. Its sales increased by 13% YoY to Rs297 bn led by volume growth of 13% YoY to 4.77 mn tonnes. Also, profitability remained strong on a QoQ basis led by stronger realizations. EBITDA jumped by 135% QoQ to Rs39 bn as EBITDA/tonne increased by 91% QoQ to Rs8,111. Adjusted net profit increased over 7x QoQ to Rs12 bn. The company targets 19 mn tonnes production target for FY24 – which is optimistic in our view. We raise our FY24/FY25 EBITDA forecasts by 5%/10% given stronger than expected EBITDA reported in Q2FY24. We continue to value the stock at an EV/EBITDA multiple of 3x FY25E earnings and raise our target price to Rs83 (earlier Rs81) but maintain our SELL rating on the stock.

### Key Highlights and Investment Rationale

- Profitability stronger than expected:** SAIL's Q2FY24 blended realization remained flat QoQ to Rs62,923/tonne. Raw material cost fell by 3% QoQ in Q2FY24 to Rs32,595/tonne. Nevertheless, EBITDA jumped 91% QoQ to Rs8,111/tonne due to better operating leverage. SAIL's employee's costs fell by 11% QoQ at Rs6,552/tonne (-3% YoY). SAIL expects employee costs to reduce gradually over coming years as its retired employees are likely to be replaced by relatively low-cost employees.
- Lack of visibility on future growth:** We expect SAIL's EBITDA growth to remain muted over FY24-25. Further, SAIL has not lined up any major expansion plan in the coming two-three years. Hence, volume growth for SAIL is likely to be lower compared to its peers over the coming three-five years. The immediate near-term looks weak for steel companies. There are chances of recessionary environment in developed countries in the coming one year. Hence, we maintain our Neutral stance on the sector.

TP	Rs83
<b>CMP</b>	<b>Rs88</b>
Potential upside/downside	-6%
Previous Rating	SELL

### Price Performance (%)

	-1m	-3m	-12m
Absolute	(0.6)	1.5	2.6
Rel to Sensex	0.4	1.1	(3.5)

### V/s Consensus

EBITDA (Rs bn)	FY24E	FY25E
IDBI Capital	119	129
Consensus	87	122
% difference	36.8	5.7

### Key Stock Data

Bloomberg / Reuters	SAIL IN / SAIL.BO
Sector	Metal
Shares o/s (mn)	4,131
Market cap. (Rs mn)	365,138
3-m daily average value (Rs mn)	98.4
52-week high / low	Rs104 / 74
Sensex / Nifty	65,676 / 19,676

### Shareholding Pattern (%)

Promoters	65.0
FII	3.7
DII	14.6
Public	16.7

### Financial snapshot

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	691	1,035	1,044	1,134	1,179
Change (yoy, %)	12	50	1	9	4
EBITDA	127	213	80	125	140
Change (yoy, %)	25	68	(62)	56	12
EBITDA Margin(%)	18.4	20.6	7.7	11.0	11.9
Adj.PAT	38	124	16	45	59
EPS (Rs)	9.2	30	4	11	14
Change (yoy, %)	35.7	226.2	(86.7)	174.9	30
PE(x)	10.3	3.0	22.2	8.1	6.2
Dividend Yield (%)	1.9	9.9	4.5	5.7	6.8
EV/EBITDA (x)	5.8	2.3	7.7	3.5	3.1
RoE (%)	9.1	25.9	3.2	8.5	10
RoCE (%)	9.4	20.0	3.4	7.0	9.0

Source: IDBI Capital Research

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## Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
<b>Net sales</b>	<b>2,97,135</b>	<b>2,43,576</b>	<b>22.0</b>	<b>2,62,463</b>	<b>13.2</b>
Total expenditure	2,58,445	2,27,105	13.8	2,55,137	1.3
<b>EBITDA</b>	<b>38,690</b>	<b>16,471</b>	<b>134.9</b>	<b>7,326</b>	<b>428.1</b>
<i>EBITDA margin (%)</i>	<i>13.0%</i>	<i>6.8%</i>	<i>626bps</i>	<i>2.8%</i>	<i>1023bps</i>
<b>EBITDA/tonne</b>	<b>8,111</b>	<b>4,245</b>	<b>91.1</b>	<b>1,740</b>	<b>366.1</b>
Interest	6,052	6,126	(1.2)	5,062	19.6
Depreciation	13,263	12,749	4.0	11,832	12.1
<b>PBT</b>	<b>16,962</b>	<b>2,022</b>	<b>739.1</b>	<b>-5,156</b>	<b>nm</b>
Tax	4,555	523	770.7	-1,298	nm
Extraordinary item	0	-	-	-	-
<b>Adj. PAT</b>	<b>12,407</b>	<b>1,498</b>	<b>728.1</b>	<b>7,763</b>	<b>59.8</b>
<b>Net profit/loss</b>	<b>12,407</b>	<b>1,498</b>	<b>728.1</b>	<b>-3,858</b>	<b>nm</b>
<b>Diluted EPS</b>	<b>3.0</b>	<b>0.4</b>	<b>728.1</b>	<b>(0.9)</b>	<b>nm</b>

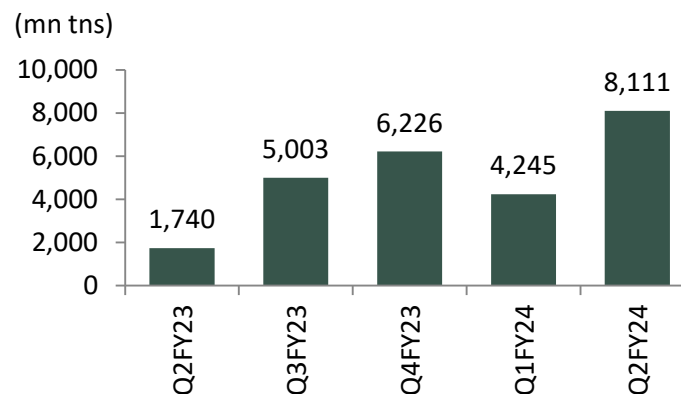
Source: Company; IDBI Capital Research

## Exhibit 2: Actual vs estimates

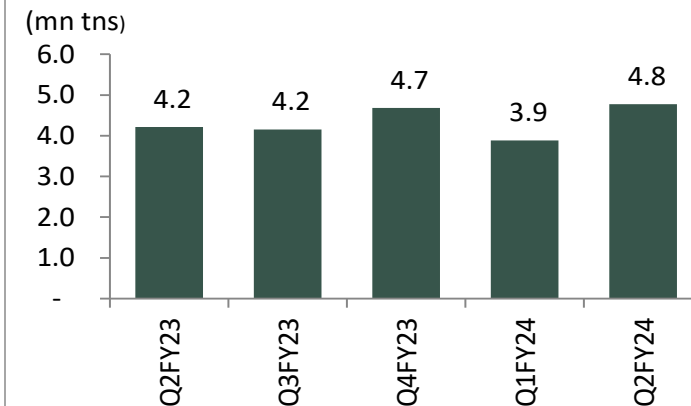
(Rs mn)

	Q2FY24E	Q2FY24A	% Variance
<b>Net sales</b>	<b>2,34,902</b>	<b>2,97,135</b>	<b>26.5</b>
EBTIDA	22,669	38,690	70.7
<b>Margin (%)</b>	<b>9.7</b>	<b>13.0</b>	<b>337bps</b>
Net profit	6,727	12,407	84.4
Dil. EPS	1.6	3.0	84.4

Source: Company; IDBI Capital Research

**Exhibit 3: EBIDTA/tonne up by 91% QoQ**

Source: Company; IDBI Capital Research

**Exhibit 4: Sales volume increased by 23% QoQ**

Source: Company; IDBI Capital Research

**Exhibit 5: Change in estimates**

	FY24E			FY25E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	1,005	1,134	12.9	1,024	1,179	15.2
EBITDA (Rs bn)	119	125	4.9	129	140	8.6
EBITDA margin (%)	11.9	11.0	-89bps	12.6	11.9	-72bps
Net profit (Rs bn)	45	45	0.5	49	59	20.1
EPS (Rs)	10.9	10.9	0.5	11.9	14.2	20.1

Source: Company; IDBI Capital Research

**Conference call highlights**

- In Q2FY24, Crude steel production reached 4.80 mnt, up from 4.30 mnt in Q2FY23, (+12% YoY). Similarly, saleable steel production rose to 4.77 mnt from 4.21 mnt in Q2FY23, (+13% YoY).
- In Q3FY24, the company expects higher coking coal prices. Imported coal prices realization will be ~Rs27,000/tonne in Q3FY24.
- The average NSR for Q2FY24 was Rs 53,400, flat products was at Rs55,200 and long products was at Rs51,200. The average prices in the month of October were at Rs56,000. Long products were at Rs54,000 and flat at Rs57,000 in the month of October.
- SAIL will reduce debt by Rs35 bn to Rs220bn by the end of FY24.
- The company has done capex of Rs20 bn in H1FY24 and it plans capex of Rs35bn in H2FY24.
- SAIL will invest towards the capacity expansion by the end of FY26 including the brownfield expansion at Durgapur steel plant.
- The company envisions ramping up the existing capacity from 3 mnt to 3.5 mnt to achieve 35 mnt by FY30-31.
- Employee costs in FY24 are projected to be around Rs11,500-12,000 mn.
- During the quarter company had a one-time expense of Rs4 bn towards provision for settlement of contractual disputes under Vivad se Vishwas Scheme II.
- In Q2FY24, the sale of semi saleable steel was below 15%.
- In Q2FY24, domestic sale was at 4.7mnt (+14% YoY), while exports declined to 0.07mnt from 0.11mnt in Q2FY23.

## Financial Summary

### Profit & Loss Account

(Rs bn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>617</b>	<b>691</b>	<b>1,035</b>	<b>1,044</b>	<b>1,134</b>	<b>1,179</b>
<i>Change (yoy, %)</i>	<i>(8.0)</i>	<i>12.0</i>	<i>50.0</i>	<i>1.0</i>	<i>9.0</i>	<i>4.0</i>
Operating expenses	(515)	(564)	(822)	(964)	(1,009)	(1,039)
<b>EBITDA</b>	<b>102</b>	<b>127</b>	<b>213</b>	<b>80</b>	<b>125</b>	<b>140</b>
<i>Change (yoy, %)</i>	<i>121</i>	<i>24.8</i>	<i>68</i>	<i>(62)</i>	<i>56</i>	<i>12</i>
<i>Margin (%)</i>	<i>16.5</i>	<i>18.4</i>	<i>20.6</i>	<i>7.7</i>	<i>11.0</i>	<i>11.9</i>
Depreciation	(38)	(41)	(43)	(50)	(53)	(55)
<b>EBIT</b>	<b>64</b>	<b>86</b>	<b>170</b>	<b>31</b>	<b>72</b>	<b>85</b>
Interest paid	(35)	(28)	(17)	(20)	(23)	(15)
Other income	10	10	10	14	10	9
<b>Pre-tax profit</b>	<b>32</b>	<b>69</b>	<b>160</b>	<b>26</b>	<b>59</b>	<b>78</b>
Tax	(11)	(30)	(40)	(7)	(14)	(20)
<i>Effective tax rate (%)</i>	<i>36</i>	<i>44.0</i>	<i>25.1</i>	<i>27.8</i>	<i>23.8</i>	<i>25.0</i>
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>20</b>	<b>39</b>	<b>120</b>	<b>19</b>	<b>45</b>	<b>59</b>
Exceptional items	(8)	1	(4)	3	-	-
<b>Adjusted net profit</b>	<b>28</b>	<b>38</b>	<b>124</b>	<b>16</b>	<b>45</b>	<b>59</b>
<i>Change (yoy, %)</i>	<i>(210)</i>	<i>35.7</i>	<i>226</i>	<i>(87)</i>	<i>175</i>	<i>30</i>
EPS	6.8	9.2	29.9	4.0	10.9	14.2
Dividend per sh	1	1.8	8.8	4.0	5.0	6.0
<i>Dividend Payout %</i>	<i>11</i>	<i>23.5</i>	<i>29.2</i>	<i>100.4</i>	<i>46</i>	<i>42</i>

**Balance Sheet**

(Rs bn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Shareholders' funds</b>	<b>398</b>	<b>435</b>	<b>520</b>	<b>521</b>	<b>546</b>	<b>580</b>
Share capital	41	41	41	41	41	41
Reserves & surplus	356	394	479	480	505	539
<b>Total Debt</b>	<b>512</b>	<b>356</b>	<b>134</b>	<b>257</b>	<b>217</b>	<b>167</b>
Other liabilities	58	75	183	202	202	202
<b>Curr Liab &amp; prov</b>	<b>283</b>	<b>306</b>	<b>341</b>	<b>298</b>	<b>444</b>	<b>447</b>
Current liabilities	260	286	329	284	430	433
Provisions	24	20	12	14	14	14
<b>Total liabilities</b>	<b>853</b>	<b>737</b>	<b>657</b>	<b>756</b>	<b>862</b>	<b>815</b>
<b>Total equity &amp; liabilities</b>	<b>1,251</b>	<b>1,172</b>	<b>1,177</b>	<b>1,277</b>	<b>1,408</b>	<b>1,395</b>
Net fixed assets	741	730	724	720	727	751
Investments	16	0	0	0	0	0
Other non-curr assets	85	80	167	180	180	180
<b>Current assets</b>	<b>409</b>	<b>362</b>	<b>287</b>	<b>378</b>	<b>501</b>	<b>464</b>
Inventories	237	195	196	277	258	268
Sundry Debtors	88	71	47	54	55	41
Cash and Bank	4	7	6	4	141	103
Other current assets	79	89	37	43	47	52
<b>Total assets</b>	<b>1,251</b>	<b>1,172</b>	<b>1,177</b>	<b>1,277</b>	<b>1,408</b>	<b>1,395</b>

**Cash Flow Statement**

(Rs bn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	32	69	160	26	59	78
Depreciation	38	41	43	50	53	55
Tax paid	(11)	(30)	(40)	(7)	(14)	(20)
Chg in working capital	(113)	83	58	(131)	164	7
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>(55)</b>	<b>162</b>	<b>221</b>	<b>(62)</b>	<b>262</b>	<b>122</b>
Capital expenditure	(20)	(30)	(37)	(46)	(60)	(80)
Chg in investments	(0)	16	0	0	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(20)</b>	<b>(14)</b>	<b>(37)</b>	<b>(46)</b>	<b>(60)</b>	<b>(80)</b>
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	98	(156)	(222)	123	(40)	(50)
Dividend (incl. tax)	(3)	(9)	(36)	(17)	(21)	(25)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>95</b>	<b>(165)</b>	<b>(258)</b>	<b>106</b>	<b>(61)</b>	<b>(75)</b>
<b>Net chg in cash (a+b+c)</b>	<b>20</b>	<b>(17)</b>	<b>(74)</b>	<b>(2)</b>	<b>141</b>	<b>(33)</b>

**Financial Ratios**

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	96	105	126	126	132	140
Adj EPS (Rs)	6.8	9.2	29.9	4.0	10.9	14.2
Adj EPS growth (%)	-210	36	226	-87	175	30
EBITDA margin (%)	16.5	18.4	20.6	7.7	11.0	11.9
Pre-tax margin (%)	5.1	10.0	15.5	2.5	5.2	6.7
Net Debt/Equity (x)	1.3	0.8	0.2	0.5	0.1	0.1
ROCE (%)	7.1	9.4	20.0	3.4	7	9
ROE (%)	7.2	9.1	25.9	3.2	8	10
<b>DuPont Analysis</b>						
Asset turnover (x)	0.5	0.6	0.9	0.9	0.8	0.8
Leverage factor (x)	3.1	2.9	2.5	2.4	2.5	2.5
Net margin (%)	4.5	5.5	12.0	1.6	4.0	5.0
<b>Working Capital &amp; Liquidity ratio</b>						
Inventory days	141	103	69	97	83	83
Receivable days	52	38	17	19	18	13
Payable days	45	45	75	54	45	45

**Valuations**

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	14.0	9.6	3.0	22.2	8.1	6.2
Price/Book value (x)	1.0	0.8	0.7	0.7	0.7	0.6
EV/Net sales (x)	1.5	1.0	0.5	0.6	0.4	0.4
EV/EBITDA (x)	8.8	5.6	2.3	7.7	3.5	3.1
Dividend Yield (%)	0.6	2.0	9.9	4.5	5.7	6.8

Source: Company; IDBI Capital Research





# Notes

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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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