

November 16, 2023

RESULT REPORT Q2 FY24 | Sector: Metals and Mining

Steel Authority of India Ltd

Strong production performance; however, debt risks and operational challenges still persists

Result Synopsis

SAIL's Q2FY24 earnings were above the consensus estimates, majorly on the back of better than expected realizations and higher sales volumes. The company benefitted from the falling coking coal prices during the previous quarter and stable domestic steel prices. On the volumes front, after a drop in Q1FY24, the company had sales of 4.77 mt for Q2FY24, a 23% rise QoQ. We see the second half of the current financial year to cause some dent to the company's earnings, majorly on the back of rising coking coal prices and the steel prices still being under pressure. On the capex front, the management has provided a guidance of incurring Rs 5,500 crores of capex for this year which includes Rs 2,000 – 2,500 crores of maintenance capex and the remaining for expansion projects and debottlenecking at the current capacities. In addition to that, the company's debt stands at Rs 25,490 crores, which is a big relief from Rs 29,414 crores during Q1FY24. However, we believe with the firm's upcoming capex phase of brownfield expansions can again elevate its debt levels on the back of unfavourable macro-environment for the industry.

In terms of the operational performance, the company reported a crude steel production of 4.80 mt and sales of 4.77 mt. On the cost front, the company is expected to see a cost inflation on the coking coal prices which have been northwards of \$310/t over the past few weeks, the impact of which will be seen in the upcoming quarters and majorly in Q4FY24.

We maintain our rating on SAIL as a REDUCE as we believe that the debt levels, no additional capacity in the near future and the elevated coking coal prices are a cause of concern for the near future. We value SAIL at 5x FY25E EV/EBITDA to arrive at our target price of Rs 85/sh.

Result Highlights

- Revenue from Operations for the quarter stood at Rs 297,121mn (vs our estimate of Rs 242,250mn), reporting a 22% jump compared to Q1FY24 and a 13% jump on a YoY basis.
- EBITDA margins came in at 14% (vs our estimate of 9%) as compared to 9% / 4% in Q1FY24/Q2FY23 respectively. Consolidated absolute EBITDA stood at Rs 40,125mn, rising 90% from Q1FY24 and 255% from Q2FY23.
- Net Profit for the company came in at Rs 13,056mn (vs 2,125mn during Q1FY24) beating consensus estimates strongly.
- On the realizations front, the company sustained its Realization/t at Rs 62,289/t (vs Rs 62781/t in Q1FY24) despite the falling steel prices. EBITDA/t improved to Rs 8,431/t as compared to Rs 5,445/t in the previous quarter.

Exhibit 1: Actual vs Estimates

| Rs mn | Actual | Estimate | | % Variation | | Remarks |
|-------------------|---------|----------|-----------|-------------|-----------|--|
| | | YES Sec | Consensus | YES Sec | Consensus | |
| Revenue | 297,121 | 242,250 | 261,930 | -18% | -12% | Good performance supported by increase in volumes. |
| EBITDA | 40,215 | 20,622 | 25,460 | -49% | -37% | |
| EBITDA Margin (%) | 13.5% | 8.5% | 9.7% | -37% | -28% | |
| PAT | 13,056 | 2,590 | 7,200 | -80% | -45% | |

Source: Company, YES Sec

| | |
|------------------|-----------------|
| Reco | : REDUCE |
| CMP | : Rs 88 |
| Target Price | : Rs 85 |
| Potential Upside | : -4.0% |

Stock data (as on Nov 16, 2023)

| | |
|-------------------------|---------------|
| Nifty | 19,832 |
| 52 Week h/l (Rs) | 104 / 74 |
| Market cap (Rs/USD mn) | 364312 / 4377 |
| Outstanding Shares (mn) | 4,131 |
| 6m Avg t/o (Rs mn): | 1,275 |
| Div yield (%) | 1.8 |
| Bloomberg code: | SAIL IN |
| NSE code: | SAIL |

Stock performance



| | 1M | 3M | 1Y |
|-----------------|-------|------|------|
| Absolute return | -1.2% | 3.8% | 6.7% |

Shareholding pattern (As of Sep'23 end)

| | |
|----------|-------|
| Promoter | 65.0% |
| FII+DII | 18.3% |
| Others | 16.7% |

Δ in stance

| (1-Yr) | New | Old |
|--------------|--------|--------|
| Rating | REDUCE | REDUCE |
| Target Price | 85 | 86 |

Financial Summary

| (Rs bn) | FY23 | FY24E | FY25E |
|------------|-------|-------|-------|
| Revenue | 1,044 | 1,083 | 1,048 |
| YoY Growth | 0.9% | 3.7% | -3.2% |
| EBITDA | 90 | 119 | 107 |
| EBITDA (%) | 8.6% | 11.0% | 10.2% |
| PAT | 22 | 30 | 26 |
| EPS | 5.3 | 7.3 | 6.3 |
| ROE | 4.0% | 5.3% | 4.4% |
| ROCE | 5.0% | 7.9% | 6.6% |

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Production Highlights

- The company's production figures improved to 4.80mt for the quarter recording a 9% rise on a QoQ basis and a 17% rise on a YoY basis.
- The total volume of sales came in at 4.77mt, a 23% rise over Q1FY24 and a 14% rise over Q2FY23.

Exhibit 2: Consolidated Quarterly Snapshot

| Rs mn | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | % qoq | % yoy |
|----------------|---------|---------|---------|---------|---------|---------|--------|---------|
| Revenue | 240,286 | 262,463 | 250,421 | 291,307 | 243,591 | 297,121 | 22.0% | 13.2% |
| COGS | 115,122 | 164,450 | 135,474 | 155,207 | 130,711 | 155,557 | 19.0% | -5.4% |
| Gross Profit | 125,164 | 98,013 | 114,947 | 136,100 | 112,880 | 141,563 | 25.4% | 44.4% |
| GPM(%) | 52% | 37% | 46% | 47% | 46% | 48% | 2.8% | 27.6% |
| Employee Costs | 30,190 | 28,366 | 27,770 | 34,390 | 28,491 | 31,291 | 9.8% | 10.3% |
| Other Expenses | 71,959 | 62,296 | 66,392 | 72,469 | 67,901 | 71,519 | 5.3% | 14.8% |
| Other Income | 1,709 | 3,957 | 981 | 2,857 | 4,637 | 1,461 | -68.5% | -63.1% |
| EBITDA | 24,724 | 11,309 | 21,766 | 32,099 | 21,126 | 40,215 | 90.4% | 255.6% |
| EBITDA % | 10% | 4% | 9% | 11% | 9% | 14% | 56.1% | 214.1% |
| Depreciation | 11,941 | 11,835 | 12,213 | 13,647 | 12,752 | 13,266 | 4.0% | 12.1% |
| Finance Costs | 3,740 | 5,062 | 6,403 | 5,170 | 6,126 | 6,052 | -1.2% | 19.6% |
| Share of P/L | 1,430 | 1,162 | 1,125 | 2,740 | 634 | 951 | 50.0% | -18.2% |
| PBT | 10,473 | -4,426 | 7,259 | 15,618 | 2,882 | 17,698 | 514.1% | -499.8% |
| Tax | 2,428 | -1,133 | 1,837 | 4,026 | 757 | 4,642 | 513.3% | -509.9% |
| PAT | 8,045 | -3,294 | 5,422 | 11,592 | 2,125 | 13,056 | 514.4% | -496.4% |

Source: Company, YES Sec

Exhibit 3: Operations Highlights

| Rs mn | Q1 FY23 | Q2 FY23 | Q3 FY23 | Q4 FY23 | Q1 FY24 | Q2 FY24 | % qoq | % yoy |
|---------------------|---------|---------|---------|---------|---------|---------|-------|-------|
| Consolidated | | | | | | | | |
| Production (mt) | 4.10 | 4.10 | 4.40 | 4.70 | 4.41 | 4.80 | 9% | 17% |
| Sales (mt) | 3.20 | 4.20 | 4.20 | 4.70 | 3.88 | 4.77 | 23% | 14% |

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

▪ Global Economic Scenario

- China's production has increased 1.6% during the first 9 months of the current calendar year as compared to CPLY. The Chinese production has been strong; however, the RoW production has contracted significantly with India and some other nations being exceptions.
- The demand slowdown has impacted the supply-demand in the industry and kept the prices under pressure with China exporting more on a monthly basis.

▪ Company Outlook

- SAIL has registered its best ever second quarter physical performance during Q2FY24.
- Exports declined to 0.07 mt in Q2FY24 from 0.14mt in Q1FY24 and 0.11mt in Q2FY23.
- Profitability improved on the back of falling coking coal prices and a better product mix.

▪ Pricing Outlook

- Imported coking coal cost for Q2FY24 was in the range of Rs 23,000/t and the indigenous coal cost was in the range of Rs 12,500/t.
- The average coking coal cost from imports for Q3FY24 is expected to be Rs 27,000/t.
- Currently, 85% of the coal is utilized from imports and the rest from the domestic sources. The management targets to increase the share of coal from domestic and indigenous sources to 20% (currently 15% - 4% from captive coking coal mines and the rest through the BCCL subsidiary).

▪ Debt Outlook

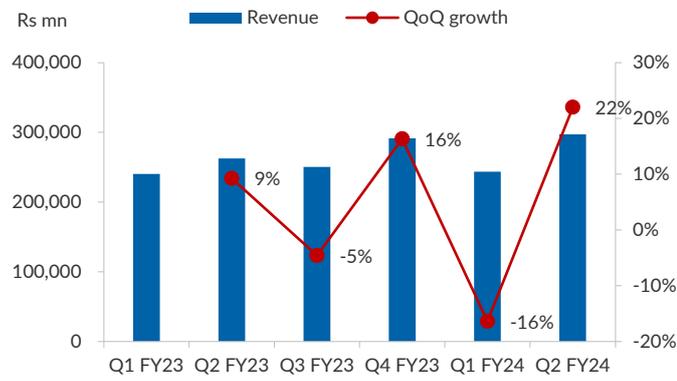
- The company's borrowings had increased to Rs 29,414 crores in Q1FY24 and Rs 25,490 crores as of September 2023.
- The company will focus on reducing debt from Q3FY24 onwards. The debt levels should be in the range of Rs 22,000 - 22,500 crores by the end of this year.

▪ Production, Capex Targets and Growth Plans

- The production target for the current financial year is 19.0 mt. The company also expects the volume of sales to be in a similar range.
- Capex targets for the year is Rs 5,500 crores; This is for existing schemes which includes maintenance capex of Rs 2,000-2,500 crores, and the remaining amount would be for debottlenecking activities at the current steel manufacturing facilities.
- In terms of new projects, the company got in-principle approvals for IISCO and Bokaro steel plants by 4.5 mt and 3.0 mt respectively for capacity expansions. IISCO Steel plant expansion plans would be finalized during the Q3 and Q4 of this financial year.

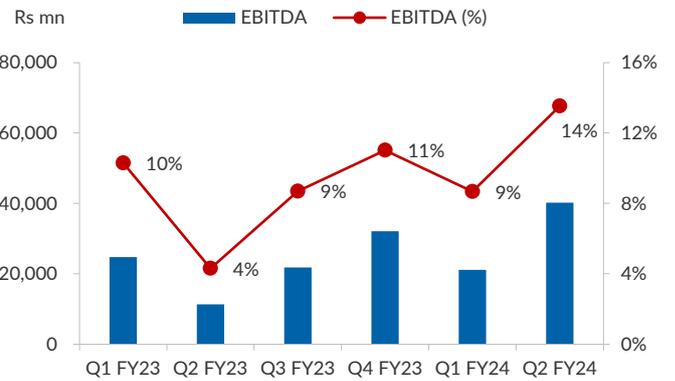
QUARTERLY TRENDS

Exhibit 4: Revenue increases by 22% QoQ...



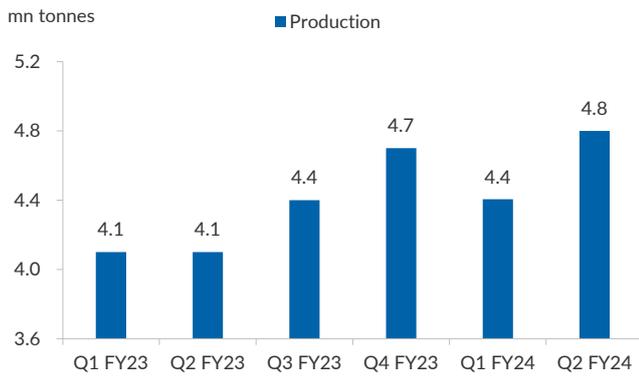
Source: Company, YES Sec

Exhibit 5: EBITDA margins rise to 14%...



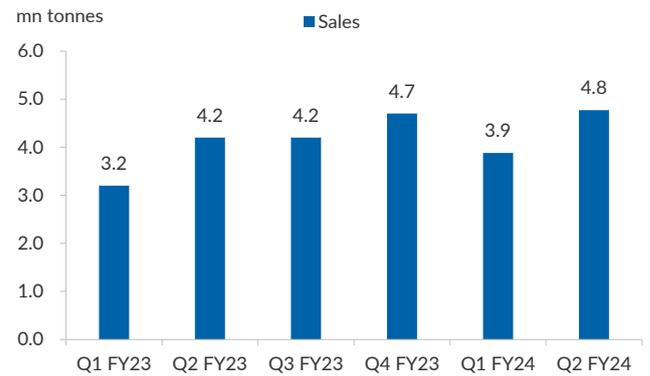
Source: Company, YES Sec

Exhibit 6: Production Highlights



Source: Company, YES Sec

Exhibit 7: Sales Highlights



Source: Company, YES Sec

FINANCIALS

Exhibit 8: Income Statement

| Y/e 31 Mar (Rs bn) | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|-----------|
| Revenue | 576 | 670 | 617 | 691 | 1,035 | 1,044 | 1,083 | 1,048 | 1,063 |
| COGS | 279 | 297 | 238 | 275 | 426 | 570 | 574 | 553 | 573 |
| Employee Cost | 89 | 88 | 88 | 105 | 129 | 121 | 120 | 117 | 119 |
| Other Expenses | 162 | 187 | 189 | 184 | 267 | 273 | 280 | 281 | 282 |
| Total Expenditure | 529 | 572 | 514 | 564 | 821 | 964 | 974 | 951 | 974 |
| Other Income | 4 | 5 | 9 | 9 | 9 | 10 | 10 | 10 | 10 |
| EBITDA | 51 | 103 | 111 | 136 | 222 | 90 | 119 | 107 | 100 |
| EBITDA (%) | 9% | 15% | 18% | 20% | 21% | 9% | 11% | 10% | 9% |
| Depreciation | 31 | 34 | 38 | 41 | 43 | 50 | 52 | 50 | 51 |
| EBIT | 20 | 69 | 74 | 95 | 179 | 40 | 66 | 57 | 49 |
| EBIT (%) | 3% | 10% | 12% | 14% | 17% | 4% | 6% | 5% | 5% |
| Interest | 28 | 32 | 35 | 28 | 17 | 20 | 23 | 19 | 19 |
| Share of P/L | 3 | 2 | 2 | 5 | 4 | 6 | 2 | 2 | 2 |
| Exceptional Items | -0 | 4 | 8 | -1 | 4 | -3 | 4 | 4 | 4 |
| PBT | -5 | 35 | 33 | 72 | 163 | 29 | 41 | 35 | 27 |
| Tax | -2 | 12 | 12 | 31 | 40 | 7 | 10 | 9 | 7 |
| PAT | -3 | 23 | 21 | 41 | 122 | 22 | 30 | 26 | 20 |
| EPS | -0.7 | 5.7 | 5.1 | 10.0 | 29.6 | 5.3 | 7.3 | 6.3 | 4.9 |

Exhibit 9: Balance Sheet

| Y/e 31 Mar (Rs bn) | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Gross Block | 936 | 969 | 1,069 | 1,092 | 1,168 | 1,168 | 1,222 | 1,275 | 1,349 |
| Accumulated Dep | 365 | 370 | 415 | 450 | 484 | 497 | 549 | 599 | 650 |
| Net Block | 572 | 599 | 654 | 641 | 684 | 671 | 673 | 675 | 698 |
| CWIP | 184 | 160 | 88 | 89 | 40 | 49 | 51 | 54 | 57 |
| Other Non-current Assets | 101 | 96 | 117 | 140 | 188 | 205 | 205 | 205 | 205 |
| Inventory | 170 | 195 | 238 | 153 | 196 | 278 | 283 | 273 | 282 |
| Receivables | 39 | 45 | 88 | 82 | 48 | 54 | 59 | 57 | 58 |
| Cash & Bank | 3 | 3 | 4 | 8 | 8 | 6 | 7 | 9 | 10 |
| Other Current Assets | 85 | 81 | 80 | 64 | 37 | 43 | 40 | 39 | 45 |
| Total Assets | 1,154 | 1,180 | 1,269 | 1,178 | 1,201 | 1,305 | 1,319 | 1,313 | 1,356 |
| Share Capital | 41 | 41 | 41 | 41 | 41 | 41 | 41 | 41 | 41 |
| Reserves | 328 | 355 | 374 | 413 | 501 | 506 | 533 | 557 | 575 |
| Non-current Liabilities | 351 | 367 | 405 | 273 | 266 | 264 | 264 | 264 | 264 |
| Current Liabilities | 434 | 416 | 450 | 451 | 393 | 493 | 480 | 451 | 475 |
| Total Equity & Liabilities | 1,154 | 1,180 | 1,269 | 1,178 | 1,201 | 1,305 | 1,319 | 1,313 | 1,356 |

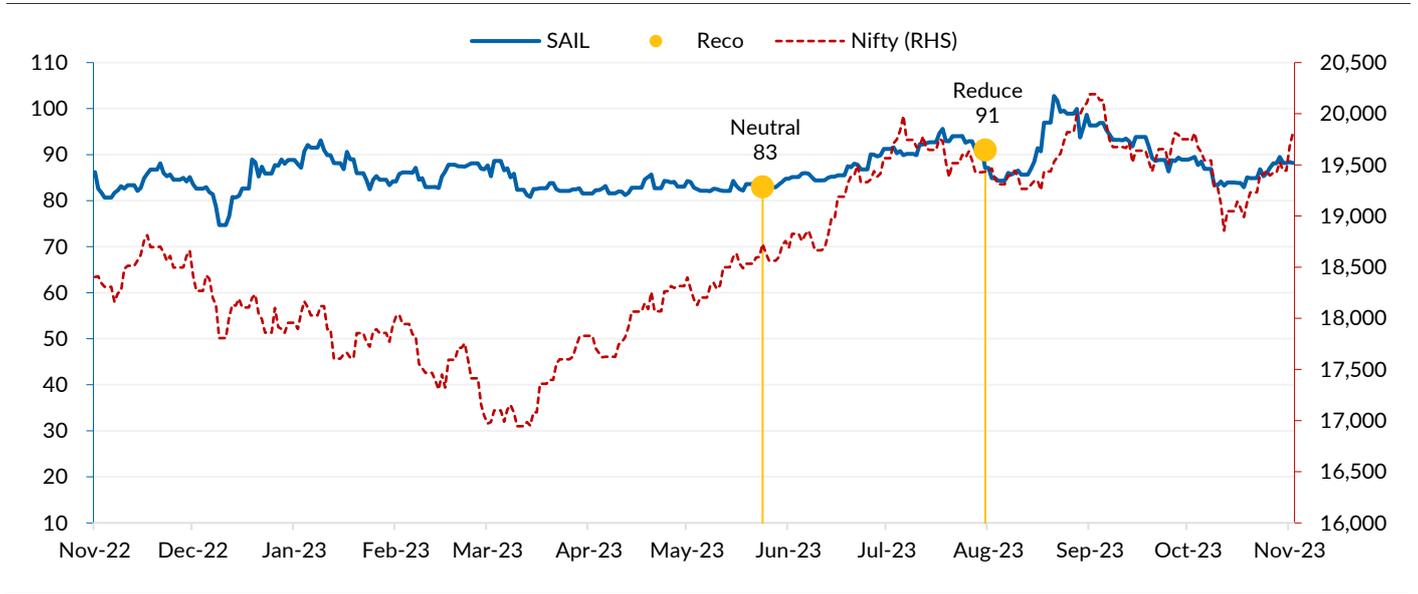
Exhibit 10: Cash Flow Statement

| Y/e 31 Mar (Rs bn) | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Profit before Tax | -5 | 35 | 33 | 72 | 163 | 29 | 41 | 35 | 27 |
| Add: Non-cash charges | 57 | 63 | 68 | 62 | 53 | 60 | 75 | 69 | 70 |
| Profit before Working Capital Changes | 52 | 99 | 101 | 134 | 216 | 89 | 116 | 104 | 97 |
| Working Capital Changes | 11 | -27 | -107 | 101 | 95 | -137 | 14 | 14 | 9 |
| Cash flow from Operations | 63 | 72 | -5 | 235 | 311 | -49 | 130 | 118 | 106 |
| Taxes Paid | -1 | 0 | -1 | -0 | -1 | -4 | -10 | -9 | -7 |
| Net Cash flow from Operating Activities | 62 | 72 | -6 | 234 | 310 | -53 | 119 | 109 | 99 |
| Capex | -68 | -40 | -48 | -36 | -37 | -39 | -54 | -52 | -74 |
| Other Investments | 3 | 3 | 5 | 3 | -3 | 6 | -2 | -3 | -3 |
| Net Cash flow from Investing Activities | -65 | -37 | -43 | -33 | -40 | -34 | -57 | -55 | -77 |
| Proceeds/(Repayment) from borrowings | 31 | -2 | 89 | -148 | -98 | -20 | -35 | -30 | - |
| Other financial activities | -29 | -33 | -39 | -50 | -176 | 106 | -26 | -22 | -21 |
| Net Cash flow from Financing Activities | 3 | -35 | 50 | -198 | -274 | 86 | -61 | -52 | -21 |
| Opening Cash Balance | 1.41 | 0.94 | 0.66 | 1.91 | 5.18 | 1.32 | 0.57 | 2.07 | 4.47 |
| Net Change in Cash | -0.47 | -0.28 | 1.25 | 3.28 | -3.87 | -0.74 | 1.50 | 2.40 | 0.64 |
| Ending Cash Balance | 0.94 | 0.66 | 1.91 | 5.18 | 1.32 | 0.57 | 2.07 | 4.47 | 5.11 |

Exhibit 11: Key Ratios

| Y/e 31 Mar | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|----------------------------|---------|-------|-------|-------|-------|-------|-------|-------|-------|
| Growth (%) | | | | | | | | | |
| Total Sales | 29% | 16% | -8% | 12% | 50% | 1% | 4% | -3% | 1% |
| EBITDA | 878% | 103% | 8% | 22% | 63% | -60% | 32% | -10% | -7% |
| EBIT | -192% | 246% | 7% | 29% | 89% | -78% | 65% | -15% | -14% |
| PAT | -90% | -935% | -10% | 96% | 195% | -82% | 39% | -14% | -23% |
| Profitability (%) | | | | | | | | | |
| GP Margins | 52% | 56% | 61% | 60% | 59% | 45% | 47% | 47% | 46% |
| EBIDTA Margins | 9% | 15% | 18% | 20% | 21% | 9% | 11% | 10% | 9% |
| EBIT Margins | 3% | 10% | 12% | 14% | 17% | 4% | 6% | 5% | 5% |
| PAT Margins | 0% | 4% | 3% | 6% | 12% | 2% | 3% | 2% | 2% |
| ROCE | 3% | 9% | 9% | 13% | 22% | 5% | 8% | 7% | 6% |
| ROE | -1% | 6% | 5% | 9% | 23% | 4% | 5% | 4% | 3% |
| Per Share Data (Rs) | | | | | | | | | |
| EPS | (0.7) | 5.7 | 5.1 | 10.0 | 29.6 | 5.3 | 7.3 | 6.3 | 4.9 |
| BVPS | 89.4 | 96.0 | 100.5 | 109.9 | 131.2 | 132.5 | 139.1 | 144.8 | 149.3 |
| Valuations (x) | | | | | | | | | |
| P/E | (103.0) | 9.5 | 4.5 | 7.8 | 3.3 | 17.8 | 12.0 | 14.0 | 18.0 |
| P/BV | 0.8 | 0.6 | 0.2 | 0.7 | 0.8 | 0.7 | 0.6 | 0.6 | 0.6 |
| EV/EBIDTA | 14.0 | 6.2 | 5.4 | 5.0 | 2.4 | 6.8 | 4.9 | 5.2 | 5.5 |
| Market Cap/Sales | 0.5 | 0.3 | 0.2 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |

Recommendation Tracker



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Analyst Signature

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.