

February 14, 2024

**RESULT REPORT Q3 FY24** | Sector: Metals and Mining

# Steel Authority of India Ltd

**Lower realizations affecting the business; legacy issues persist; downgrade to SELL**

## Result Synopsis

SAIL's Q3FY24 earnings were below the consensus estimates, majorly on the back of falling realizations and lower sales volumes. The realizations took a major hit sequentially even though the steel price fall was lesser. The realizations came in at Rs 56,262/t vs Rs 62,290/t in Q2FY24 reporting a nearly 10% fall on a QoQ basis thereby hurting the company's return profile.

## Our View

We see that going into Q4FY24, the company's earnings, majorly will face more headwinds due to the rising coking coal prices and the steel prices still being under pressure. Additionally, the Chinese steel imports are still a cause of worry for the Indian steel market. 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. Additionally, the target capex for FY2025E would be Rs. 6,000 crores.

The company's debt stands at Rs 28,127 crores, which again has been elevated from the Rs 25,490 crores levels in Q2FY24. Due to lower net sales realizations and rising coking coal costs, the management doesn't see that the company will be able to meet its earlier guidance of reducing debt to Rs 24,000 crores levels. We believe that with the firm's upcoming capex phase of brownfield expansions, the debt levels might start going up on the back of unfavorable 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 4.15 mt. On the cost front, the company is expected to see a cost inflation on the coking coal prices which have been northwards of \$340/t over the past few weeks, the impact of which will be seen majorly in Q4FY24.

## Valuation

We change our rating on SAIL and downgrade it from a REDUCE to SELL as we believe that the debt levels coupled with no additional capacity in the near future and the elevated coking coal prices are a cause of concern for the company operating in an industry where volume play would be key. We rollover our estimates to FY 2026 and value SAIL at 5x FY26E EV/EBITDA to derive a value of Rs 95/share.

## Exhibit 1: Actual vs Estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	233,486	278,125	267,821	19%	15%	Sales volumes disappoint thereby impacting the margins
EBITDA	22,862	33,110	19,419	45%	(15%)	
EBITDA Margin (%)	9.8%	11.9%	7.3%	22%	(26%)	
PAT	4,229	10,365	606	145%	(86%)	

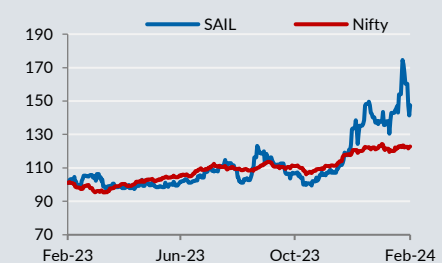
Source: Company, YES Sec

Reco	: <b>SELL</b>
CMP	: Rs 123
Target Price	: Rs 95
Potential Upside	: -30%

## Stock data (as on Feb 14, 2024)

Nifty	21,840
52 Week h/l (Rs)	150 / 78
Market cap (Rs/USD mn)	486782 / 5863
Outstanding Shares (mn)	4,131
6m Avg t/o (Rs mn):	2,640
Div yield (%):	1.2
Bloomberg code:	SAIL IN
NSE code:	SAIL

## Stock performance



	1M	3M	1Y
Absolute return	7.0%	39.4%	46.0%

## Shareholding pattern (As of Dec'23 end)

Promoter	65.0%
FII+DII	19.8%
Others	15.2%

## Δ in stance

(1-Yr)	New	Old
Rating	SELL	REDUCE
Target Price	95	85

## Financial Summary

(Rs bn)	FY23	FY24E	FY25E
Revenue	1,044	1,023	1,048
YoY Growth	0.9%	(2.1%)	2.5%
EBITDA	90	108	105
EBITDA (%)	8.6%	10.6%	10.0%
PAT	22	25	22
EPS	5.3	6.0	5.4
ROE	4.0%	4.4%	3.8%
ROCE	5.0%	6.9%	6.5%

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## Result Highlights

- Revenue from Operations for the quarter stood at Rs 233,486 mn (vs our estimate of Rs 278,125 mn), reporting a 21.4% fall as compared to Q2FY24 and a 6.8% fall on a YoY basis.
- EBITDA margins came in at 9.8% as compared to 13.5% / 8.7% in Q2FY24/Q3FY23 respectively. Consolidated absolute EBITDA stood at Rs 22,862 mn (vs our estimate of Rs 33,110 mn), recording a 43.2% fall from Q2FY24 however was up 5% on a YoY basis.
- Net Profit for the company came in at Rs 4,229 mn as compared to Rs 13,056 mn during Q2FY24 beating consensus thereby showcasing the topsy turvy business operations story for the company.
- On the realizations front, the company sustained its Realization/t at Rs 56,262/t (vs Rs 62,289/t in Q1FY24). The realizations came in lower by ~10% on a QoQ basis despite the steel prices remained mostly flat during the period. EBITDA/t fell from Rs 8,431/t in Q2FY24 to Rs 5,509/t.
- The Board of Directors also declared an interim dividend @10% of the paid-up equity capital (i.e., Rs 1/- per equity share of Rs 10/- each) with record date of 20th February 2024.

## Production Highlights

- The company's production figures came in at 4.71 mt for the quarter recording a ~2% fall on a QoQ basis and a 7% rise on a YoY basis.
- The total volume of sales came in at 4.15 mt, a 13% fall over Q2FY24 and a 1.2% fall as compared to Q3FY23.

## Exhibit 2: Consolidated Quarterly Snapshot

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	% qoq	% yoy
Revenue	240,286	262,463	250,421	291,307	243,591	297,121	233,486	(21.4%)	(6.8%)
COGS	115,122	164,450	135,474	155,207	130,711	155,557	112,125	(27.9%)	(17.2%)
Gross Profit	125,164	98,013	114,947	136,100	112,880	141,563	121,362	(14.3%)	5.6%
GPM %	52%	37%	46%	47%	46%	48%	52%	9.1%	13.2%
Employee Costs	30,190	28,366	27,770	34,390	28,491	31,291	29,422	(6.0%)	5.9%
Other Expenses	71,959	62,296	66,392	72,469	67,901	71,519	70,515	(1.4%)	6.2%
Other Income	1,709	3,957	981	2,857	4,637	1,461	1,437	(1.7%)	46.5%
EBITDA	24,724	11,309	21,766	32,099	21,126	40,215	22,862	(43.2%)	5.0%
EBITDA %	10.3%	4.3%	8.7%	11.0%	8.7%	13.5%	9.8%	(27.7%)	12.7%
Depreciation	11,941	11,835	12,213	13,647	12,752	13,266	13,208	(0.4%)	8.1%
Finance Costs	3,740	5,062	6,403	5,170	6,126	6,052	6,139	1.4%	(4.1%)
Share of P/L	1,430	1,162	1,125	2,740	634	951	1,347	41.7%	19.8%
PBT	10,473	(4,426)	7,259	15,618	2,882	17,698	5,627	(68.2%)	(22.5%)
Tax	2,428	(1,133)	1,837	4,026	757	4,642	1,397	(69.9%)	(23.9%)
PAT	8,045	(3,294)	5,422	11,592	2,125	13,056	4,229	(67.6%)	(22.0%)

Source: Company, YES Sec

## Exhibit 3: Operations Highlights

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	% qoq	% yoy
<b>Consolidated</b>									
Production (mt)	4.10	4.10	4.40	4.70	4.41	4.60	4.71	2.4%	7.0%
Sales (mt)	3.20	4.20	4.20	4.70	3.88	4.77	4.15	(13.0%)	(1.2%)
Realization/t	75,089	62,491	59,624	61,980	62,781	62,289	56,262	(9.7%)	(5.6%)
EBITDA/t	7,726	2,693	5,182	6,829	5,445	8,431	5,509	(34.7%)	6.3%

Source: Company, YES Sec

## KEY CONFERENCE CALL HIGHLIGHTS

### Global Economic Scenario

- Global steel demand is expected to increase by 1.8% in 2023 (lower than 2.3% projected in Apr'23) and 1.9% in 2024 (higher than 1.7% projected in Apr'23).
- Demand growth in China has been retained at 2% in 2023 and NIL in 2024. Global demand excluding China is expected to grow 1.6% in 2023 (lower than 2.6% in projected in Apr'23) and 4.0% in 2023 (higher than 3.6% projected in Apr'23).
- Demand growth in India (8.5% in 2023) is projected second highest after Turkey (19.1%). During 2024, Germany (10.6%) is projected to see the highest growth in steel demand followed by India (7.7%).

### Business Update

- Imported coking coal consumption cost for Q3FY24 was Rs 26,300/t (an increase of roughly Rs. 4,000/t from the previous quarter). Including CDI coal, the coking coal cost was Rs 23,700/t.
- The average coking coal consumption cost for Q4FY24 is expected to be in the of Rs 26,500 – Rs 26,900/t. The prices in January – February period have been Rs 26,633/t and the same trend is expected for the remaining period of Q4FY24.
- In Q3FY24, the long steel prices were Rs.53,948/t and the flats steel prices were Rs 56,600. In January, the spot prices for longs are at Rs 51,900/t and Rs 53,000/t for flats.
- The company currently has ~1.8 mt of finished goods inventory on its books and expects to have higher sales during Q4FY24. Sales done during January 2024 period was 1.5mt.
- Expect royalties' expenses to be upwards as the iron ore prices have been rising over the recent months as both the NMDC and IBM prices for iron ore have been on a rising trajectory.

### Debt Outlook

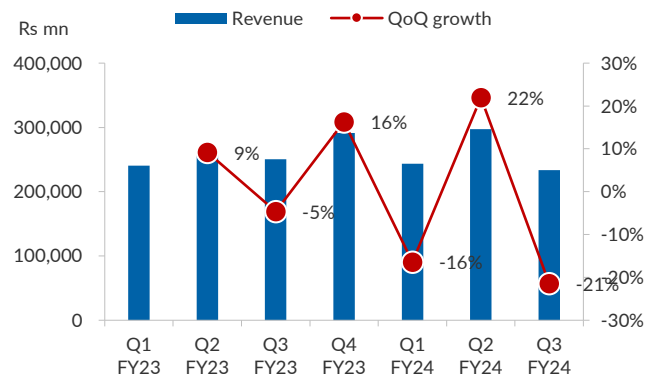
- The company had earlier guided that the debt levels would fall to about Rs 23,000 – 24,000 crores, however as of December 2023, the debt stands at Rs 28,127 elevated from Rs 25,490 in Q2FY24. As of January, the debt increased further to ~Rs 29,000 crores.
- The reason behind the rise in the debt is falling steel prices, unsold inventory lying on the books, and rising coking coal costs. The company doesn't see any major debt reduction in the upcoming months of Q4FY24, hence, elevated debt levels can be assumed for the FY24.

### Guidance

- Capex targets for the FY2024 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.
- For FY2025, the company plans to incur Rs 6,000 crores of capex. No capacity expansion is seen in the next couple of years. The next phase of expansion remains the same at the 2031 targets.

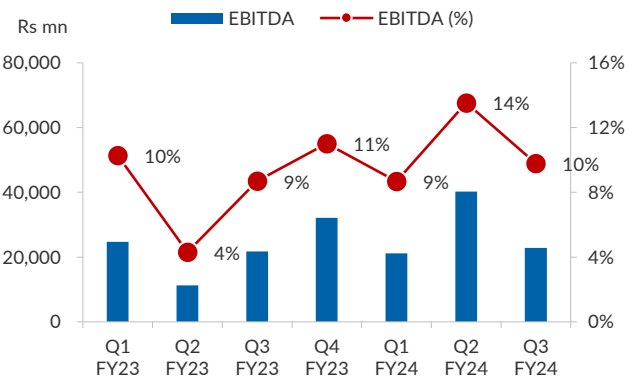
## QUARTERLY TRENDS

**Exhibit 4: Revenue decreased by 21% QoQ...**



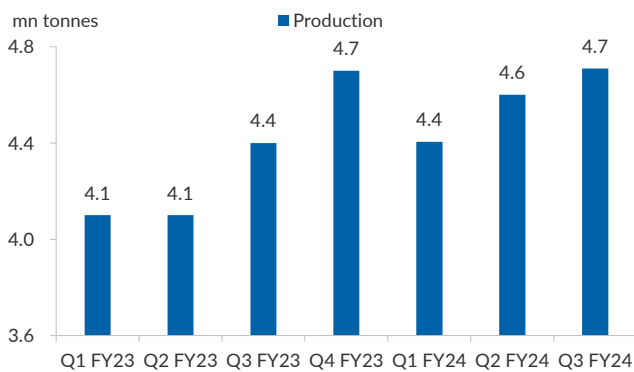
Source: Company, YES Sec

**Exhibit 5: EBITDA margins fall back to 10% levels...**



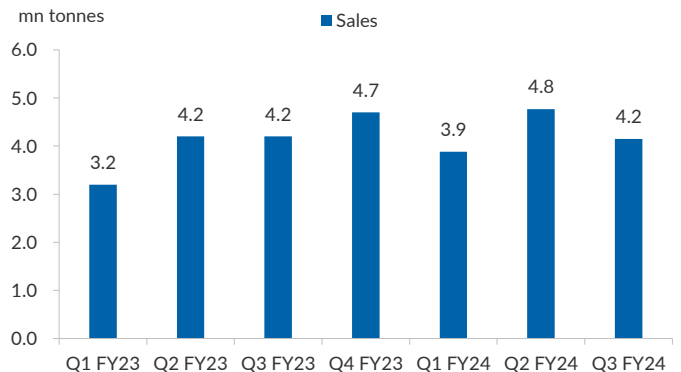
Source: Company, YES Sec

**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	575.6	669.7	616.6	691.1	1,034.8	1,044.5	1,022.6	1,048.3	1,092.4
COGS	278.8	296.9	237.9	274.9	426.1	570.3	523.5	563.5	578.5
Employee Cost	88.7	88.5	88.0	104.6	128.6	120.7	118.0	117.4	122.3
Other Expenses	161.8	186.8	188.6	184.2	266.6	273.1	283.2	272.5	278.6
Total Expenditure	529.2	572.1	514.5	563.7	821.4	964.1	924.7	953.4	979.4
Other Income	4.2	4.9	9.1	8.6	8.6	9.5	10.4	10.4	10.4
EBITDA	50.5	102.6	111.2	136.0	222.0	89.9	108.2	105.2	123.4
EBITDA (%)	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Depreciation	30.7	33.9	37.6	41.0	42.8	49.6	50.9	50.3	52.4
EBIT	19.8	68.7	73.7	95.0	179.3	40.3	57.3	54.9	71.0
EBIT (%)	0.0	0.1	0.1	0.1	0.2	0.0	0.1	0.1	0.1
Interest	28.2	31.5	34.9	28.2	17.0	20.4	23.4	24.5	25.4
Share of P/L	2.8	2.2	1.9	4.7	4.2	6.5	2.9	2.9	2.9
Exceptional Items	(0.3)	3.9	7.7	(0.6)	3.5	(2.6)	3.4	3.4	3.4
PBT	(5.3)	35.5	33.0	72.1	162.9	28.9	33.5	29.9	45.1
Tax	(2.5)	12.0	11.8	30.6	40.5	7.2	8.7	7.5	11.3
<b>PAT</b>	<b>(2.8)</b>	<b>23.5</b>	<b>21.2</b>	<b>41.5</b>	<b>122.4</b>	<b>21.8</b>	<b>24.8</b>	<b>22.4</b>	<b>33.8</b>
<b>EPS</b>	<b>(0.7)</b>	<b>5.7</b>	<b>5.1</b>	<b>10.0</b>	<b>29.6</b>	<b>5.3</b>	<b>6.0</b>	<b>5.4</b>	<b>8.2</b>

**Exhibit 9: Balance Sheet**

Y/e 31 Mar (Rs bn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Gross Block	936.4	969.3	1,069.3	1,091.8	1,168.0	1,168.0	1,224.2	1,287.1	1,385.4
Accumulated Dep	364.8	370.1	415.4	450.5	484.1	496.9	547.8	598.1	650.5
Net Block	571.7	599.2	653.8	641.3	683.8	671.1	676.4	689.0	734.9
CWIP	184.0	160.1	87.5	88.8	40.2	48.9	51.4	53.9	56.6
Other Non-current Assets	101.1	96.2	116.6	140.5	188.2	204.8	204.8	204.8	204.8
Inventory	170.2	195.1	238.4	153.3	196.1	277.6	286.9	301.0	301.1
Receivables	38.7	45.0	88.4	81.7	47.7	53.9	53.2	54.6	56.9
Cash & Bank	3.5	2.9	4.5	8.0	7.9	5.5	5.5	7.8	5.7
Other Current Assets	84.9	80.9	79.7	64.4	37.1	42.6	39.6	41.8	45.8
<b>Total Assets</b>	<b>1,154.4</b>	<b>1,179.5</b>	<b>1,269.3</b>	<b>1,178.2</b>	<b>1,201.1</b>	<b>1,304.8</b>	<b>1,318.1</b>	<b>1,353.4</b>	<b>1,406.1</b>
Share Capital	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3
Reserves	328.2	355.2	373.8	412.8	500.8	506.2	524.8	541.6	567.0
Non-current Liabilities	350.8	366.9	404.5	273.4	265.5	264.0	264.0	264.0	264.0
Current Liabilities	434.2	416.2	449.6	450.7	393.4	493.3	488.1	506.4	533.9
<b>Total Equity &amp; Liabilities</b>	<b>1,154.4</b>	<b>1,179.5</b>	<b>1,269.3</b>	<b>1,178.2</b>	<b>1,201.1</b>	<b>1,304.8</b>	<b>1,318.1</b>	<b>1,353.4</b>	<b>1,406.1</b>

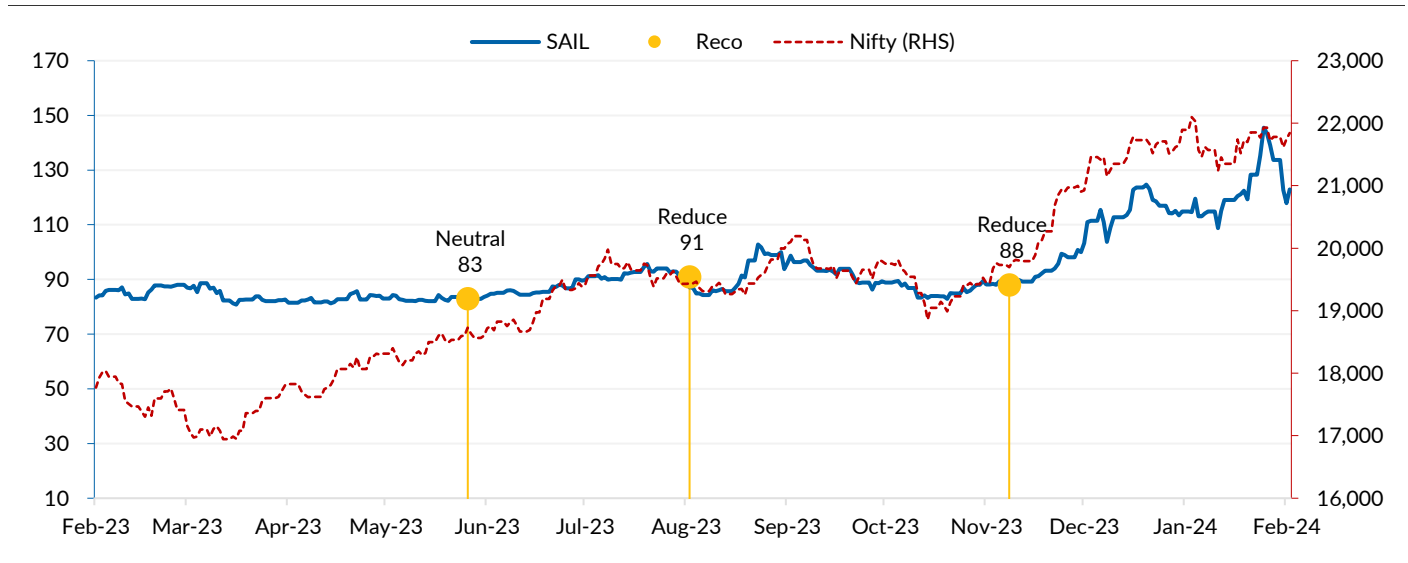
## Exhibit 10: Cash Flow Statement

Y/e 31 Mar (Rs bn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before Tax	(5.3)	35.5	33.0	72.1	162.9	28.9	33.5	29.9	45.1
Add: Non-cash charges	57.3	63.3	68.3	61.9	53.0	59.7	74.3	74.8	77.9
Profit before Working Capital Changes	52.0	98.8	101.3	133.9	215.9	88.6	107.8	104.8	122.9
Working Capital Changes	11.2	(26.6)	(106.6)	100.6	94.8	(137.3)	7.2	5.6	23.6
Cash flow from Operations	63.2	72.1	(5.2)	234.6	310.8	(48.7)	115.0	110.4	146.5
Taxes Paid	(1.4)	0.0	(0.9)	(0.3)	(0.9)	(4.2)	(8.7)	(7.5)	(11.3)
<b>Net Cash flow from Operating Activities</b>	<b>61.8</b>	<b>72.2</b>	<b>(6.2)</b>	<b>234.3</b>	<b>309.9</b>	<b>(52.9)</b>	<b>106.3</b>	<b>102.9</b>	<b>135.3</b>
Capex	(67.6)	(39.8)	(47.5)	(35.5)	(36.7)	(39.3)	(56.2)	(62.9)	(98.3)
Other Investments	2.6	2.9	4.9	2.6	(3.1)	5.6	(2.4)	(2.6)	(2.7)
<b>Net Cash flow from Investing Activities</b>	<b>(65.0)</b>	<b>(36.9)</b>	<b>(42.6)</b>	<b>(32.9)</b>	<b>(39.8)</b>	<b>(33.7)</b>	<b>(58.7)</b>	<b>(65.5)</b>	<b>(101.0)</b>
Proceeds/(Repayment) from borrowings	31.2	(2.4)	89.1	(147.9)	(97.7)	(20.2)	(18.0)	(5.0)	(2.5)
Other financial activities	(28.5)	(33.1)	(39.0)	(50.1)	(176.3)	106.1	(29.6)	(30.1)	(33.9)
<b>Net Cash flow from Financing Activities</b>	<b>2.7</b>	<b>(35.5)</b>	<b>50.0</b>	<b>(198.1)</b>	<b>(274.0)</b>	<b>85.9</b>	<b>(47.6)</b>	<b>(35.1)</b>	<b>(36.4)</b>
Opening Cash Balance	1.4	0.9	0.7	1.9	5.2	1.3	0.6	0.6	2.9
Net Change in Cash	(0.5)	(0.3)	1.2	3.3	(3.9)	(0.7)	0.0	2.3	(2.1)
<b>Ending Cash Balance</b>	<b>0.9</b>	<b>0.7</b>	<b>1.9</b>	<b>5.2</b>	<b>1.3</b>	<b>0.6</b>	<b>0.6</b>	<b>2.9</b>	<b>0.8</b>

## Exhibit 11: Key Ratios

Y/e 31 Mar	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth (%)</b>									
Total Sales	29.3%	16.4%	(7.9%)	12.1%	49.7%	0.9%	(2.1%)	2.5%	4.2%
EBITDA	877.8%	103.1%	8.4%	22.3%	63.2%	(59.5%)	20.4%	(2.8%)	17.3%
EBIT	(191.7%)	246.2%	7.2%	28.9%	88.7%	(77.5%)	42.4%	(4.3%)	29.3%
PAT	(89.8%)	(934.7%)	(9.7%)	95.6%	195.1%	(82.2%)	14.0%	(9.6%)	50.7%
<b>Profitability (%)</b>									
GP Margins	51.6%	55.7%	61.4%	60.2%	58.8%	45.4%	48.8%	46.2%	47.0%
EBIDTA Margins	8.8%	15.3%	18.0%	19.7%	21.5%	8.6%	10.6%	10.0%	11.3%
EBIT Margins	3.4%	10.3%	11.9%	13.7%	17.3%	3.9%	5.6%	5.2%	6.5%
PAT Margins	(0.5%)	3.5%	3.4%	6.0%	11.8%	2.1%	2.4%	2.1%	3.1%
ROCE	2.8%	9.0%	9.0%	13.1%	22.2%	5.0%	6.9%	6.5%	8.1%
ROE	(0.8%)	5.9%	5.1%	9.1%	22.6%	4.0%	4.4%	3.8%	5.6%
<b>Per Share Data (Rs)</b>									
EPS	(0.7)	5.7	5.1	10.0	29.6	5.3	6.0	5.5	8.2
BVPS	89.4	96.0	100.5	109.9	131.2	132.5	137.1	141.2	147.3
<b>Valuations (x)</b>									
P/E	(103.0)	9.5	4.5	7.8	3.3	17.8	19.0	21.0	14.0
P/BV	0.8	0.6	0.2	0.7	0.8	0.7	0.8	0.8	0.8
EV/EBIDTA	14.0	6.2	5.4	5.0	2.4	6.9	6.6	6.7	5.7
Market Cap/Sales	0.5	0.3	0.2	0.5	0.4	0.4	0.5	0.5	0.4

## Recommendation Tracker



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