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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Steel Authority of India

12 February 2025

Earnings miss on higher costs; pricing pressure persists

RESULT UPDATE

Sector: Metals Rating: HOLD

CMP: Rs 106 Target Price: Rs 116

Stock Info

Sensex/Nifty	76,171/ 23,045
Bloomberg	SAIL IN
Equity shares (mn)	4,130
52-wk High/Low	Rs 176/99
Face value	Rs 10
M-Cap	Rs 438bn/USD 5.1bn

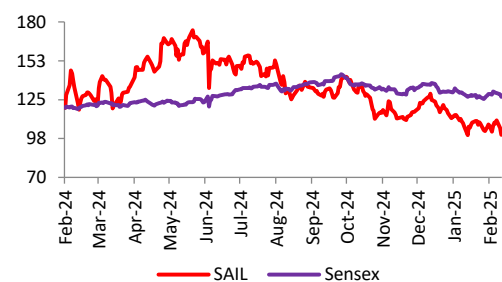
Financial Snapshot (Rs bn)

Y/E Mar	FY25E	FY26E	FY27E
Sales	1,039.6	1,052.0	1,096.2
EBITDA	99.6	113.5	140.6
Adjusted PAT	21.2	30.8	49.6
EPS (Rs)	5.1	7.5	12.0
PE (x)	20.7	14.2	8.8
EV/EBITDA (x)	7.3	6.4	5.2
RoE (%)	3.6	5.1	7.8
RoCE (%)	6.3	7.5	10.0
Dividend yield (%)	1.7	2.5	4.0

Shareholding Pattern (%)

	Dec'24	Sep'24	Jun'24
Promoter	65	65	65
FII	3	3	3
DII	16	16	16
Others	17	16	16

Stock Performance (1-year)



Steel Authority of India (SAIL)'s 3QFY25 cons. EBITDA at Rs 20.3bn (-5%/-30% YoY/QoQ) was 39% below our estimate due to higher raw material costs, inventory losses, and purchases of stock in trade. EBITDA/t for the quarter stood at USD 55/t (-19%/-36% YoY/QoQ). Revenue for the quarter was reported at Rs 244.9bn (+5%/-1% YoY/QoQ), in line with our estimate, wherein lower sales realization was offset by better sales volume. Saleable steel production was 4.4mt (-3%/-4% YoY/QoQ) in 3QFY25 and saleable steel sales were 4.4mt (+15% YoY and +7% QoQ), 8% above our estimates while realizations averaged at Rs 55,659/t (-9%/-8% YoY/QoQ). The continued decline in flat steel prices during the quarter fully eroded the impact of better long steel prices. Flat and longs held 50.4% and 35.7% share in SAIL's product mix this quarter, respectively, while the remaining 14% was made up for by semis. SAIL continues to increase the share of finished products in its portfolio and is currently evaluating certain third party arrangements for the conversion of semis. Future downstream expansions plans are also aligned with this goal. Net debt reduced by Rs 17bn from Rs 356bn in 2QFY25 to Rs 339bn in 3QFY25. Current net debt stands at Rs 326bn with further reduction anticipated by Mar-25. SAIL spent Rs 39bn in capex in 9MFY25 largely towards sustenance and ongoing debottlenecking projects. The company has plans in place to achieve a gradual volume ramp up over the next two to three years primarily through ongoing debottlenecking projects and technological modernization of existing plants keeping intact its long-term target of reaching 35mt capacity by 2031 at an estimated outlay of Rs 1,000bn.

Valuation and view: Earnings in the near to medium term will likely increase, led by softening raw material prices supported by stable steel prices, which have likely bottomed out at current levels. The recent imposition of a 25% import duty on steel in the US is unlikely to have a notable impact on Indian steel manufacturers' volumes, however, its impact on the global trade flow could exert pricing pressure. We cut our FY25E/FY26E/FY27E EBITDA by 10%/17%/1.5% and reduce the target multiple to 5.5x FY27E EV/EBITDA (6x earlier) to factor in the impact of global industry developments and broader market re-rating. We expect SAIL to deliver 1%/8%/13% revenue/EBITDA/PAT CAGR over FY24-FY27E which would largely be driven by better capacity utilisation and lower raw material costs. Future growth would be driven by larger capacity expansions to take the capacity from 20mt currently to 35mt by 2031. We value SAIL at 5.5x FY27E EV/EBITDA with a revised target price of Rs 116/share (Rs 129/share earlier), implying a 9.6% upside from CMP. Notably, Indian steel manufacturers are still awaiting a decision on implementation of safeguard duty on imports and a favorable outcome could drive stock re-rating. Further drop in steel prices and increase in raw material costs are key risks for the company. **Maintain HOLD.**

Key highlights of the 3QFY25 earnings call

- **Coking coal:** Imported coking coal prices declined to Rs 20,600 in 3QFY25, down by Rs ~1,081/t from Rs 21,681/t in 2QFY25. Management expects a further reduction of Rs 1,000/t in 4QFY25. The coking coal mix stands at 85% imported and 15% domestic.
- **Capex:** SAIL has executed Rs 39bn capex in 9MFY25, with a residual capex of Rs 18bn to be spent in 4QFY25. The company aims to achieve a 35mt capacity by

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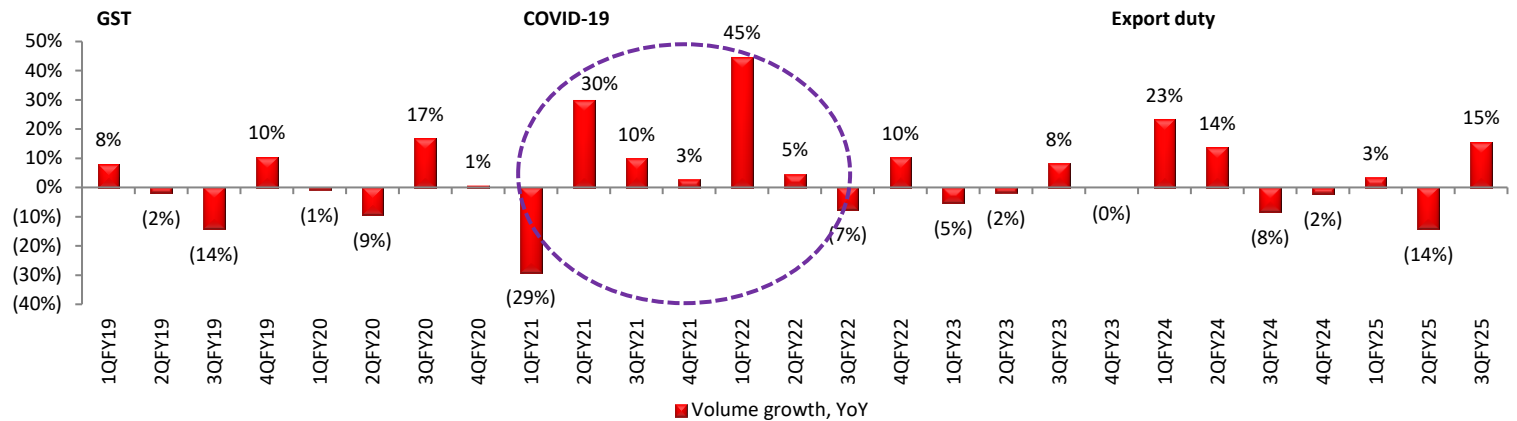
2031, entailing an internally estimated investment of Rs 1,000bn. This long-term expansion remains on track, with significant capex set to commence by FY27. Management has guided for a capex allocation of Rs 75bn in FY26.

- **Volumes:** Sales volume in 3QFY25 grew 15%/7% YoY/QoQ to 4.4mt, driven by higher infrastructure sector consumption. SAIL recorded ~1.57mt sales volume in January-2025 and maintains its FY25 guidance at 18mt sales and 19mt production.
- **Net debt:** Net debt stood at Rs 339bn in 3QFY25, down by Rs 17bn from Rs 356bn in 2QFY25. Current net debt stands at Rs 326bn with further reduction planned by Mar-25 to approach Mar-24 levels of Rs 306bn. Under the expansion plan to reach 35mt capacity by FY31, debt is anticipated to peak in FY29, with a targeted debt/equity ratio of 1:1.
- **Project updates:** Stage 1 approvals have been secured for IISCO (4mt greenfield expansion), Durgapur Steel Plant (2.5mt brownfield expansion, increasing capacity from 2.2mt to 4.73mt), and Bokaro Steel Plant (2.4mt expansion to 7.03mt). The company is currently finalizing costs before seeking Stage 2 approvals for Durgapur and Bokaro expansions.
- **Long and flat prices:** Prices for the long products have moved up by Rs 1,400/t from Rs 52,000/t in 2QFY25 to Rs 53,400/t in 3QFY25, while flat prices declined by Rs 2,200/t from Rs 49,000/t in 2QFY25 to Rs 46,800/t in 3QFY25. Management anticipates a price recovery, particularly in flat products, in the coming months.
- **Management's view on imposition of 25% tariff by US:** The US's announcement of a 25% tariff on all steel and aluminium imports has raised concerns among global producers regarding potential retaliatory measures and disruptions to global trade flows. The tariff imposition has heightened market volatility, driving a surge in US steelmakers' stock prices amid expectations of competitive gains, while global producers face declines. Additionally, the move has intensified concerns over inflationary pressures and rising protectionism, with its impact varying across countries and industries.

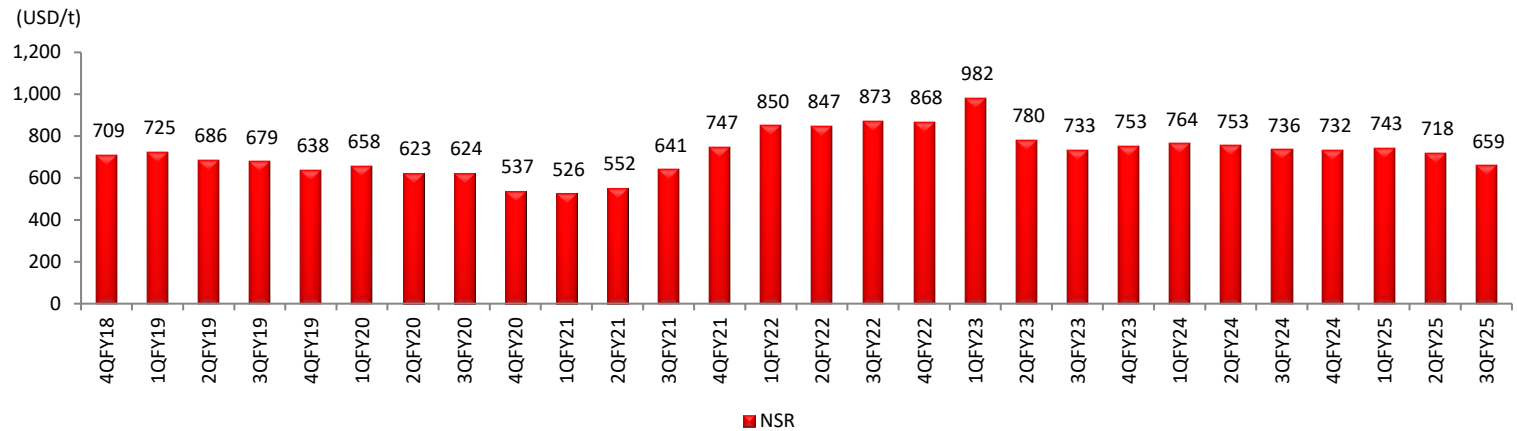
Exhibit 1: Quarterly snapshot

(Rs bn)	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25
Net revenues	233	280	240	247	245
<i>YoY change (%)</i>					5
<i>QoQ change (%)</i>					(1)
EBITDA	21	35	22	29	20
<i>YoY change (%)</i>					(5)
<i>QoQ change (%)</i>					(30)
EBITDA Margin (%)	9	12	9	12	8
Net earnings (adjusted)	3	16	4	9	1
<i>YoY change (%)</i>					(67)
<i>QoQ change (%)</i>					(87)

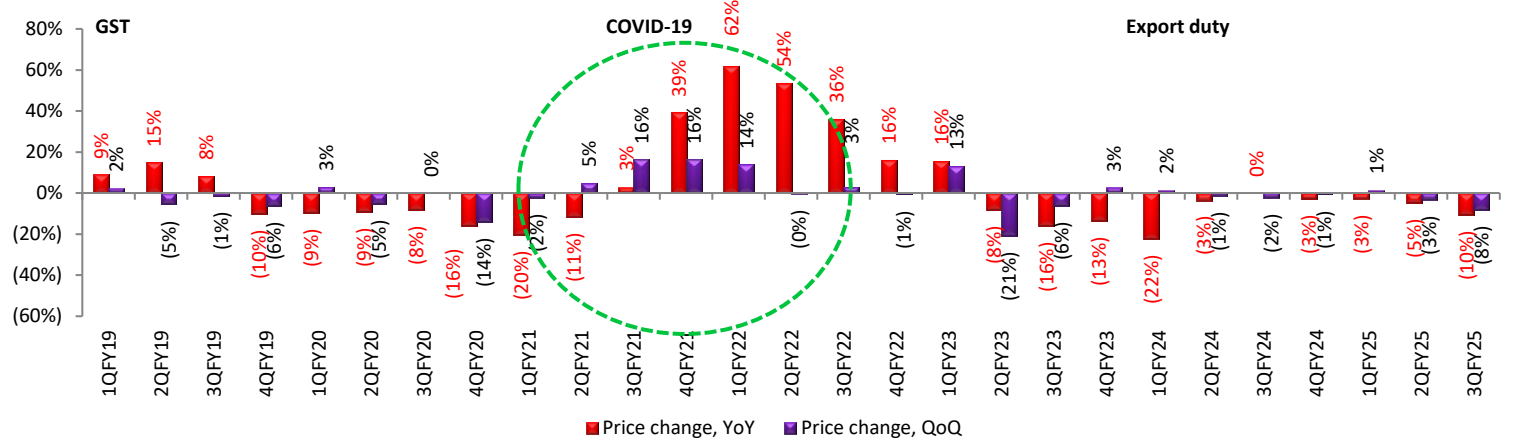
Source: Company, Systematix Institutional Research

Exhibit 2: 3QFY25 sales volumes improved by 7% sequentially

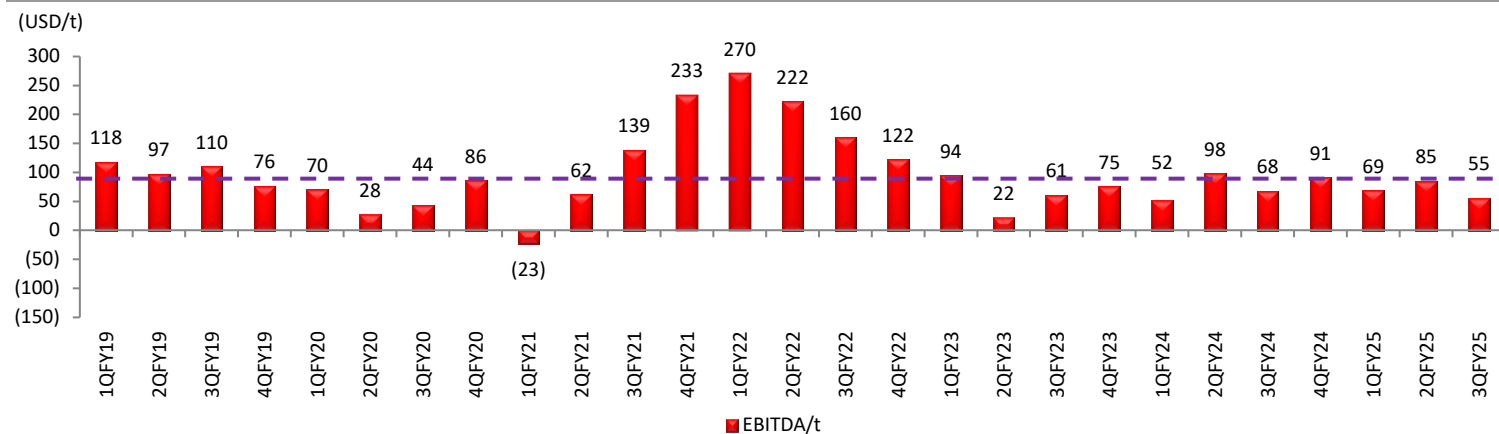
Source: Company data, Systematix Institutional Research

Exhibit 3: Declining trend in the NSR

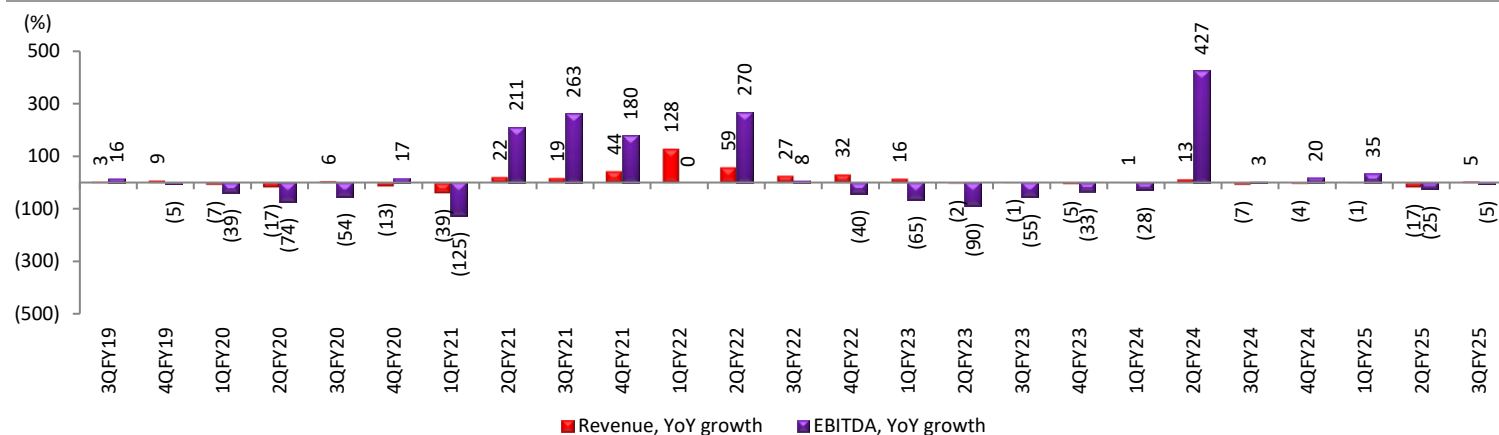
Source: Company, Systematix Institutional Research

Exhibit 4: YoY change in NSR

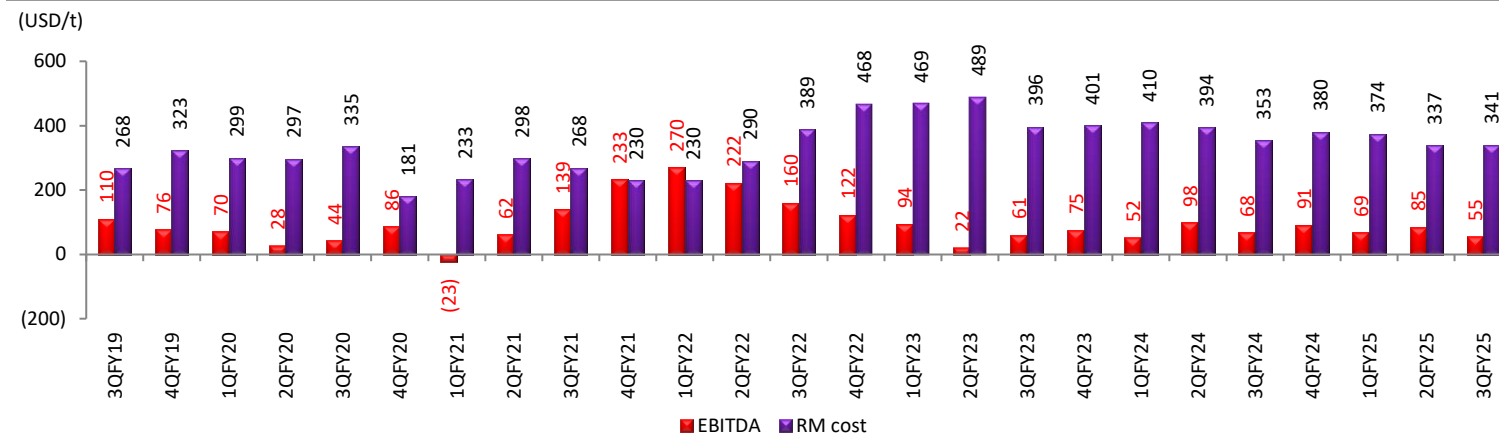
Source: Company, Systematix Institutional Research

Exhibit 5: EBITDA/t contracted by 19%/36% YoY/QoQ to USD 55/t

Source: Company, Systematix Institutional Research

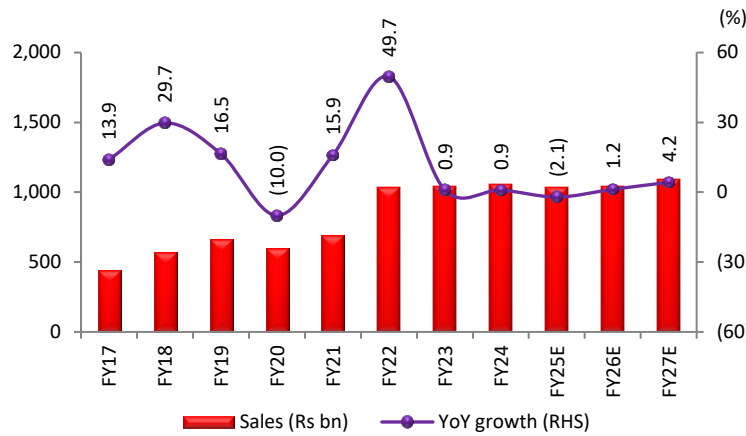
Exhibit 6: Revenue and EBITDA change YoY

Source: Company, Systematix Institutional Research

Exhibit 7: RM costs (USD/t) vs. EBITDA (USD/t)

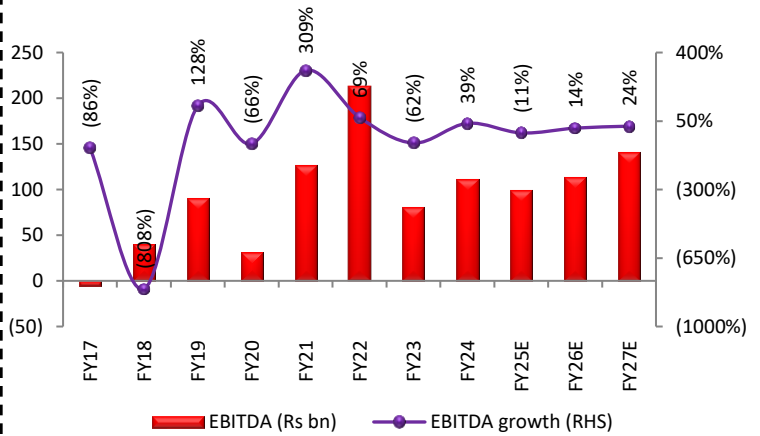
Source: Company, Systematix Institutional Research

Exhibit 8: Revenue to witness a steady growth



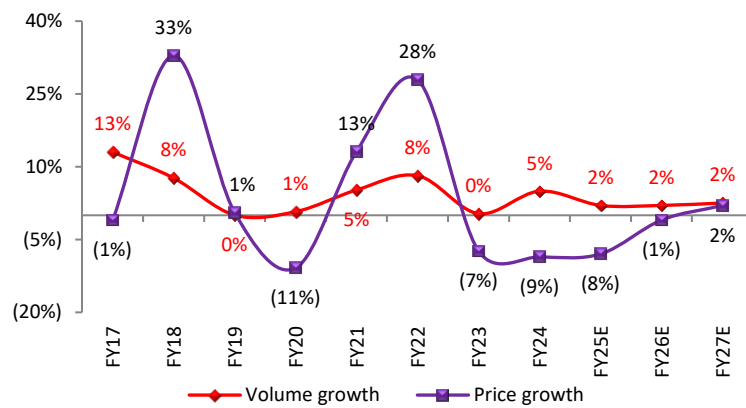
Source: Company, Systematix Institutional Research

Exhibit 9: EBITDA trend



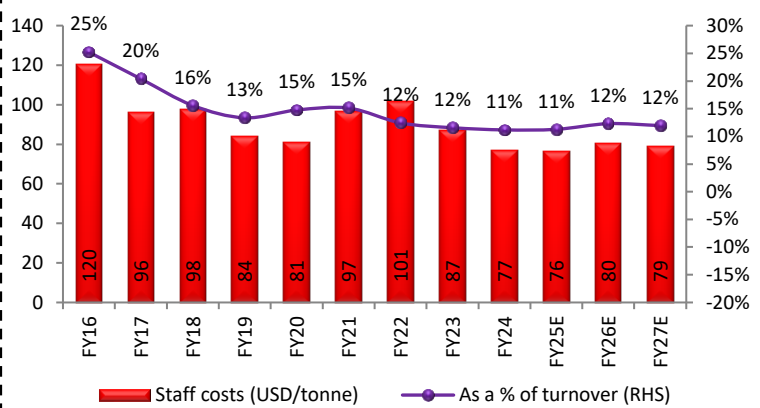
Source: Company, Systematix Institutional Research

Exhibit 10: Estimated YoY change in price and volume



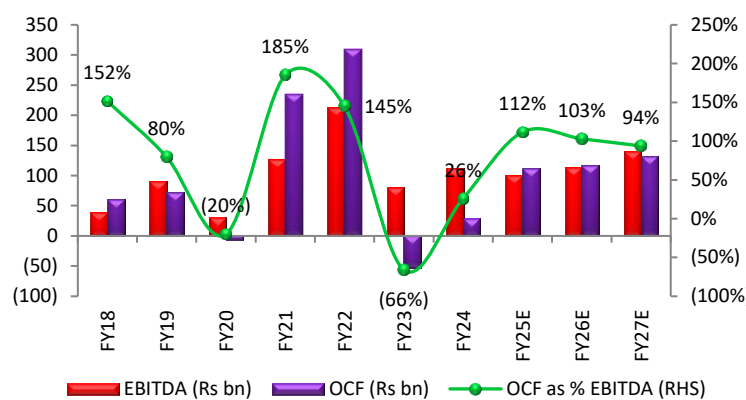
Source: Company, Systematix Institutional Research

Exhibit 11: Staff costs (USD/t) expected to stabilize at 12%



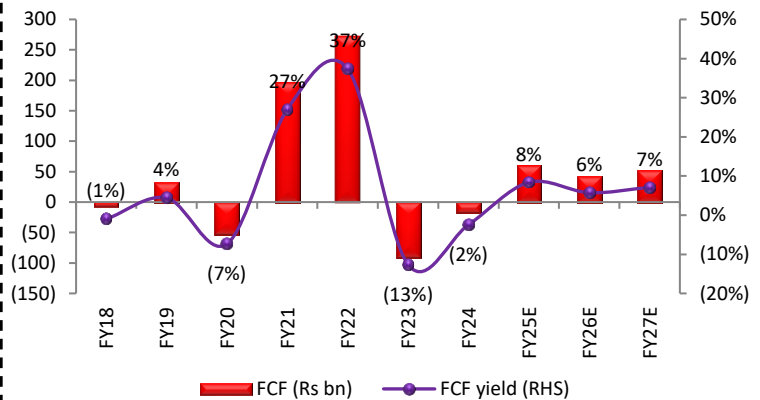
Source: Company, Systematix Institutional Research

Exhibit 12: EBITDA to OCF conversion

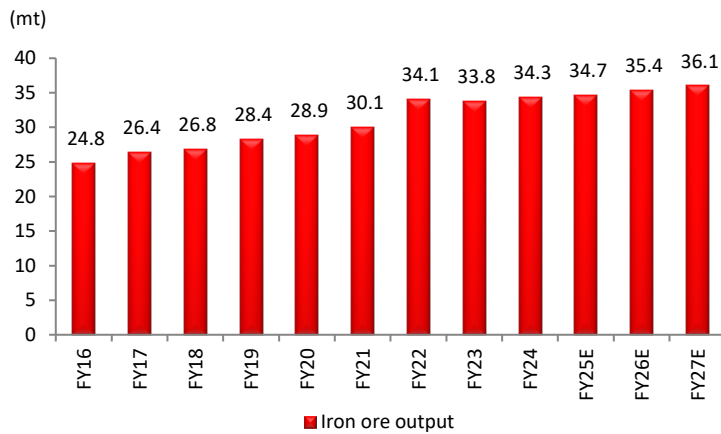


Source: Company, Systematix Institutional Research

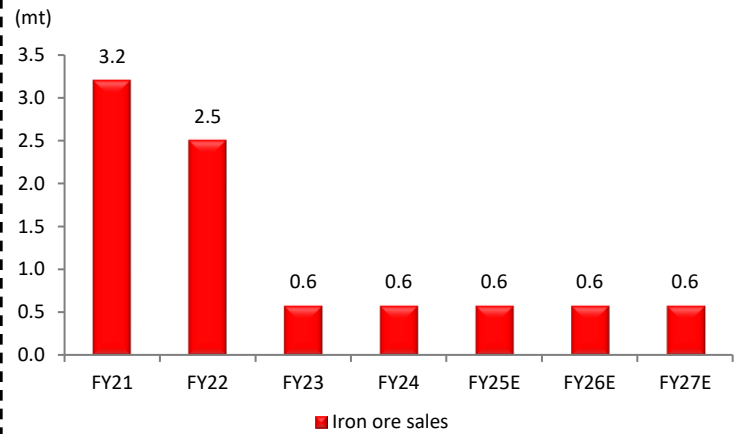
Exhibit 13: FCF to EV ratio to improve



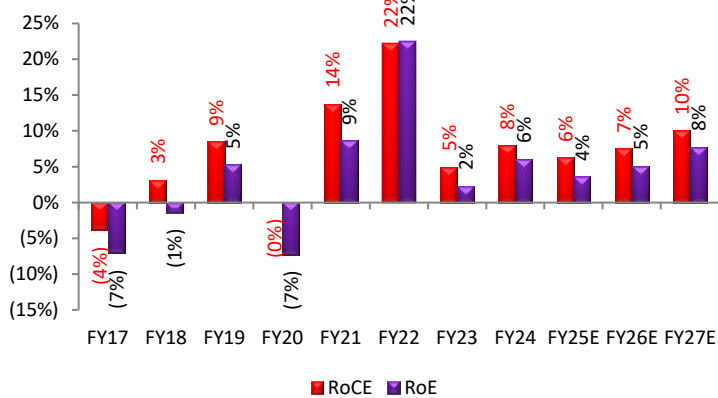
Source: Company, Systematix Institutional Research

Exhibit 14: Stable increase in iron ore output

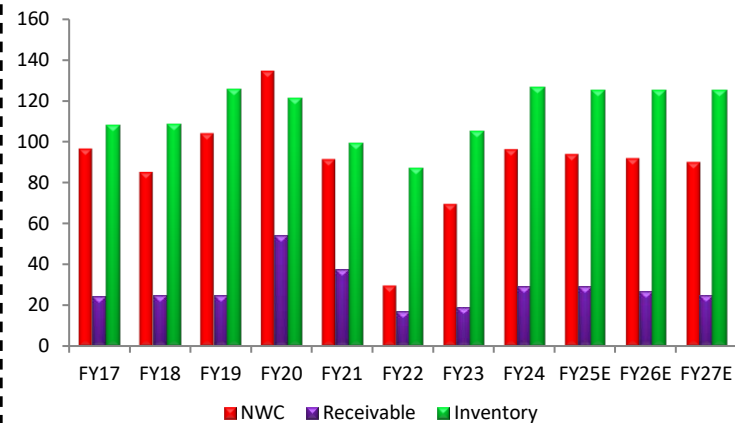
Source: Company, Systematix Institutional Research

Exhibit 15: Iron ore sales

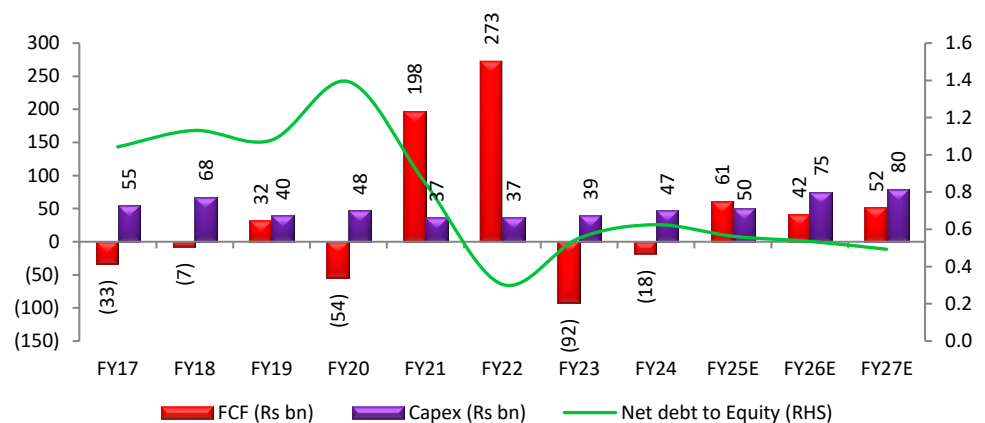
Source: Company, Systematix Institutional Research

Exhibit 16: Return ratios (%) to improve

Source: Company, Systematix Institutional Research

Exhibit 17: Net working capital trend

Source: Company, Systematix Institutional Research

Exhibit 18: Net debt/equity trend – FCF to improve

Source: Company, Systematix Institutional Research

Exhibit 19: SAIL valuation: EV/EBITDA method (FY27E)

	EBITDA (Rs bn)	Multiple (x)	EV (Rs bn)
EBITDA	141	5.5	774
Less: Net debt	326	1.0	326
Add: CWIP	64	0.5	32
Equity value			480
Target price (Rs/share)			116

Source: Company, Systematix Institutional Research

Exhibit 20: Revised estimates

(Rs bn)	Previous			New			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net sales	1,050.6	1,063.1	1,076.1	1,039.6	1,052.0	1,096.2	-1.0%	-1.0%	1.9%
EBITDA	110.9	136.7	142.8	99.6	113.5	140.6	-10.2%	-17.0%	-1.5%
PAT	25.4	45.1	49.9	21.2	30.8	49.6	-16.7%	-31.7%	-0.6%

Source: Systematix Institutional Research

Exhibit 21: Key assumptions

	Unit	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Steel production	mt	15	15	17	17	18	19	20	20
Steel sales	mt	14	15	16	16	17	17	18	18
NSR	USD/t	561	635	813	752	688	628	605	613
EBITDA/t	USD/t	30	114	176	62	79	69	75	90

Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs bn)	FY23	FY24	FY25E	FY26E	FY27E
Net revenues	1,052	1,062	1,040	1,052	1,096
Expenditure	972	951	940	938	956
EBITDA	80	111	100	114	141
Depreciation	50	53	54	55	58
EBIT	31	59	45	58	83
Interest cost	20	25	26	26	25
Exceptionals	12	2	10	11	11
PBT	(2)	32	9	22	47
Taxes	7	10	8	12	19
Adjusted PAT	13	35	21	31	50
Reported PAT	22	31	21	31	50
No of Shares (mn.)	4	4	4	4	4
Adj. EPS (Rs/share)	5.3	7.4	5.1	7.5	12.0

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs bn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	41	41	41	41	41
Reserves and surplus	506	530	543	563	596
Minority Interest	-	-	-	-	-
Net worth	547	571	585	605	637
Total Debt	308	363	374	355	349
Non-Current liabilities	141	139	139	139	139
Current liabilities	294	319	319	319	322
Total sources	1,305	1,407	1,431	1,433	1,462
Net block	775	767	778	809	840
CWIP	49	61	46	35	26
Non current investments	95	94	94	94	94
Total Non current assets	919	922	918	937	959
Cash	6	7	45	32	35
Inventories	278	327	319	319	325
Receivables	54	84	82	77	75
Other current assets	49	68	68	68	68
Current Assets	386	485	514	496	502
Total Assets	1,305	1,407	1,431	1,433	1,462

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs bn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	29	41	29	43	69
Add: Depreciation	50	53	54	55	58
Add: Interest	20	25	26	26	25
Taxes paid	(4)	(1)	(8)	(12)	(19)
Add: Other adjustments	(10)	(12)	-	-	-
WC changes	(137)	(76)	9	5	(0)
Total OCF	(53)	29	111	117	132
OCF w/o WC changes	84	106	102	112	132
Capital expenditure	(39)	(47)	(50)	(75)	(80)
Change in investments	6	5	-	-	-
Interest/Dividend Recd	-	-	-	-	-
Total ICF	(34)	(43)	(50)	(75)	(80)
Free Cash Flows	(92)	(18)	61	42	52
Share issuances	-	-	-	-	-
Change in borrowings	120	41	11	(18)	(6)
Dividends	(13)	(6)	(7)	(11)	(17)
Interest payment	(21)	(22)	(26)	(26)	(25)
Others	-	-	-	-	-
Total Financing CF	86	14	(23)	(55)	(49)
Net change in cash	(1)	0	38	(13)	3
Opening cash & CE	1	1	1	39	26
Closing cash & CE	1	1	39	26	29

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25E	FY26E	FY27E
YoY growth in Revenue	1	1	(2)	1	4
YoY growth in EBITDA	(62)	39	(11)	14	24
YoY growth in Net income	(90)	173	(39)	45	61
RoCE	5.0	8.0	6.3	7.5	10.0
RoE	2	6	4	5	8
Per share numbers (Rs)					
Reported earnings	5	7	5	7	12
Book value	133	138	142	146	154
CPS	17.3	20.2	18.3	20.9	26.0
Valuations (x)					
P/E	20.1	14.3	20.7	14.2	8.8
EV/EBITDA	9.6	6.6	7.3	6.4	5.2
EV to sales	0.7	0.8	0.8	0.8	0.8
P/B	0.8	0.8	0.7	0.7	0.7
Margins (%)					
EBITDA margin	8	10	10	11	13
PAT margin	2	3	2	3	5

Source: Company, Systematix Institutional Research

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