

Steel Authority of India

HOLD

Revenue in Line, Beat on Profitability on One-Off Gains

Summary

SAIL's Q4FY24 revenue was in-line with our forecast. Revenue grew by 20% QoQ to Rs279 bn led by volume growth of 20% QoQ. EBITDA increased by 62% QoQ to Rs35 bn driven by arrears of Rs15bn towards railway price revision for FY23 and 9MFY24. EBITDA/tonne increased by 36% QoQ to Rs7,621. SAIL aims to grow its sales volume by 11.6% to 19mt in FY25. Further, SAIL will incur capex of Rs6.3 bn in FY25 primarily towards sustenance capex, and also for initiating capex on the Burnpur plant. We keep our FY25 EBITDA forecast unchanged and revise FY26 EBITDA forecasts upwards by 13%. We now value the stock at an EV/EBITDA multiple of 6.5x FY26E EBITDA given strong demand outlook for domestic steel sector led by infrastructure spending and robust volume guidance by SAIL for FY25. We raise our target price to Rs155 (earlier Rs107) and upgrade our rating on the stock from SELL to HOLD.

Key Highlights and Investment Rationale

- Profitability higher than expected:** SAIL's Q4FY24 blended realization was flat QoQ at Rs61,311/tonne. Raw material cost increased by 8% QoQ to Rs31,778/tonne. However, EBITDA/tonne increased by 36% QoQ to Rs7,621/tonne. SAIL's employee's costs decreased by 19% QoQ at Rs6,228/tonne as SAIL has reduced its workforce by an average of 3,000 employees per year.
- Future growth visibility on horizon:** SAIL aims to expand its capacity by 15mtpa by 2031 with a total capex of Rs1,000-1,100 bn. In the first phase, SAIL will expand capacity by 4.5mtpa with a capex of Rs360 bn starting from FY26. SAIL is lagging its peers in terms of new capacity addition, which is expected to result in lower volume growth for SAIL compared to its peers over the coming three-five years. However, SAIL expects sales volume growth of 11.6% in FY25.

TP **Rs155**

CMP **Rs174**

Potential upside/downside -11%

Previous Rating SELL

Price Performance (%)

	-1m	-3m	-12m
Absolute	19.4	33.8	111.9
Rel to Sensex	18.2	32.0	92.1

V/s Consensus

EBITDA (Rs bn)	FY25E	FY26E
IDBI Capital	9	13
Consensus	9	10
% difference	4.6	26.4

Key Stock Data

Bloomberg / Reuters	SAIL IN / SAIL.BO
Sector	Metal
Shares o/s (mn)	4,131
Market cap. (Rs mn)	719,538
3-m daily average value (Rs mn)	444.0
52-week high / low	Rs175 / 81
Sensex / Nifty	73,953 / 22,529

Shareholding Pattern (%)

Promoters	65.0
FII	3.2
DII	15.6
Public	16.2

Financial snapshot

(Rs bn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,035	1,044	1,054	1,149	1,254
Change (yoy, %)	50	1	1	9	9
EBITDA	213	80	111	120	142
Change (yoy, %)	68	(62)	39	8	18
EBITDA Margin(%)	20.6	7.7	10.6	10.4	11.3
Adj.PAT	124	16	36	37	52
EPS (Rs)	30	4	9	9	13
Change (yoy, %)	226.2	(86.7)	117.3	5	40
PE(x)	5.8	43.7	20.1	19.2	13.8
Dividend Yield (%)	5.0	2.3	1.1	1.1	1.7
EV/EBITDA (x)	4.0	12.1	9.2	8.5	7.1
RoE (%)	25.9	3.2	6.7	6.7	8.6
RoCE (%)	20.0	3.4	5.8	6.1	7.6

Source: IDBI Capital Research

Ajit Sahu

ajit.sahu@idbicapital.com
+91-22-4069 1849

Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Net sales	2,79,580	2,33,455	19.8	2,91,306	(4.0)
Total expenditure	2,44,826	2,12,053	15.5	2,62,167	(6.6)
EBITDA	34,754	21,402	62.4	29,139	19.3
<i>EBITDA margin (%)</i>	<i>12.4%</i>	<i>9.2%</i>	<i>326bps</i>	<i>10.0%</i>	<i>243bps</i>
EBITDA/tonne	7,621	5,617	35.7	6,226	22.4
Interest	6,421	6,139	4.6	5,170	24.2
Depreciation	13,557	13,206	2.7	13,644	(0.6)
PBT	18,309	3,843	376.4	15,199	20.5
Tax	3,174	1,294	145.3	4,305	(26.3)
Extraordinary item	-5,023	765	<i>nm</i>	-404	<i>nm</i>
Adj. PAT	15,136	2,549	493.7	10,894	38.9
Net profit/loss	10,112	3,314	205.1	10,490	(3.6)
Diluted EPS	3.7	0.6	493.7	2.6	38.9

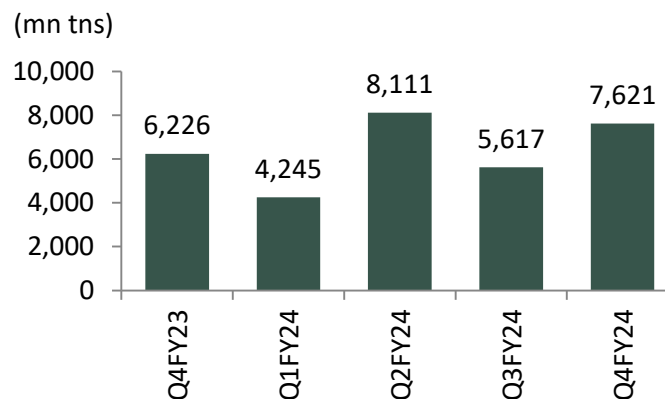
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs estimates

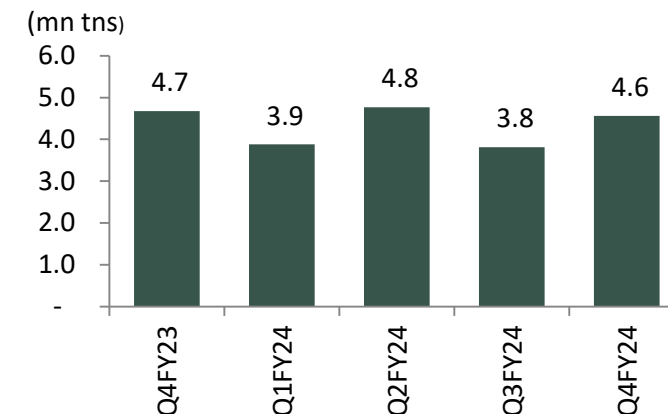
(Rs mn)

	Q4FY24E	Q4FY24A	% Variance
Net sales	2,78,626	2,79,580	0.3
EBTIDA	21,869	34,754	58.9
Margin (%)	7.8	12.4	458bps
Net profit	3,644	15,136	315.4
Dil. EPS	0.9	3.7	307.1

Source: Company; IDBI Capital Research

Exhibit 3: EBIDTA/tonne up by 36% QoQ

Source: Company; IDBI Capital Research

Exhibit 4: Sales volume increased by 20% QoQ

Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

	FY25E			FY26E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs bn)	953	1,149	20.6	970	1,254	29.3
EBITDA (Rs bn)	120	120	0.0	126	142	12.9
EBITDA margin (%)	12.6	10.4	-216bps	12.9	11.3	-156bps
Net profit (Rs bn)	43	37	(12.9)	51	52	2.6
EPS (Rs)	10.3	9.1	(12.0)	12.4	12.7	2.2

Source: Company; IDBI Capital Research

Conference call highlights

- The company aims to incur capex of Rs63 bn in FY25
- Anticipate debt levels to decline below Rs300 bn by March 2025.
- It remains watchful of steel imports from China
- Share of semis in total sales reduced to 8%
- The crude steel production stood at 5.2 bn tonnes which is 1.4% increase YoY and Saleable steel sales stood at 4.5bn tonnes
- ASR for long products stood at 54,600 and flat products stood at 53,500 with combined average of 54,500.
- Inventory liquidation is expected in next 2 months, which will help reduce the working capital and debt levels.
- Iron ore cost stood in range of Rs 13,000 – 14,000 / tonne plus royalty which varies according to state. Q4 coking coal price stood at Rs 26,000 /tonne
- The company is targeting production of 20mn tonnes and sales of 19mn tonnes in FY25
- The company is targeting 1-1.1bn capex for 15mn tonne expansion. The company has been spending around 48bn per year as maintenance capex.
- SAIL plans to increase its capacity from 20mn tonnes to 35mn tonnes by the end of FY31
- Company has been reducing its workforce by around 3,000 people per year which has substantially lowered their employee cost.
- The company has a positive outlook with macro indicators and expects strong demand for steel in coming years in both domestic and international markets. Chinese import of steel in India still remains a major concern.

Financial Summary

Profit & Loss Account

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	691	1,035	1,044	1,054	1,149	1,254
<i>Change (yoy, %)</i>	12.1	50	1	1	9	9
Operating expenses	(564)	(822)	(964)	(942)	(1,029)	(1,112)
EBITDA	127	213	80	111	120	142
<i>Change (yoy, %)</i>	24.8	68	(62)	39	8	18
<i>Margin (%)</i>	18.4	20.6	7.7	10.6	10.4	11.3
Depreciation	(41)	(43)	(50)	(53)	(55)	(58)
EBIT	86	170	31	59	65	85
Interest paid	(28)	(17)	(20)	(25)	(27)	(26)
Other income	10	10	14	11	11	11
Pre-tax profit	69	160	26	37	50	70
Tax	(30)	(40)	(7)	(10)	(13)	(18)
<i>Effective tax rate (%)</i>	44.0	25.1	27.8	25.9	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	39	120	19	27	37	52
Exceptional items	1	(4)	3	(8)	-	-
Adjusted net profit	38	124	16	36	37	52
<i>Change (yoy, %)</i>	35.7	226	(87)	117	5	40
EPS	9.2	29.9	4.0	8.7	9.1	12.7
Dividend per sh	1.8	8.8	4.0	2.0	2.0	3.0
<i>Dividend Payout %</i>	23.5	29.2	100.4	23	22	24

Balance Sheet

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	435	520	521	541	570	610
Share capital	41	41	41	41	41	41
Reserves & surplus	394	479	480	500	529	569
Total Debt	356	134	257	306	300	292
Other liabilities	75	183	202	204	204	496
Curr Liab & prov	306	341	298	324	307	328
Current liabilities	286	329	284	311	294	315
Provisions	20	12	14	13	13	13
Total liabilities	737	657	756	834	811	811
Total equity & liabilities	1,172	1,177	1,277	1,375	1,382	1,421
Net fixed assets	730	724	720	715	724	741
Investments	0	0	0	0	0	0
Other non-curr assets	80	167	180	181	181	181
Current assets	362	287	378	479	477	500
Inventories	195	196	277	326	328	344
Sundry Debtors	71	47	54	83	82	86
Cash and Bank	7	6	4	5	4	6
Other current assets	89	37	43	64	64	64
Total assets	1,172	1,177	1,277	1,375	1,382	1,421

Cash Flow Statement

(Rs bn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	69	160	26	37	50	70
Depreciation	41	43	50	53	55	58
Tax paid	(30)	(40)	(7)	(10)	(13)	(18)
Chg in working capital	83	58	(131)	(52)	(17)	(12)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	162	221	(62)	28	75	98
Capital expenditure	(30)	(37)	(46)	(48)	(63)	(75)
Chg in investments	16	0	0	0	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(14)	(37)	(46)	(48)	(63)	(75)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(156)	(222)	123	49	(6)	(8)
Dividend (incl. tax)	(9)	(36)	(17)	(8)	(8)	(12)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(165)	(258)	106	41	(14)	(20)
Net chg in cash (a+b+c)	(17)	(74)	(2)	21	(2)	2

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	105.3	126	126	131	138	148
Adj EPS (Rs)	9.2	29.9	4.0	8.7	9.1	12.7
Adj EPS growth (%)	35.7	226	-87	117	5	40
EBITDA margin (%)	18.4	20.6	7.7	10.6	10.4	11.3
Pre-tax margin (%)	10.0	15.5	2.5	3.5	4.4	5.6
Net Debt/Equity (x)	0.8	0.2	0.5	0.6	0.5	0.5
ROCE (%)	9.4	20	3	6	6	8
ROE (%)	9.1	26	3	7	7	9
DuPont Analysis						
Asset turnover (x)	0.6	0.9	0.9	0.8	0.8	0.9
Leverage factor (x)	2.9	2.5	2.4	2.5	2.5	2.3
Net margin (%)	5.5	12.0	1.6	3.4	3.3	4.2
Working Capital & Liquidity ratio						
Inventory days	103	69	97	113	104	100
Receivable days	38	17	19	29	26	25
Payable days	45	75	54	59	58	57

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	19.0	5.8	43.7	20.1	19.2	13.8
Price/Book value (x)	1.7	1.4	1.4	1.3	1.3	1.2
EV/Net sales (x)	1.5	0.8	0.9	1.0	0.9	0.8
EV/EBITDA (x)	8.4	4.0	12.1	9.2	8.5	7.1
Dividend Yield (%)	1.0	5.0	2.3	1.1	1.1	1.7

Source: Company; IDBI Capital Research



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
---------	-------------------	-------------------------

Key to Ratings Stocks:

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

IDBI Capital Markets & Securities Ltd.**Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

Disclaimer

This report has been published by IDBI Capital Markets & Securities Ltd.(hereinafter referred to as “IDBI Capital”) for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

I, Ajit Sahu, hereby certify that the views expressed in this report accurately reflect my personal views about the subject companies and / or securities. I also certify that no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, I will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd.(herein after referred to as “IDBI Capital”) was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India’s leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of IDBI Capital. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. We and our associates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% of more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.