

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		Key Stock Data		
CMP	Rs174				
Potential upside/downside	-11%		Bloomberg / Reuters		SAIL IN / SAIL.BO
Previous Rating	SELL		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
Price Performance (%)			Shareholding Pattern (%)		
	-1m	-3m	-12m	Promoters	65.0
Absolute	19.4	33.8	111.9	FII	3.2
Rel to Sensex	18.2	32.0	92.1	DII	15.6
				Public	16.2
Financial snapshot					
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

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Exhibit 1: Quarterly Snapshot

Financial snapshot	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	(Rs mn) 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>	12.4%	9.2%	326bps	10.0%	243bps
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	nm	-404	nm
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

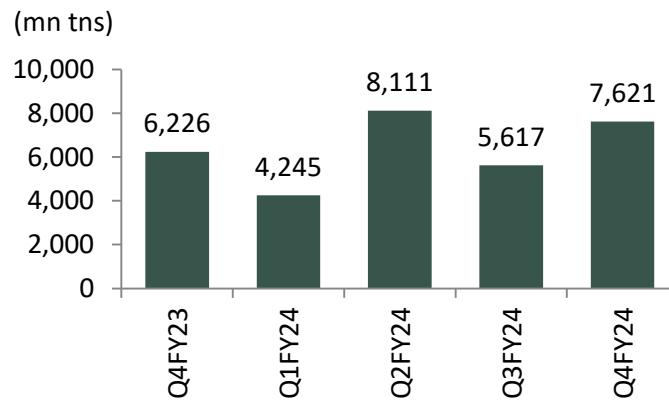
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs estimates

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

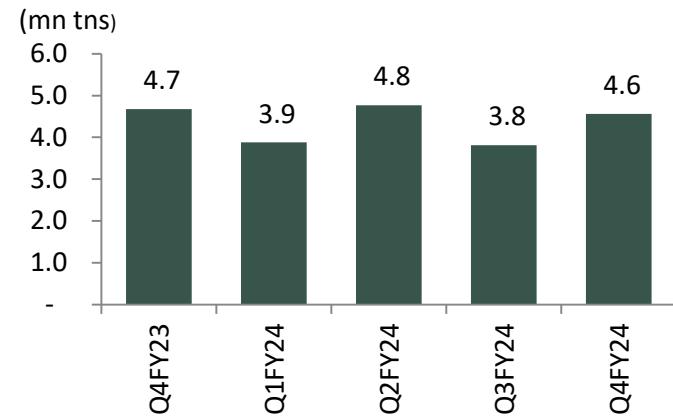
Source: Company; IDBI Capital Research

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
<i>Adj EPS (Rs)</i>	9.2	29.9	4.0	8.7	9.1	12.7
<i>Adj EPS growth (%)</i>	35.7	226	-87	117	5	40
<i>EBITDA margin (%)</i>	18.4	20.6	7.7	10.6	10.4	11.3
<i>Pre-tax margin (%)</i>	10.0	15.5	2.5	3.5	4.4	5.6
<i>Net Debt/Equity (x)</i>	0.8	0.2	0.5	0.6	0.5	0.5
<i>ROCE (%)</i>	9.4	20	3	6	6	8
<i>ROE (%)</i>	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
<i>Net margin (%)</i>	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
<i>Dividend Yield (%)</i>	1.0	5.0	2.3	1.1	1.1	1.7

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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