

Estimate change

TP change

Rating change



Bloomberg	SAIL IN
Equity Shares (m)	4131
M.Cap.(INRb)/(USD\$)	376.4 / 4.5
52-Week Range (INR)	96 / 73
1, 6, 12 Rel. Per (%)	1/-1/6
12M Avg Val (INR M)	1504
Free float (%)	35.0

Financials & Valuations (INR b)

Y/E MARCH	2023	2024E	2025E
Sales	1,044	1,028	1,097
EBITDA	80	108	114
APAT	20	35	44
EBITDA Margin (%)	7.7	11	10
Cons. Adj. EPS (INR)	4.8	9	11
EPS Gr. (%)	-84	76	23
BV/Sh. (INR)	133	140	148

Ratios

Net D:E	0.6	0.5	0.4
RoE (%)	3.7	6.3	7.3
RoCE (%)	4.8	7.5	8.4
Payout (%)	31.0	17.5	23.7

Valuations

P/E (x)	18.7	10.6	8.6
P/BV (x)	0.7	0.6	0.6
EV/EBITDA(x)	8.4	6.0	5.5
Div. Yield (%)	0.0	0.0	0.1
FCF Yield (%)	-23.6	12.3	10.1

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	65.0	65.0	65.0
DII	13.6	12.4	8.9
FII	3.8	4.7	4.2
Others	17.6	17.9	21.9

FII Includes depository receipts

CMP: INR90

TP: INR80 (-10%)

Neutral

Lower volume off-take and higher input costs dent performance

- SAIL's revenue was up 1% YoY to INR244b in 1QFY24, lower than our estimate of INR268b. The miss was due to lower volumes, which were partially offset by higher-than estimated ASP.
- ASP stood at INR62,713/t – down 18% YoY, but was INR3,111/t higher than our estimate (of INR59,601/t). Global macro headwinds and slower demand pick-up in China hit international steel prices in 1QFY24.
- EBITDA was down 28% YoY to INR16b, much below our estimate of INR26b. The miss was because of higher input costs, volatility in steel prices and lower volumes that was partially offset by lower coal cost. EBITDA/t stood at INR4,241/t during the quarter.
- APAT for the quarter was significantly down by 81% YoY to INR1.5b vs. our estimate of INR8b. Higher finance cost impacted APAT adversely.
- SAIL continued with its production momentum, which rose 8% YoY to 4.4mt (in line). The company achieved its highest-ever 1Q production. Though sales volume was up 23% YoY to 3.9mt, it was lower than our estimate of 4.5mt.
- Debt increased ~INR38b to INR294b, resulting in an increase in finance cost, which was up 64% YoY to INR6b (31% above our estimate).
- Bhilai plant clocked revenue of INR70b, whereas Durgapur/IISCO performed better on YoY basis and posted revenue of INR31b/INR28b in 1QFY24.
- All five integrated plants were profitable; however, VISP/Salem/alloy steel plants posted losses of INR157m/INR491m/INR60m.

Highlights from the management commentary

- Management expects to clock sales of ~19mt (+15% YoY) in FY24, driven by robust domestic demand.
- Blended HCC cost, which was around INR25,800/t in 1QFY24, is expected to reduce to INR22,000-23,000/t in 2QFY24.
- ASP in 2QFY24 is likely to be lower and is projected to improve from Sep'23.
- Capex of ~INR68b is earmarked for FY24.
- SAIL has set a target to achieve 35mt of crude steel production by FY31-32. To support this massive growth, the company currently has plans to increase production via debottlenecking (3-3.5mt), capacity enhancement at IISCO by 4.5mt and capacity increase at BSL (Bokaro) by 3mt.
- Management expects robust demand in India with no off-take issues.
- SAIL expects deleveraging of ~INR40b in FY24 (from Mar'23 levels).

Valuation and view

- Domestic steel demand is expected to remain robust, with a pick-up likely in sectors such as infrastructure, construction, power, consumer durables, automobiles, etc.
- Though 2Q is relatively a subdued quarter due to monsoons, SAIL produced 1.7mt of crude steel in Jul'23 (up 20.3% YoY).

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- SAIL had guided for a volume of ~19mt in FY24. While debt mounted ~INR38b to INR294b in 1QFY24, it is likely to remain below D/E of 1:1 (current D/E 0.56:1).
- Considering lower off-take, slowdown in international markets, volatile macro-economic scenario and high input costs we cut our FY24 revenue/EBITDA/APAT estimates by 3%/5%/10% while keeping our FY25 estimates largely unchanged.
- SAIL trades at an FY25E EV/EBITDA of 5.5x. We believe that the stock is fully priced in, given that lower off-take would continue to drag the performance until the company substantially increases its share of exports along with rising domestic deliveries and reduces its input costs. We reiterate our **Neutral** rating on the stock with an unchanged TP of INR80.
- **Key risks to our target price:** a sharp change in coking coal prices.

Standalone quarterly performance (INR b)

Y/E March	FY23				FY24E				FY23	FY24E	FY24E	vs Est
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1Q	(%)
Sales (mt)	3.2	4.2	4.2	4.7	3.9	4.4	4.5	4.5	16.2	17.3	4.5	-14
Change (YoY %)	-5.2	-1.6	8.1	-0.6	23.1	5.0	7.3	-3.4	0.2	6.7		
ASP (INR/t)	76,184	62,343	60,327	62,245	62,713	57,190	58,402	59,951	64,494	59,466	59,601	5
Change (YoY %)	22.8	-0.5	-8.2	-4.7	-17.7	-8.3	-3.2	-3.7	0.7	-7.8		
Net Sales	240	262	250	291	244	253	260	271	1,044	1,028	268	-9
Change (YoY %)	16.4	-2.2	-0.8	-5.3	1.4	-3.7	3.9	-7.0	0.9	-1.6		
Change (QoQ %)	-21.9	9.2	-4.6	16.3	-16.4	3.8	2.9	4.2				
EBITDA	23	7	21	29	16	29	31	32	80	108	26	-36
Change (YoY %)	-64.9	-89.6	-39.1	-33.0	-28.4	289.4	47.9	10.8	-62.4	34.6		
Change (QoQ %)	-47.1	-68.2	183.5	40.3	-43.5	73.2	7.7	5.1				
Interest	4	5	6	5	6	5	5	4	20	21		
Depreciation	12	12	12	14	13	13	13	13	50	51		
Other Income	3	4	1	5	4	2	2	2	14	11		
PBT (before EO Inc.)	10	-5	3	15	2	13	15	17	24	47		
EO Income(exp)			3	-0					3			
PBT (after EO Inc.)	10	-5	6	15	2	13	15	17	26	47		
Total Tax	3	-1	2	4	1	3	4	4	7	12		
Reported PAT	8	-4	5	10	1	10	11	13	19	35		
Adjusted PAT	8	-4	2	11	1	10	11	13	17	35	8	-82
Change (YoY %)	-79.8	PL	LP	-52.0	-80.7	LP	358.8	20.8	-85.8	106.0		
Change (QoQ %)	-65.4	PL	LP	338.8	-86.1	539.8	17.5	15.6				

Source: MOFSL, Company

Highlights from the management commentary

Guidance:

- The company expects robust demand from India with no off-take issues and expects to sell ~19mt in FY24E.
- Coal cost, which was ~INR25,800/t in 1QFY24, is expected to reduce to INR22,000-23,000/t in 2QFY24.
- ASP in 2QFY24 is expected to be lower than 1QFY24 by ~INR1,000/t; but prices are expected to improve from Sep'23 onwards.
- SAIL has an inventory of 1.4mt (0.35mt added in 1QFY24) and expects to offload the same by Mar'23.
- Employee cost is expected to be in the range of INR115-120b for FY24
- The company plans to increase the share of domestic coal and gradually reduce its reliance on imported coal.

Capex:

- Capex of INR68b is earmarked for FY24
- SAIL has set a target to achieve 35mt of crude steel production by FY31-32. To support this massive growth, the company currently has plans to increase production via debottlenecking (3-3.5mt), capacity enhancement at IISCO by 4.5mt and capacity increase at BSL (Bokaro) by 3mt.
- SAIL has received in-principle approval from the 'Board' and Stage I clearance for IISCO is expected to be submitted by 4QFY24. SAIL is gearing up for order placement by the end of FY24E.
- Management has also finalized the product mix at Durgapur going forward.
- SAIL is also planning to set up ~7mt pellet plants at numerous locations and expects to place the order for the same in FY24.
- Expansion at Bokaro is likely to consume less time as it would be a brownfield expansion.
- Major capex will accrue between in FY27 and FY29.

Debt built up:

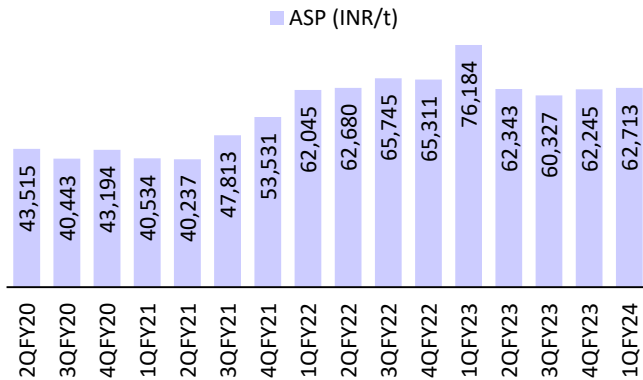
- The current debt is around INR294b, increase of ~INR38b QoQ.
- SAIL currently has D/E of 0.6:1, however, it expects to reduce its current borrowing by INR40b in FY24 (from Mar'23 levels).
- SAIL has not increased the borrowings in Jul and Aug'23.
- A majority of the deleveraging would be undertaken in 2H.

Coal:

- Coal cost is expected to reduce in 2QFY24.
- Coal cost, which was around INR25,800/t in 1QFY24, is expected to reduce to INR22,000-23,000/t in 2QFY24.
- SAIL imports ~85% of its coal and the rest is procured from domestic sources. SAIL wants to increase the contribution from domestic merchant miner to 20%, thereby reducing its dependency on imports.
- SAIL also has approached BCCL to set up washeries for supply of high-quality coal.
- It is developing Tasra Coking coal mine, which will supply around 1.6-1.7mt of coal to SAIL, thus reducing its dependence on import.

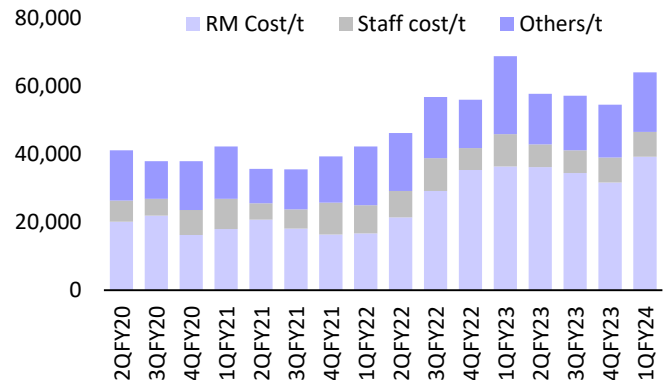
Story in charts

Exhibit 1: ASP improved QoQ in 1QFY24



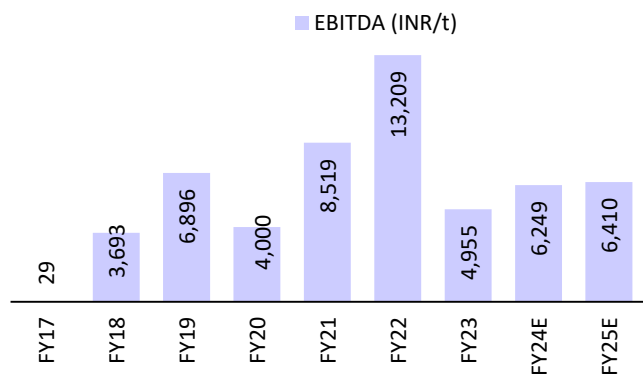
Source: MOFSL, Company

Exhibit 2: Increase in costs (INR/t) has resulted in subdued EBITDA margin in 1QFY24



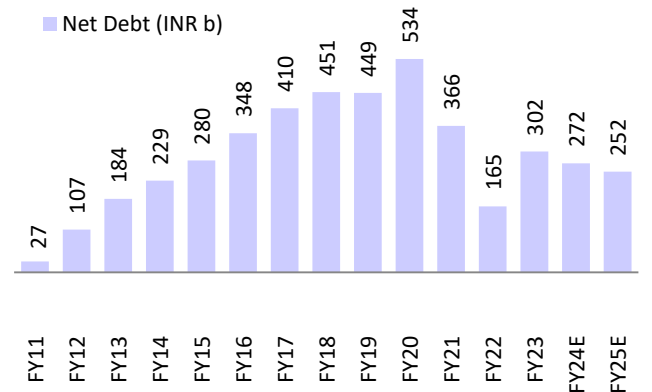
Source: MOFSL, Company

Exhibit 3: EBITDA/t to improve in FY24 after bottoming out in FY23



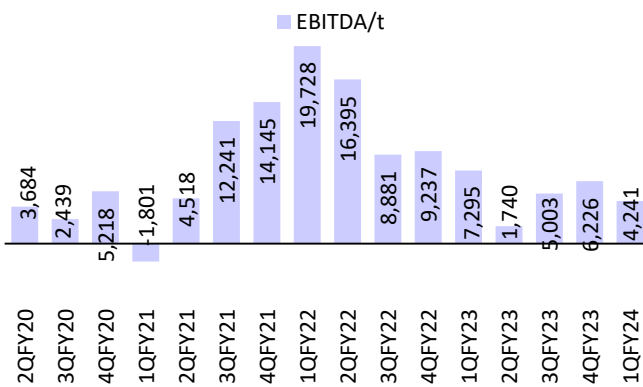
Source: MOFSL, Company

Exhibit 4: Net debt rose in FY23 after massive deleveraging in the last two years; expected to reduce in FY24 and FY25



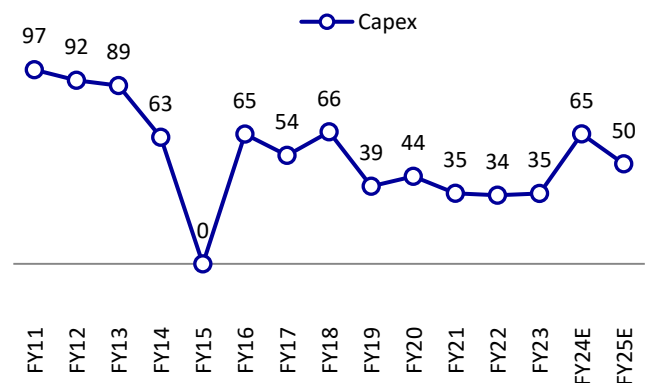
Source: MOFSL, Company

Exhibit 5: Higher cost and lower off-take hit EBITDA/t (INR) in 1QFY24



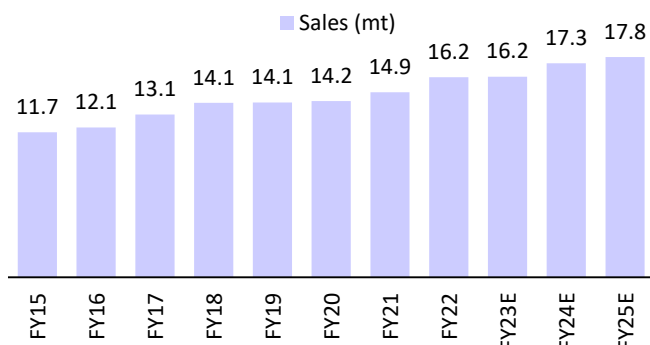
Source: MOFSL, Company

Exhibit 6: Capex (INR b) to increase in FY24; a total of INR1t capex has been earmarked over the next decade



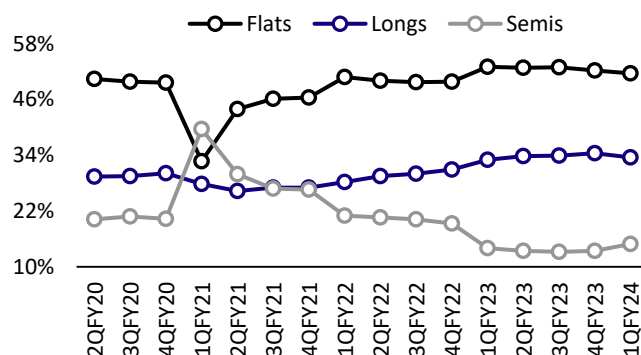
Source: MOFSL, Company

Exhibit 7: Sales (mt) growth momentum to continue



Source: MOFSL, Company

Exhibit 8: Break up of longs-semis-flats; share of semis has increased in 1QFY24



Source: MOFSL, Company

Exhibit 9: Key financials and revisions to our estimates

	FY24E			FY25E		
	New	Old	Change (%)	New	Old	Change (%)
Sales	17.3	18.0	-3.8	17.8	18.0	-0.8
Realization/t	59,466	58,696	1.3	61,560	61,560	0.0
EBITDA/t	6,249	6,293	-0.7	6,410	6,310	1.6
Revenue	1,028	1,054	-2.5	1,097	1,106	-0.8
EBITDA	108	113	-4.5	114	113	0.8
PAT	35	39	-10.3	44	43	1.7

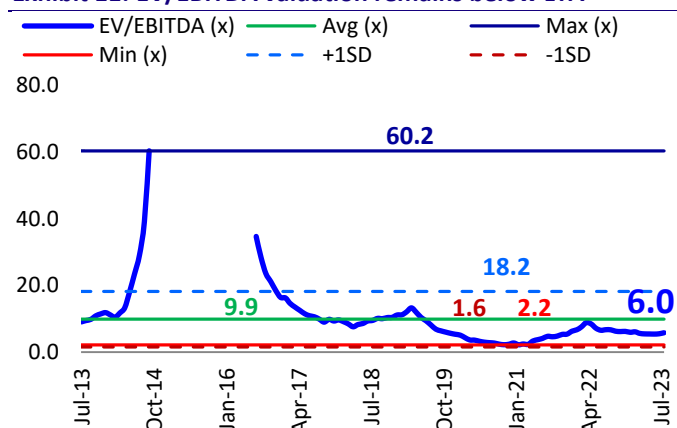
Source: MOFSL

Exhibit 10: Valuation

YEAR	UoM	FY25E
Volumes	mt	17.8
EBITDA	INR/t	6,410
EBITDA	INR b	114
Target EV/EBITDA(x)	x	5.0
Target EV	INR b	571
less: Net Debt (INR m)	INR b	252
Equity value	INR b	320
No. of shares o/s	b	4
Target price (INR/sh.)	INR	80

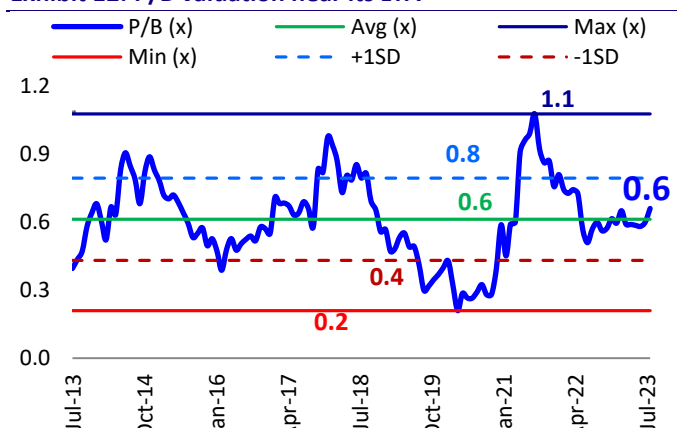
Source: MOFSL

Exhibit 11: EV/EBITDA valuation remains below LTA



Source: Company, MOSL

Exhibit 12: P/B valuation near its LTA



Source: Company, MOSL

Exhibit 13: Global comparable valuations

Steel		M-Cap USD m	P/E (x)		EV/EBITDA (x)		P/B (x)		RoE (%)	
Company	Company		CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24	CY22/ FY23	CY23/ FY24
India										
Tata Steel Ltd	Tata*	17,715	16.9	13.2	6.6	7.3	1.5	1.4	8.3	11.1
JSW Steel Ltd	JSW*	24,278	56.6	17.7	14.0	8.6	3.1	2.7	5.3	16.2
Jindal Steel & Power Ltd	JSP*	8,334	18.6	14.1	7.5	6.7	1.8	1.6	9.9	11.8
Steel Authority of India Ltd	SAIL*	4,635	18.7	10.6	8.4	6.0	0.7	0.6	3.7	6.3
Japan										
JFE Holdings Inc	JFE	9,499	8.6	7.2	7.0	6.2	0.6	0.6	7.4	8.5
Nippon Steel Corp	Nippon Steel	22,142	4.9	8.4	5.2	6.2	0.8	0.7	17.3	8.9
Kobe Steel Ltd	Kobe Steel	4,959	11.4	7.7	8.1	5.6	0.8	0.7	7.5	10.0
Korea										
POSCO Holdings Inc	POSCO	37,486	15.0	12.1	7.2	6.2	0.9	0.8	5.9	6.9
Hyundai Steel Co	Hyundai Steel	3,513	5.2	4.8	4.5	3.9	0.2	0.2	4.7	5.0
US										
Nucor Corp	Nucor	41,353	9.0	13.8	5.7	7.9	1.9	1.7	22.2	12.4
United States Steel Corp	US Steel	5,017	5.9	11.7	3.2	4.3	0.5	0.5	9.6	5.0
Steel Dynamics Inc	Steel Dynamics	16,911	6.6	11.3	4.5	7.2	1.8	1.6	29.7	14.9
Europe										
ArcelorMittal SA	AM	23,221	5.4	5.8	3.7	3.8	0.4	0.4	8.2	7.2
SSAB AB	SSAB	5,973	5.3	8.7	2.4	3.4	0.9	0.9	17.9	10.7
thyssenkrupp AG	TKA	4,713	23.8	9.0	0.6	0.6	0.3	0.3	1.5	3.9
voestalpine AG	VOE	5,462	5.0	7.9	2.9	3.8	0.6	0.6	13.7	8.1
China										
Baoshan Iron & Steel Co Ltd	Baosteel	19,458	10.1	8.7	5.0	4.3	0.7	0.7	6.7	7.4

Source: MOFSL, Company, Bloomberg (*) denotes MOFSL estimates.

Financials and valuation

Income Statement (Consolidated)								(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E
Net Sales	445.0	575.6	669.7	616.6	691.1	1,034.8	1,044.5	1,027.6	1,097.3
Change (%)	13.8	29.3	16.4	-7.9	12.1	49.7	0.9	-1.6	6.8
EBITDA	0.7	52.2	97.6	57.1	127.4	213.4	80.4	108.0	114.3
Change (%)	-102.3	7,677.0	87.1	-41.5	123.1	67.5	-62.3	34.3	5.8
EBITDA per tonne (INR)	51	3,705	6,916	4,012	8,526	13,209	4,964	6,249	6,410
Depreciation	26.8	30.7	33.9	37.6	41.0	42.8	49.6	50.8	49.4
EBIT	-26.1	21.5	63.8	19.5	86.4	170.7	30.8	57.2	64.9
Interest	25.3	28.2	31.5	34.9	28.2	17.0	20.4	21.1	18.9
Other income	4.5	4.2	4.9	9.1	8.6	8.6	9.5	11.2	12.2
PBT before EO	-46.9	-2.6	37.2	-6.3	66.8	162.3	19.9	47.3	58.1
Extraordinary Item	-2.2	-5.6	-3.9	37.3	0.6	-3.5	2.6	0.0	0.0
PBT	-49.1	-8.1	33.3	31.1	67.4	158.7	22.5	47.3	58.1
Total Tax	-19.6	-2.5	12.0	11.8	30.6	40.5	7.2	12.0	14.6
Effective Rate (%)	39.9	30.2	36.1	38.0	45.4	25.5	31.9	25.3	25.2
Reported PAT	-27.6	-2.8	23.5	21.2	41.5	122.4	21.8	35.3	43.5
Change (%)	-34.0	-89.8	-934.7	-9.7	95.6	195.2	-82.2	62.2	23.2
Share of Associates/JV	1.9	2.8	2.2	1.9	4.7	4.2	6.5	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted PAT	-26.3	1.1	26.0	-1.9	54.1	125.1	20.0	35.3	43.5
Change (%)	-37.1	-104.0	2344.1	-107.5	-2880.6	131.4	-84.0	76.5	23.2

Balance Sheet (Consolidated)								(INR b)	
Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E
Sources of Funds									
Share Capital	41	41	41	41	41	41	41	41	41
Reserves and Surplus	329	328	355	374	413	501	506	535	569
Shareholders' funds	370	369	396	415	454	542	547	577	610
Loans	414	454	452	538	374	173	308	278	263
Deferred Tax Liability	-38	-42	-29	-20	13	54	58	58	58
Capital Employed	746	782	819	933	842	769	913	913	931
Application of Funds									
Gross Fixed Assets	842	956	1,017	1,131	1,158	1,262	1,310	1,368	1,413
Less: Depreciation	339	370	403	441	482	525	574	625	675
Net Fixed Assets	503	586	614	690	676	737	735	743	739
Capital WIP	233	184	160	88	89	40	49	55	60
Investments	25	26	30	32	34	38	42	42	42
Curr. Assets									
Inventory	157	170	195	238	196	242	278	273	292
Sundry Debtors	29	39	45	88	72	48	54	53	57
Cash and Bank Balances	4	3	3	4	8	8	6	5	11
Other assets	81	99	98	100	110	83	135	135	135
Loans and Advances	5	5	6	7	8	6	7	7	7
Current Liabilities									
Sundry Creditors	52	75	72	63	70	169	143	153	163
Other Current Liabilities	174	193	193	188	215	198	178	178	178
Provisions	65	63	66	65	66	65	70	70	70
Net Current Assets	-15	-15	16	123	42	-46	87	72	90
Application of Funds	746	782	819	933	842	769	913	913	931

Financials and valuation

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E
Basic (INR)									
EPS	-6.4	0.3	6.3	-0.5	13.1	30.3	4.8	8.5	10.5
Cash EPS	-0.2	6.7	13.9	14.2	20.0	40.0	17.3	20.9	22.5
Book Value per Share	89.7	89.4	96.0	100.5	109.9	131.2	132.5	139.6	147.6
Dividend Per Share			0.5	0.0	2.8	8.8	1.5	1.5	2.5
Valuation (x)									
P/E	-14.2	351.2	14.4	-192.0	6.9	3.0	18.7	10.6	8.6
Cash PE	-500.7	13.4	6.5	6.4	4.5	2.3	5.2	4.3	4.0
EV/EBITDA	1167.8	15.8	8.4	15.9	5.8	2.5	8.4	6.0	5.5
EV/Sales	1.8	1.4	1.2	1.5	1.1	0.5	0.6	0.6	0.6
Price-to-Book Value	1.0	1.0	0.9	0.9	0.8	0.7	0.7	0.6	0.6
Profitability Ratios (%)									
EBITDA Margin	0.2	9.1	14.6	9.3	18.4	20.6	7.7	10.5	10.4
RoE	-7.1	0.3	6.8	-0.5	12.4	25.1	3.7	6.3	7.3
RoCE (pre-tax)	-2.9	3.4	8.6	3.3	10.7	22.3	4.8	7.5	8.4
RoIC (pre-tax)	-5.3	4.1	10.7	2.7	11.4	24.5	4.1	7.0	8.0
Turnover Ratios									
Debtors (Days)	24.1	24.5	24.5	52.4	37.8	16.8	18.8	18.8	18.8
Inventory (Days)	129.1	108.0	106.3	141.1	103.4	85.2	97.0	97.0	97.0
Creditors (Days)	42.9	52.5	46.1	41.3	45.4	75.2	54.3	54.3	54.3
Asset Turnover (x)	0.6	0.7	0.8	0.7	0.8	1.3	1.1	1.1	1.2
Leverage Ratio									
Debt/Equity (x)	1.1	1.2	1.1	1.3	0.8	0.3	0.6	0.5	0.4

Cash Flow Statement

(INR b)

Y/E March	FY17	FY18	FY19	FY20	FY21E	FY22	FY23	FY24E	FY25E
EBITDA	1	52	98	57	127	213	80	108	114
(Inc.)/Dec. in WC	17	11	-27	-107	101	95	-137	15	-12
Direct Taxes Paid	0	-1	0	-1	0	-1	-4	-12	-15
Other Items	3	0	1	44	7	3	8	0	0
CF from Oper. Activity	22	62	72	-6	234	310	-53	111	88
(Inc.)/Dec. in FA & CWIP	-54	-66	-39	-44	-35	-34	-35	-65	-50
Free Cash Flows to Firm	-33	-4	33	-50	199	276	-88	46	38
Interest and Dividend	0	0	1	1	1	2	2	11	12
(Pur.)/Sale of Invest.	0	1	0	0	0	-4	-1	0	0
CF from Inv. Activity	-54	-65	-37	-42	-34	-36	-34	-54	-38
Issue of Shares									
Inc./(Dec.) in Debt	58	31	-2	89	-163	-224	120	-30	-15
Interest Paid	-25	-29	-33	-37	-29	-19	-21	-21	-19
Dividends Paid	0	0	0	-3	-4	-31	-13	-6	-10
CF from Finan. Activity	33	3	-35	50	-197	-274	84	-57	-44
Inc./(Dec.) in Cash	0	0	-1	2	4	0	-2	0	6
Add: Opening Balance	3	4	3	3	4	8	8	6	5
Closing Balance	4	3	3	4	8	8	6	5	11

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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