

Q1 Miss Driven by Inventory De-Valuation and Higher Other Expenses

Est. Vs. Actual for Q1FY26: Adj Revenue – **INLINE**; Adj. EBITDA – **MISS**; Adj PAT – **MISS**

Change in Estimates YoY post Q1FY26:

FY26E/FY27E: Revenue: 0.2%/0.4%; EBITDA: -9%/-3.5%, PAT: -19%/-9%

Recommendation Rationale

- **Q1 Miss Led by de-valuation of the steel inventory:** SAIL's EBITDA (excluding rail provision), at Rs 2,595 Cr (up 17% YoY but down 7% QoQ), missed our and consensus estimate by 34%/23%. The miss was led by a true-up exercise on the valuation of finished and in-process steel stocks, as lower imported coking coal prices led to lower production costs in Q1FY26. It took a one-time true-up impact of Rs 950 Cr QoQ (Rs 1,050 Cr YoY) on this inventory in NSRs (Net sales realisation). This stock (inventory) valuation impact offset the gain of ~Rs 700 Cr QoQ in NSR led by the improvement in steel prices.
- **Higher Capex intensity ahead for expansion projects:** SAIL will raise its capacity to 35 MT from 20 MT currently by 2030. Tendering activities for the ISP (IISCO steel plant) will start from the end of Q3FY26 and continue in Q4FY26. The capex intensity will start rising from FY27, and it will peak around FY29. Project execution will be the key risk.
- **Borrowings are down YoY, but the risk of increasing leverage remains:** Total borrowings stand at Rs 28,741 Cr as of Jun'25, which has come down from Rs 29,811 Cr in Mar'25. The company is targeting to reduce it further in FY26. However, as the capex intensity picks up, maintaining the leverage ratios under control will be critical across steel cycles.

Sector Outlook: Cautious

Company Outlook & Guidance: SAIL's Capex execution will be a key monitorable and also a key risk once its expansion Capex starts to pick up from FY27 and peaks in FY28/29. FY26 Capex guidance is unchanged at Rs 7,500 Cr (FY25 capex stood at Rs 6,221 Cr), and some portion of it will go towards the IISCO brownfield steel plant tendering and debottlenecking capex. FY26 saleable steel sales volume guidance is at 18.5 MT.

Current Valuation: 6.0x EV/EBITDA on Mar'27E EBITDA (Unchanged)

Current TP: Rs 120/share (Earlier TP: Rs 130/share)

Recommendation: We maintain our HOLD rating on the stock.

Financial Performance: SAIL reported a weak set of Q1FY26 results with adjusted EBITDA missing our and consensus estimate. Revenue (excluding railway provisions) stood at Rs 25,748 Cr (up 7% YoY but down 10% QoQ), largely in line with our and consensus estimate. Steel sales volume stood at 4.55 MT (up 13% YoY but down 15% QoQ), in line with our estimate of 4.56 MT. Adjusted EBITDA (excluding Rs 173 Cr benefit from the rail provision) stood at Rs 2,595 Cr, up 17% YoY but down 7% QoQ, a 34%/23% miss vs. our and consensus estimate, mainly due to higher other expenses in the quarter. Other expenses include higher royalty charges on iron ore, along with higher overhead charges due to maintenance activities in the quarter. PAT excluding railway provisions stood at Rs 611 Cr, up 79% YoY but down 19% QoQ, missing our and consensus estimate led by EBITDA miss.

Outlook: SAIL's next phase of the Capex wave raises concerns as it has completed its earlier hot metal expansion plan from 14.6 MT to 25 MT after significant delays and Capex overruns. As Capex for the next phase of the expansion plan will start from FY27 onwards, leverage will be the key factor to monitor in the future. We revise our EBITDA estimates for FY26/27 downwards as we factor in Q1FY26 results.

Valuation & Recommendation: We value the company at 6.0x Mar'27E EBITDA (unchanged) to arrive at a target price of Rs 120/share (from Rs 130/share). The TP implies a downside of 5% from the CMP. We maintain our **HOLD** rating on the stock.

Key Financials (Consolidated)

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Adj Net Sales	25,748	-10%	7%	26,118	-1%
Adj EBITDA	2,595	-7%	17%	3,932	-34%
Adj EBITDA/t	5,704	9%	3%	8,626	-34%
Underlying Net Profit	611	-19%	79%	1,462	-58%
EPS (Rs) Underlying	1.48	-19%	79%	3.54	-58%

Source: Company, Axis Securities. Note: Adjusted numbers excluding railway provisional revenue benefits

(CMP as of 28th July, 2025)

CMP (Rs)	126
Upside /Downside (%)	(-5%)
High/Low (Rs)	156/99
Market cap (Cr)	51,879
Avg. daily vol. (6m) Shrs.	1,87,17,754
No. of shares (Cr)	413

Shareholding (%)

	Dec-24	Mar-25	Jun-25
Promoter	65.00	65.00	65.00
FII	2.59	3.21	3.65
Mutual Funds / UTI	5.08	4.06	5.59
Financial Institutions	0.01	0.01	0.01
Others	27.32	27.72	25.75

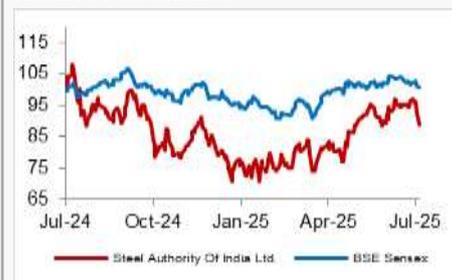
Financial & Valuations

Y/E Mar (Rs Cr)	FY25A	FY26E	FY27E
Net Sales	1,02,479	1,03,246	1,08,111
EBITDA	10,646	12,299	13,932
Net Profit	2,372	3,415	4,404
EPS (Rs.)	5.7	8.3	9.1
PER (x)	21.9	15.2	13.9
P/BV (x)	0.9	0.8	0.8
EV/EBITDA (x)	8.3	7.0	6.2
ROE (%)	4.1	5.7	6.9

Change in Estimates (%)

Y/E Mar	FY26E	FY27E	FY28E
Sales	0.2%	0.4%	NM
EBITDA	-9.1%	-3.5%	NM
PAT	-18.9%	-8.7%	NM

Relative Performance



Source: ACE Equity, Axis Securities

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Key Concall Highlights

- **Coking coal consumption cost:** In Q1FY26, blended coking coal consumption cost was at Rs 16,918/t vs. Rs 17,653/t in Q4FY25. As coking coal prices were flat in Q1FY26, its consumption cost is expected to remain flat (or marginally increase) QoQ in Q2FY26. Coking coal inventory days are at a normal level of 25-30 days at ports and 5 days at plants. Imported coal prices were corrected down to Rs 17,600/t in Q1FY26 vs. Rs 18,500/t in Q4FY25.
- **NSRs likely to remain muted in Q2FY26:** In Q1FY26, long prices NSR improved at Rs 54,500/t vs. Rs 53,300/t in Q4FY25. Flat prices also grew and averaged at Rs 50,400/t in Q1FY26 vs. Rs 47,300/t in Q4FY25. Blended NSR in Q1FY26 averaged at Rs 51,700/t vs. Rs 50,100/t in Q4FY25. As of Jul'25, steel prices are down vs. Q1FY26 and NSRs in Jul'25 are expected to average at Rs 51,500/t for long and at Rs 48,600/t for flat steel with blended NSR at Rs 50,000/t. In the last 1-2 weeks, prices have shown signs of improvement. Management expects that the slide in Jul'25 could be offset if the prices regain strength in Aug-Sep'25. Nevertheless, the overall prices are likely to be lower QoQ in Q2FY26.
- **Inventory stock valuation impact:** Drop in the imported coking coal cost in Q1FY26, led to lower production cost, due to which, the company took a one-time true up impact of Rs 950 Cr QoQ (Rs 1,050 Cr YoY) in NSRs (Net sales realisation) from the stock valuation impact taken on finished and in process steel inventory. This stock valuation impact offset the gain of ~Rs 700 Cr QoQ in NSR due to the increase in steel prices QoQ. **It is currently holding 1.7 MT of saleable steel and 1.3 MT of in-process stock, which is already trued up to Q1FY26 cost levels. Hence, the impact of stock valuation will not be there in Q2FY26.**
- **Capex:** FY26 capex target is Rs 7,500 Cr, and in Q1FY26, it spent Rs 1,642 Cr, which is more than its set target. SAIL will expand its steel capacity from the current 20 mtpa to 35 mtpa by 2030 through brownfield and greenfield expansion. Tendering activities for the ISP (IISCO steel plant) will start from the end of Q3 and in Q4FY26, and some portion of the capex has already started for the ISP's brownfield expansion of ~0.5mt. Other plants' expansion will happen in phases, and capex will be taken up in stages. Capex will start increasing from FY27 (will be higher than FY26), and it will peak around FY29.
- **Railway provisional gain:** Q1FY26 revenue included a gain of Rs 174 Cr on account of the revision of provisional rail prices for FY24. **No more benefit from the rail price revision is expected in FY26, as the benefit is actualised and taken in Q1FY26.** For FY26, the provisional rail price is already adjusted downwards at Rs 74,000/t due to the softening of imported coal prices.
- **Steel Sales volume** stood at 4.55 MT (up 13% YoY but down 15% QoQ) in line with our estimate of 4.56 MT. The saleable steel sales volume includes 0.4 MT of NMDC steel sales. Sales from NMDC steel were slightly EBITDA positive for the company. It sells steel from NMDC Steel as it has a marketing agreement with the company. Blended NSR increase ex-NMDC steel sales was Rs 1,600/t QoQ in Q1FY26.
- **Other highlights:** Full-year sales volume guidance is at 18.5 MT (excluding NMDC sales volume). Impact of higher iron ore royalty in Q1FY26 is at Rs 173 Cr QoQ, which was reflected in higher other expenses.

Key Risks to Our Estimates and TP

- The key risk to our HOLD rating is the increase/decrease in HRC prices and the increase/decrease in coking coal prices as compared to our assumptions.
- Higher/Lower than expected sales volume.

Change in Estimates

	New			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Sales	1,03,246	1,08,111	1,09,371	1,03,059	1,07,706	NA	0.2%	0.4%	NM
EBITDA	12,299	13,932	13,424	13,533	14,439	NA	-9.1%	-3.5%	NM
PAT	3,415	4,404	4,032	4,211	4,821	NA	-18.9%	-8.7%	NM
Sales volume (mt)	18.28	19.05	19.27	18.29	19.05	NA	-0.1%	0.0%	NM

Source: Company, Axis Securities

Result Review

Consolidated Rs Cr	Q1FY25 Actual	Q4FY25 Actual	Q4FY25 Axis Sec Est	Q1FY26 Consensus	Q1FY26 Actual	YoY %	QoQ %	Vs Axis %	Vs Cons %
HRC Ex-Mumbai (Rs/t)	54,972	48,320	52,594		52,594	-4%	9%	0%	NA
Crude steel Production (Mn t)	4.68	5.09	4.75		4.85	4%	-5%	2%	NA
Saleable steel Sales (Mn t)	4.01	5.36	4.56		4.55	13%	-15%	0%	NA
Revenues	23,998	29,316	26,118	25,529	25,922	8%	-12%	-1%	2%
Revenue Exl Railway Provision	23,998	28,629	26,118	25,529	25,748	7%	-10%	-1%	1%
Adjusted Realisation (Rs/t) Exl Rail	59,815	53,433	57,301		56,590	-5%	6%	-1%	NA
Consumption of Raw Materials	13,701	12,871	12,254		12,774	-7%	-1%	4%	NA
Increase/Decrease in Stocks	-1,620	1,790	-		-404	NA	NA	NA	NA
Employees Cost	2,783	3,291	2,810		2,948	6%	-10%	5%	NA
Other Expenses	6,914	7,881	7,121		7,836	13%	-1%	10%	NA
Total Expenditure	21,778	25,832	22,186		23,153	6%	-10%	4%	NA
EBITDA	2,220	3,484	3,932	3,390	2,769	25%	-21%	-30%	-18%
EBITDA Exl Railway Provision	2,220	2,797	3,932	3,390	2,595	17%	-7%	-34%	-23%
EBITDA margin (%)	9.3%	11.9%	15.1%	13.3%	10.7%				
EBITDA per tonne (Rs/tonne)	5,533	6,502	8,626		6,085	10%	-6%	-29%	NA
EBITDA Exl Railway Provision (Rs/tonne)	5,533	5,221	8,626		5,704	3%	9%	-34%	NA
Depreciation	1,402	1,524	1,419		1,441	3%	-5%	2%	NA
Other Income	177	298	157		162	-8%	-46%	3%	NA
Interest Expense	691	664	831		595	-14%	-11%	-28%	NA
Exceptional Items	-312	-29	-		-	NA	NA	NA	NA
Share of P/L of Associates	107	94	83		73	-31%	-22%	-12%	NA
PBT Reported	98	1,657	1,921		968	887%	-42%	-50%	NA
PBT Exl Railway Provision	98	971	1,921		794	710%	-18%	-59%	NA
Tax	16	406	460		223	1269%	-45%	-51%	NA
Tax Rate %	17%	25%	24%		23%				
PAT excl. Exceptional	342	1,273	1,462		745	118%	-42%	-49%	NA
PAT excl. Exceptional & Railway Provision	342	755	1,462	1,128	611	79%	-19%	-58%	-46%
Reported PAT	82	1,251	1,462	1,128	745	810%	-40%	-49%	-34%
Underlying EPS (Rs/share)	0.83	3.08	3.54		1.80	118%	-42%	-49%	NA
Underlying EPS (Rs/share) Exl Railway Provisions	0.83	1.83	3.54		1.48	79%	-19%	-58%	NA
Reported EPS (Rs/share)	0.20	3.03	3.54		1.80	810%	-40%	-49%	NA

Source: Company, Axis Securities, Bloomberg Consensus

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY25A	FY26E	FY27E	FY28E
Total Operating Income	1,02,479	1,03,246	1,08,111	1,09,371
Consumption of Raw Materials	50,908	48,514	51,405	51,568
Increase/Decrease in Stocks	89	(404)	(1,460)	(1,471)
Employees Cost	11,675	11,929	12,082	12,236
Other Expenses	29,161	30,907	32,152	33,614
Total Expenditure	91,833	90,947	94,179	95,947
EBITDA	10,646	12,299	13,932	13,424
Depreciation and Amortisation	5,651	5,673	5,881	5,881
EBIT	4,996	6,626	8,051	7,543
Other Income	875	626	649	656
Share Of P/L Of Associates (Net of Tax)	487	291	305	308
Less: Interest & Fin Chg.	2,793	3,088	3,234	3,234
Less: Exceptional Items	313	-	-	-
Profit before tax	3,252	4,456	5,770	5,273
Provision for Tax	880	1,041	1,366	1,241
Reported PAT	2,372	3,415	4,404	4,032
EPS (Rs/sh)	5.7	8.3	9.1	8.6
DPS (Rs/sh)	1.6	2.3	2.5	2.4

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY25A	FY26E	FY27E	FY28E
Net Block	65,061	64,638	65,757	68,276
Other Tangible assets	6,840	6,840	6,840	6,840
CWIP	7,206	9,456	12,456	16,056
Intangible assets	1,426	1,426	1,426	1,426
Investments	4,976	4,976	4,976	4,976
Inventories	33,743	33,944	35,543	35,958
Trade Receivables	7,610	7,667	8,028	8,122
Cash / Bank balance	967	1,756	994	226
Misc. Assets	8,542	8,542	8,542	8,542
Total assets	1,36,371	1,39,244	1,44,562	1,50,421
Equity capital	4,131	4,131	4,131	4,131
Reserves	54,775	57,529	60,982	63,970
Minority Interests	(0)	(0)	(0)	(0)
Borrowings	36,934	35,934	35,934	37,434
Def tax Liabilities	6,543	7,583	8,950	10,191
Other Liabilities and Provision	15,987	15,987	15,987	15,987
Provisions	7,497	7,497	7,497	7,497
Trade Payables	10,504	10,583	11,081	11,210
Capital employed	1,36,371	1,39,244	1,44,562	1,50,421

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY25A	FY26E	FY27E	FY28E
Profit before tax	3,252	4,164	5,465	4,965
Depreciation	5,651	5,673	5,881	5,881
Interest Expenses	2,793	3,088	3,234	3,234
Non-operating / EO item	(709)	291	305	308
Change in W/C	(428)	(179)	(1,462)	(379)
Income Tax	(644)	-	-	-
Operating Cash Flow	9,914	13,038	13,423	14,010
Capital Expenditure	(6,221)	(7,500)	(10,000)	(12,000)
Free Cash Flow	3,693	5,538	3,423	2,010
Other Investments	953	-	-	-
Investing Cash Flow	(5,269)	(7,500)	(10,000)	(12,000)
Proceeds / (Repayment) of Borrowings	(1,612)	(1,000)	-	1,500
Finance cost paid	(2,398)	(3,088)	(3,234)	(3,234)
Dividend paid	(413)	(661)	(952)	(1,043)
Financing Cash Flow	(4,424)	(4,749)	(4,186)	(2,777)
Change in Cash	222	789	(762)	(768)
Opening Cash	69	967	1,756	994
Closing Cash	292	1,756	994	226

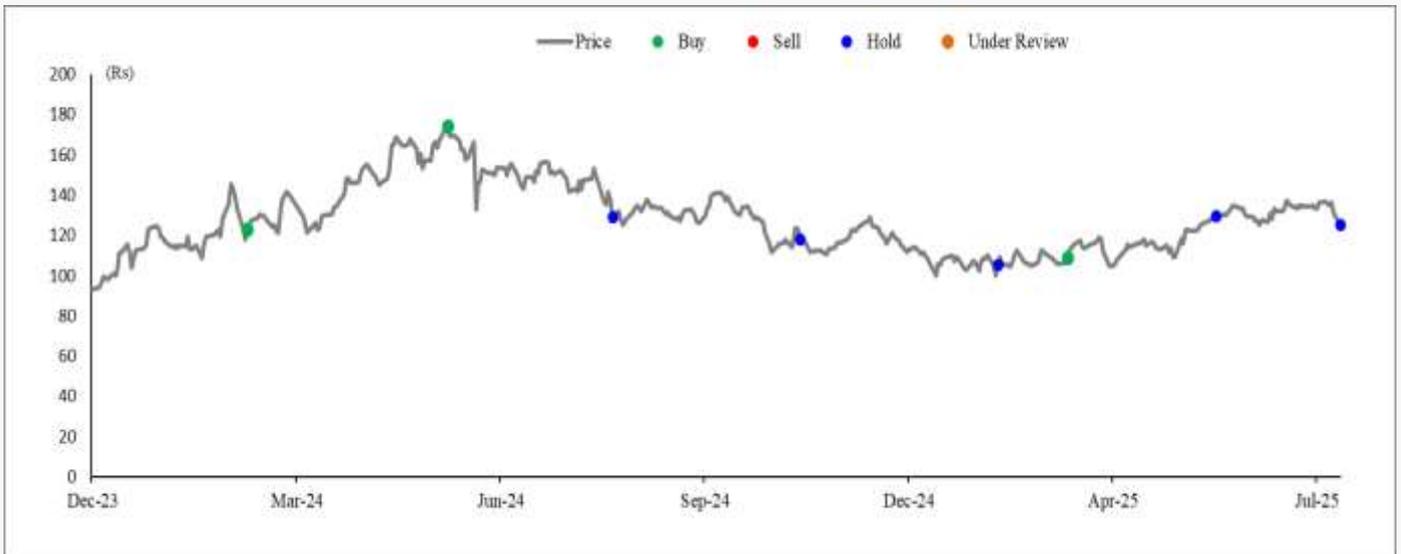
Source: Company, Axis Securities

Ratio Analysis
(%)

Y/E March	FY25A	FY26E	FY27E	FY28E
Operational Ratios				
Sales growth (% YoY)	-3%	1%	5%	1%
EBITDA growth (% YoY)	-5%	16%	13%	-4%
Op. profit growth (% YoY)	-15%	33%	22%	-6%
Net Profit growth (% YoY)	-23%	44%	29%	-8%
EBITDA Margin %	10%	12%	13%	12%
Net profit Margin %	2%	3%	4%	4%
EBITDA/t (Rs/tonne)	5,934	6,670	7,091	6,756
Tax Rate %	32%	25%	25%	25%
Efficiency Ratios				
Total Asset turnover (x)	0.7	0.7	0.8	0.7
Sales/Gross block (x)	0.8	0.8	0.8	0.8
Sales/Net block(x)	1.6	1.6	1.7	1.6
Working capital/Sales (x)	0.3	0.3	0.3	0.3
Valuation Ratios				
PER (x)	21.9	15.2	13.9	14.6
P/BV (x)	0.9	0.8	0.8	0.8
EV/Ebitda (x)	8.3	7.0	6.2	6.6
EV/Sales (x)	0.9	0.8	0.8	0.8
Dividend Yield (%)	1%	2%	2%	2%
Return Ratios				
ROE	4.1%	5.7%	6.9%	6.1%
ROCE	5.6%	7.2%	8.4%	7.4%
ROIC	3.6%	5.2%	6.0%	5.4%
Leverage Ratios				
Debt/equity (x)	0.6	0.6	0.6	0.5
Net debt/ Equity (x)	0.6	0.6	0.5	0.5
Net debt/Ebitda (x)	3.4	2.8	2.5	2.8
Interest Coverage ratio (x)	3.8	4.0	4.3	4.2

Source: Company, Axis Securities

Steel Authority Of India Price Chart and Recommendation History



Date	Reco	TP	Research
15-Feb-24	BUY	135	Result Update
22-May-24	BUY	195	Result Update
12-Aug-24	HOLD	130	Result Update
11-Nov-24	HOLD	130	Result Update
13-Feb-25	HOLD	115	Result Update
19-Mar-25	BUY	130	Company Update
30-May-25	HOLD	130	Result Update
29-Jul-25	HOLD	120	Result Update

Source: Axis Securities Research

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