

February 14, 2024

Q3FY24 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		ACCUMULATE	
Target Price	108		95	
Sales (Rs. bn)	1,157	1,246	1,260	1,288
% Chng.	(8.1)	(3.2)		
EBITDA (Rs. bn)	119	131	123	121
% Chng.	(2.7)	8.3		
EPS (Rs.)	9.8	11.6	10.6	10.0
% Chng.	(7.3)	16.6		

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. bn)	1,044	1,043	1,157	1,246
EBITDA (Rs. bn)	80	93	119	131
Margin (%)	7.7	8.9	10.3	10.5
PAT (Rs. bn)	17	21	41	48
EPS (Rs.)	4.2	5.0	9.8	11.6
Gr. (%)	(86.0)	20.6	96.5	17.9
DPS (Rs.)	1.5	2.5	2.5	2.5
Yield (%)	1.2	2.0	2.0	2.0
RoE (%)	3.3	3.9	7.3	8.1
RoCE (%)	5.6	6.1	8.9	9.7
EV/Sales (x)	0.8	0.8	0.7	0.6
EV/EBITDA (x)	10.6	8.7	6.8	6.0
PE (x)	29.6	24.5	12.5	10.6
P/BV (x)	1.0	0.9	0.9	0.8

Key Data

SAIL.BO | SAIL IN

52-W High / Low	Rs.150 / Rs.78
Sensex / Nifty	71,833 / 21,840
Market Cap	Rs.508bn/ \$ 6,116m
Shares Outstanding	4,130m
3M Avg. Daily Value	Rs.5477.66m

Shareholding Pattern (%)

Promoter's	65.00
Foreign	4.34
Domestic Institution	15.46
Public & Others	15.20
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	7.0	41.2	46.0
Relative	8.1	28.5	24.1

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Volumes affected in tepid quarter

Quick Pointers:

- Strong 5% QoQ improvement in average realization led by jump in long product prices at start of 3Q.
- EBITDA/t improved 26% QoQ on efficient blending of CDI coal and 20% QoQ decline in sales volumes to 3.81mt; Volumes recovered in Jan'24 at 1.5mt.

We downgrade Steel Authority (SAIL) to 'Hold' rating from Accumulate with revised TP of Rs 108 (Rs95 earlier) as the stock has run up much ahead of fundamentals in recent PSU rally and we do not expect proportionate earnings growth. SAIL reported weak operating performance in 3Q despite strong 5% QoQ improvement in average realization. EBITDA per ton of Rs5,617 was tad better than PLe of Rs5,428 due to efficient blending of CDI coal and lower sales volumes. Going forward, there is expectation of increase in cost of coking coal in 4Q however sales volumes are expected to improve significantly QoQ to ~4.5mt as demand has improved. Steel prices however have declined sharply which may play spoilsport for 4Q EBITDA. SAIL has planned to increase its capacity from ~20.2mtpa to 35mtpa by FY32 in phases, yet, in the near term no significant capacity addition is envisaged till FY26. With recent restructuring post Lokpal report, we expect governance issues to improve significantly and hopefully result in better pace of execution. SAIL has 1.8mt of finished goods inventory and enough capacity to cater to strong demand till FY26E.

We expect SAIL to remain a play on steel prices in medium term as a) its volume growth would depend upon successful execution of planned capex in phases and significant capacity addition would only come post FY28E; b) near term volume growth would remain 7-9% but margins can get affected by higher coking coal costs; c) hardening iron ore prices will keep SAIL's strategic advantage intact vis a vis peers. We tweak our FY25/26E EBITDA estimates by -3%/+8% on expectation of muted steel pricing till 1HFY25. Downgrade to 'Hold'.

Volume declined sharply QoQ: SAIL's 3Q EBITDA grew 1% QoQ to Rs 21.4bn (lower than PLe Rs24.3bn) on weak volumes, which declined sharp 20% QoQ to 3.81mt in weak domestic demand scenario in 3Q. Jump in long product prices aided realization which improved 5% QoQ to Rs61,274/t (PLe Rs60k). With 1.8mt inventory and improving demand scenario, 4Q volume expected to grow in higher double digits.

Concall highlights: (1) NSR for 3QFY24 was Rs55,361/t. Flat and Long product prices were Rs 53,938/t and Rs 56,600/t respectively. **(2)** In Jan'24, Long steel prices were Rs 51,900/t and Flat steel was ~Rs 53,000/t. **(3)** The import parity prices are at par with domestic prices. **(4)** Capex for FY25 is expected to be Rs 64bn. **(5)** **(6)** Total debt as of Dec'23 was Rs 280bn and increased to Rs 290bn in Jan'24. **(7)** Two states had excess sub grade iron ore fines inventory, out of which Odisha is getting liquidated, while for Jharkhand SAIL has got permission to only use within

own plants. **(8)** Finished steel inventory stood at 1.795mt as of 3Q. **(9)** Coal consumption costs for 3Q stood at Rs 23,693 including CDI Coal vs Rs 23,271 QoQ. **(10)** Coal consumption cost for Jan'24 stood at Rs 26,633 which is expected to remain at similar levels for Feb and Mar'24. **(11)** Sales volume for Jan'24 stood at ~1.5mt. **(12)** SAIL is operating at ~95% utilization. **(13)** Commissioning of caster at Bhilai is going on. **(14)** Employee costs quarterly run rate is ~ Rs30bn; and is expected to reduce. **(15)** SAIL received Stage-1 board approval for expansion project of 4.08mt at IISCO Steel plant. **(16)** Tasra coal mine is expected to start production by end FY25 to produce 1.5mt on full capacity and shall replace imported coal. **(17)** Total captive iron ore production of SAIL is ~36mt.

Exhibit 1: Standalone 3QFY24 Results Overview (Rs bn)

Y/e March	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Net Sales	233.5	250.4	-6.8	279.6	-16.5	756.7	753.2	0.5
Raw material	111.9	135.3	-17.3	155.3	-28.0	397.8	414.3	-4.0
<i>% of Net Sales</i>	<i>47.9</i>	<i>54.0</i>		<i>55.5</i>		<i>52.6</i>	<i>55.0</i>	
Staff Cost	29.4	27.7	6.0	31.3	-6.0	89.1	86.2	3.3
<i>% of Net Sales</i>	<i>12.6</i>	<i>11.1</i>		<i>11.2</i>		<i>11.8</i>	<i>11.4</i>	
Other expenses	70.8	66.7	6.2	71.9	-1.5	210.8	201.6	4.6
<i>% of Net Sales</i>	<i>30.3</i>	<i>26.6</i>		<i>25.7</i>		<i>27.9</i>	<i>26.8</i>	
Total expenditure	212.1	229.7	-7.7	258.4	-18.0	697.6	702.1	-0.6
EBITDA	21.4	20.8	3.1	21.2	1.0	59.1	51.1	15.6
Margin (%)	9.2	8.3		7.6		7.8	6.8	
Depreciation	13.2	12.2	8.2	13.3	-0.4	39.2	36.0	9.0
EBIT	8.2	8.6	NA	7.9	3.3	19.9	15.1	31.3
Other income	1.8	1.2	47.9	1.7	NA	7.9	8.7	-8.4
Interest	6.1	6.4	-4.1	6.1	1.4	18.3	15.2	20.5
PBT	3.8	3.4	NA	3.6	6.2	9.5	8.6	10.4
Extraordinary income/(expense)	0.8	3.0	NA	13.3	NA	14.1	3.0	NA
PBT (after EO)	4.6	6.3	NA	17.0	-72.8	23.6	11.6	103.8
Tax	1.3	1.7	NA	4.6	NA	6.4	3.0	
Reported PAT	3.3	4.6	NA	12.4	-73.3	17.2	8.5	101.6
Adjusted PAT	2.8	2.5	NA	2.6	4.4	6.9	6.3	9.2

Source: Company, PL

Exhibit 2: Operating matrix

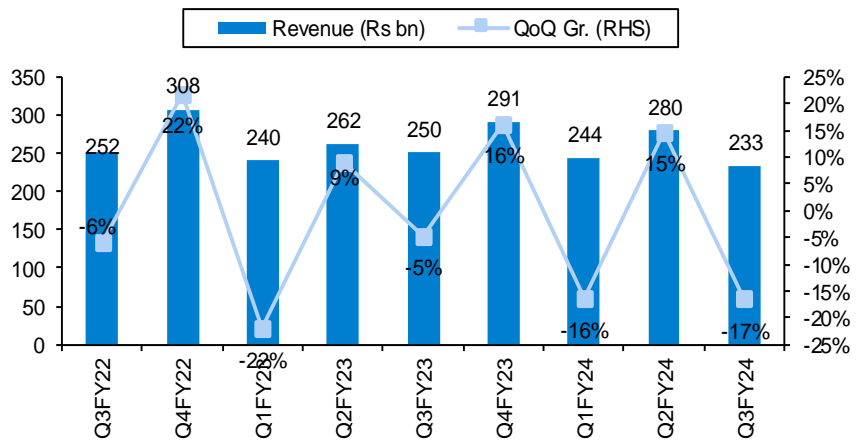
(In Rs)	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Crude Steel Production volumes (mt)	4.75	4.71	0.9	4.80	-1.0	14.22	13.3	6.6
Sales volume (mt)	3.81	4.15	-8.2	4.77	-20.1	12.5	11.5	8.2
Realization/t	61,274	60,327	1.6	58,625	4.5	60,709	65,379	-7.1
EBITDA/t	5,617	5,003	12.3	4,444	26.4	4,739	4,436	6.8

Source: Company, PL

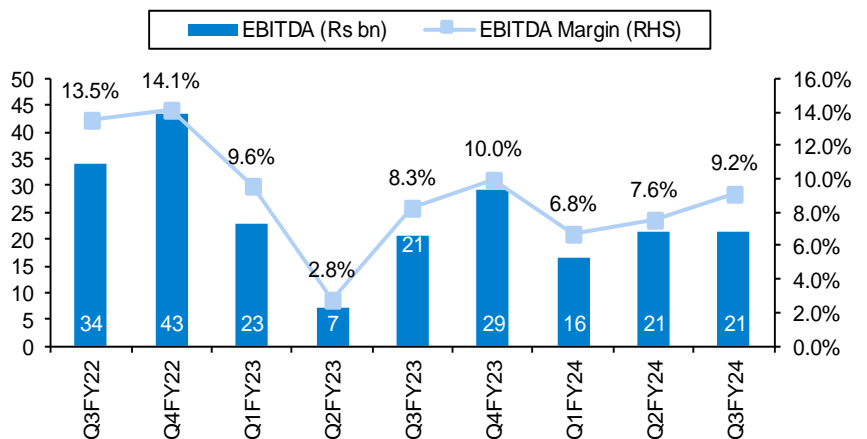
Exhibit 3: Plant wise performance

Segment Revenue (Rs bn)	Q3FY24	Q3FY23	YoY gr. (%)	Q2FY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Bhilai Steel Plant	65.0	73.9	-12.1	100.6	-35.4	236.0	213.7	10.4
Durgapur Steel Plant	29.0	31.2	-6.9	32.0	-9.3	92.0	96.3	-4.5
Rourkela Steel Plant	58.6	57.6	1.8	71.8	-18.3	192.9	188.0	2.6
Bokaro Steel Plant	60.0	61.0	-1.6	68.8	-12.7	192.3	194.8	-1.3
IISCO Steel plant	29.1	34.9	-16.8	36.0	-19.4	93.2	97.5	-4.4
Special Steel plants	12.0	11.1	8.1	12.6	-4.4	38.1	32.9	15.8
Total Revenue	253.8	269.8	-5.9	321.8	-21.1	844.4	823.2	2.6
Segment EBIT (Rs bn)								
Bhilai Steel Plant	0.6	2.2	-71.4	18.9	-96.7	22.1	3.3	576.9
Durgapur Steel Plant	2.0	1.9	2.7	1.3	46.9	3.9	2.0	90.7
Rourkela Steel Plant	4.0	2.3	70.9	4.7	-14.5	11.2	7.6	47.6
Bokaro Steel Plant	4.6	2.1	119.4	4.6	-0.1	11.2	9.1	23.7
IISCO Steel plant	0.5	2.8	-81.3	0.9	-44.1	2.2	1.9	16.8
Special Steel plants	(1.7)	(1.6)	NA	(3.3)	NA	(5.4)	(0.1)	NA
Total EBIT	10.0	9.8	2.2	27.2	-63.3	45.3	23.8	90.3

Source: Company, PL

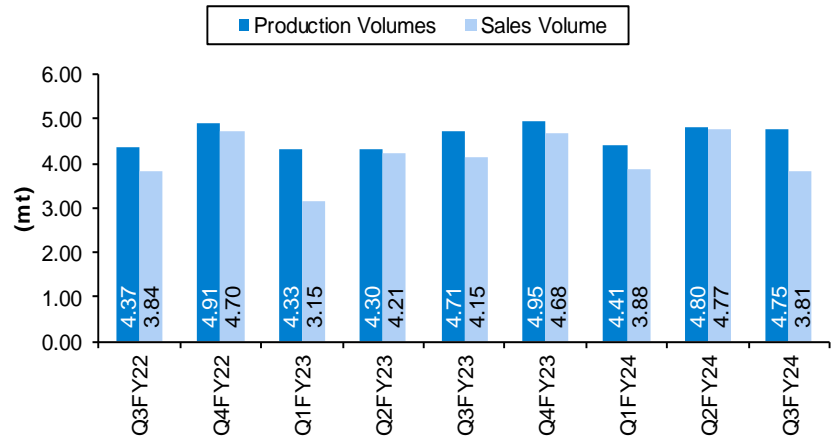
Exhibit 4: 17% Revenue decline mainly led by poor volumes


Source: Company, PL

Exhibit 5: EBITDA grew 1% QoQ despite higher coking coal prices


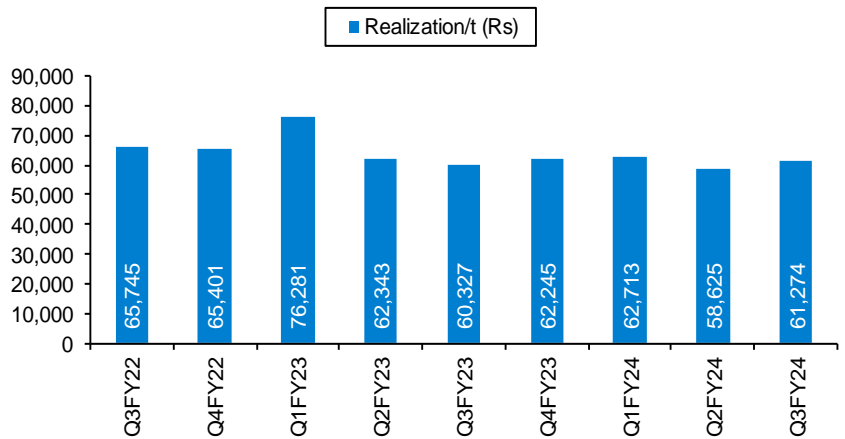
Source: Company, PL

Exhibit 6: Sharp 20% decline in volumes in tepid domestic market in 3Q



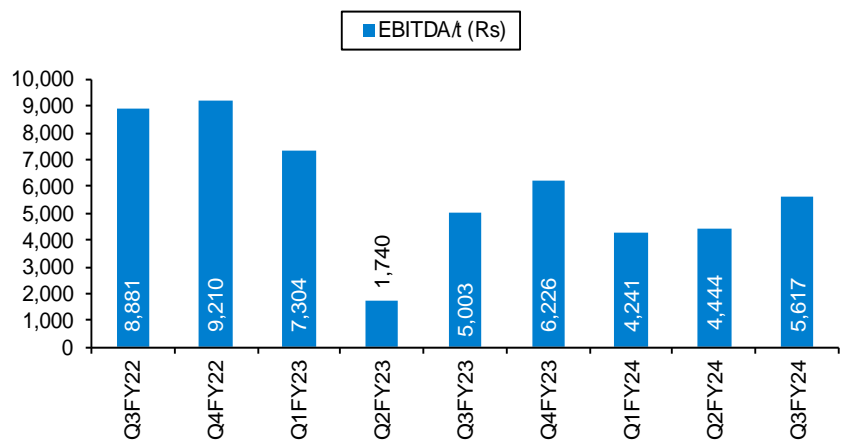
Source: Company, PL

Exhibit 7: Avg. realization aided by jump in long products price in 3Q



Source: Company, PL

Exhibit 8: Impact of higher coking coal prices negated by strong pricing



Source: Company, PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	1,044	1,043	1,157	1,246
YoY gr. (%)	0.9	(0.1)	10.9	7.7
Cost of Goods Sold	569	546	595	626
Gross Profit	475	497	562	620
Margin (%)	45.5	47.6	48.6	49.7
Employee Cost	121	121	127	133
Other Expenses	274	284	316	355
EBITDA	80	93	119	131
YoY gr. (%)	(62.4)	15.4	28.8	9.8
Margin (%)	7.7	8.9	10.3	10.5
Depreciation and Amortization	50	52	55	58
EBIT	31	40	65	73
Margin (%)	2.9	3.9	5.6	5.9
Net Interest	20	25	23	22
Other Income	14	13	13	13
Profit Before Tax	26	43	54	64
Margin (%)	2.5	4.1	4.7	5.1
Total Tax	7	12	14	16
Effective tax rate (%)	27.8	27.5	25.0	25.0
Profit after tax	19	31	41	48
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	17	21	41	48
YoY gr. (%)	(86.0)	20.6	96.5	17.9
Margin (%)	1.6	2.0	3.5	3.8
Extra Ord. Income / (Exp)	2	10	-	-
Reported PAT	19	31	41	48
YoY gr. (%)	(84.2)	62.5	31.5	17.9
Margin (%)	1.8	3.0	3.5	3.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19	31	41	48
Equity Shares O/s (bn)	4	4	4	4
EPS (Rs)	4.2	5.0	9.8	11.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	1,379	1,447	1,522	1,597
Tangibles	1,379	1,447	1,522	1,597
Intangibles	-	-	-	-
Acc: Dep / Amortization	561	613	668	726
Tangibles	561	613	668	726
Intangibles	-	-	-	-
Net fixed assets	818	833	854	871
Tangibles	818	833	854	871
Intangibles	-	-	-	-
Capital Work In Progress	49	49	49	49
Goodwill	-	-	-	-
Non-Current Investments	27	27	27	27
Net Deferred tax assets	(57)	(59)	(59)	(59)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	277	257	285	341
Trade receivables	54	57	95	102
Cash & Bank Balance	4	23	(4)	11
Other Current Assets	-	-	-	-
Total Assets	1,277	1,296	1,355	1,450
Equity				
Equity Share Capital	41	41	41	41
Other Equity	480	501	531	569
Total Networkth	521	542	572	610
Non-Current Liabilities				
Long Term borrowings	345	325	305	285
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	143	157	174	239
Other current liabilities	210	213	244	258
Total Equity & Liabilities	1,277	1,296	1,355	1,450

Source: Company Data, PL Research

Cash Flow (Rs bn)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	26	43	54	64
Add. Depreciation	50	52	55	58
Add. Interest	20	25	23	22
Less Financial Other Income	14	13	13	13
Add. Other	(8)	-	-	-
Op. profit before WC changes	88	120	132	144
Net Changes-WC	(138)	33	(17)	15
Direct tax	(4)	(10)	(14)	(16)
Net cash from Op. activities	(54)	142	101	143
Capital expenditures	(43)	(68)	(75)	(75)
Interest / Dividend Income	-	-	-	-
Others	11	-	-	-
Net Cash from Inv. activities	(32)	(68)	(75)	(75)
Issue of share cap. / premium	(3)	-	-	-
Debt changes	123	(20)	(20)	(20)
Dividend paid	(13)	(10)	(10)	(10)
Interest paid	(21)	(25)	(23)	(22)
Others	-	-	-	-
Net cash from Fin. activities	86	(55)	(54)	(53)
Net change in cash	(1)	19	(27)	15
Free Cash Flow	(97)	74	26	68

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	291	244	280	233
YoY gr. (%)	(5.3)	1.4	6.5	(6.8)
Raw Material Expenses	155	131	155	112
Gross Profit	136	113	124	122
Margin (%)	46.8	46.4	44.5	52.1
EBITDA	29	16	21	21
YoY gr. (%)	(32.7)	(28.4)	189.3	3.1
Margin (%)	10.0	6.8	7.6	9.2
Depreciation / Depletion	14	13	13	13
EBIT	15	4	8	8
Margin (%)	5.3	1.5	2.8	3.5
Net Interest	5	6	6	6
Other Income	5	4	2	2
Profit before Tax	15	2	17	5
Margin (%)	5.1	0.8	6.1	2.0
Total Tax	4	1	5	1
Effective tax rate (%)	29.1	25.9	26.9	28.1
Profit after Tax	10	1	12	3
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	10	1	12	3
YoY gr. (%)	(56.6)	(80.7)	(421.6)	(28.5)
Margin (%)	3.6	0.6	4.4	1.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10	1	12	3
YoY gr. (%)	(56.6)	(80.7)	(421.6)	(28.5)
Margin (%)	3.6	0.6	4.4	1.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10	1	12	3
Avg. Shares O/s (bn)	4	4	4	4
EPS (Rs)	2.5	0.4	3.0	0.8

Source: Company Data, PL Research

Key Financial Metrics

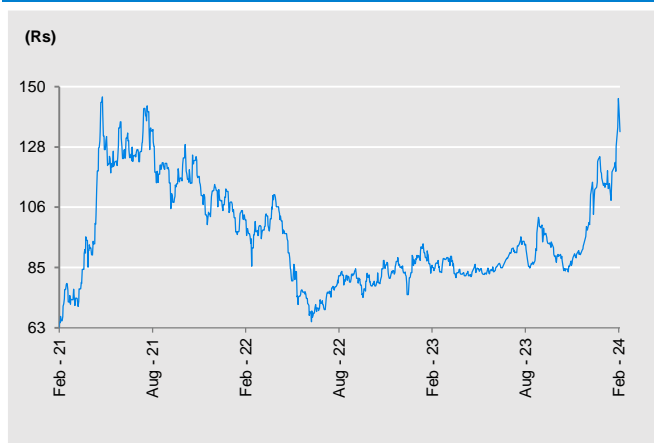
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	4.2	5.0	9.8	11.6
CEPS	16.2	17.7	23.1	25.7
BVPS	126.2	131.2	138.6	147.7
FCF	(23.5)	17.9	6.4	16.4
DPS	1.5	2.5	2.5	2.5
Return Ratio(%)				
RoCE	5.6	6.1	8.9	9.7
ROIC	2.8	3.5	5.5	6.3
RoE	3.3	3.9	7.3	8.1
Balance Sheet				
Net Debt : Equity (x)	0.7	0.6	0.5	0.4
Net Working Capital (Days)	65	55	65	60
Valuation(x)				
PER	29.6	24.5	12.5	10.6
P/B	1.0	0.9	0.9	0.8
P/CEPS	16.2	17.7	23.1	25.7
EV/EBITDA	10.6	8.7	6.8	6.0
EV/Sales	0.8	0.8	0.7	0.6
Dividend Yield (%)	1.2	2.0	2.0	2.0

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales volume (mt)	16	17	18	19
Realisation/t (Rs)	64,510	61,190	63,873	64,347
EBITDA/t (Rs)	4,956	5,433	6,589	6,769

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-24	Accumulate	95	119
2	17-Nov-23	Accumulate	95	88
3	07-Oct-23	Accumulate	95	89
4	28-Aug-23	Accumulate	95	86

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Hindalco Industries	BUY	597	510
2	Jindal Stainless	Accumulate	660	581
3	Jindal Steel & Power	BUY	842	755
4	JSW Steel	BUY	958	816
5	National Aluminium Co.	Accumulate	101	131
6	NMDC	BUY	261	224
7	Steel Authority of India	Accumulate	95	119
8	Tata Steel	Accumulate	137	134

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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