

November 10, 2024

RESULT REPORT Q2 FY25 | Sector: Metals and Mining

Steel Authority of India Ltd

Q2 performances suffer; Expect volumes to pick-up in H2FY25, assign REDUCE!

Results Synopsis

SAIL's Q2FY25 performance was below the consensus expectations, primarily driven by lower export sales volumes and falling realizations on a QoQ basis, which offset the declines in imported coking coal prices. Net revenue from operations stood at Rs 246,746 mn (which included Rs 16,369.4 mn towards rail price revision for FY22-23), up 3% QoQ and down 17% YoY. Adjusted EBITDA stood at Rs 12,673 mn down 43% QoQ and 67% YoY.

Debottlenecking to be the focus while the 35 mtpa target for CY2031 remains as-is

Over the course of the next couple of years, SAIL shall be focusing on debottlenecking activities at its current facilities while the plans for Rs 1,000,000 mn are finalized to take its capacities to ~35.0 mtpa by CY2031 (currently 19.10 mtpa). The debottlenecking activities are expected to provide ~1.5 to 2.5 mt of additional volumes over the course of the next two fiscals thereby having marginal volume and profitability growth FY25-27E.

Valuation and View

We project Revenue/EBITDA growth for SAIL at a CAGR of 7%/12%, over FY25-27E majorly coming in from the additional volumes through debottlenecking and a favourable macro-environment with improving realizations and a stabilizing cost-structure.

We value SAIL at 6x FY27E EV/EBITDA to arrive at our unchanged target price of Rs 112/sh.

Result Highlights

Standalone performance

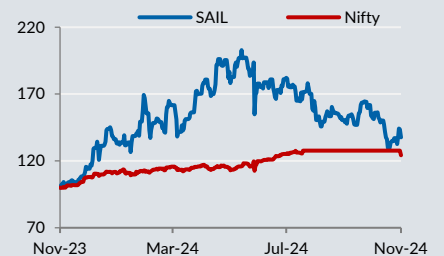
- Revenue from operations for the quarter stood at Rs 246,747 mn (vs our estimate of Rs 228,932 mn) up 3% QoQ and down 17% YoY.
- Absolute EBITDA for the quarter stood at Rs 29,043 mn (vs our estimate of Rs 19,267 mn). EBITDA margins stood at 11.8% for the quarter vs 9.2% in Q1FY25 and 13% in Q2FY24.
- Net profit for the quarter stood at Rs 8,335 mn (vs our estimate of Rs 3,379 mn) down 33% YoY.
- As per the terms of sales with certain Government agencies, the invoicing to these agencies is done at provisional prices, till a final price is subsequently agreed. The revenue recognized on the provisional prices basis for the quarter stood at Rs 38,505.9 mn. The amount also includes Rs 16,369.4 mn towards rail price revision for FY22-23.
- As of 30th September 2024, the Company is carrying sub-grade iron-ore fines inventory of 40.47 MT (as at 31st March 2024: 40.88 Mt) valuing Rs 3894.77 crore (as at 31st March 2024 valuing Rs 3932.35 crore) which includes 38.57 MT valued at Rs 3733.47 crore classified as non-current inventory at its various mines.
- An amount of Rs 1826.16 crore demanded by the water resources department (including interest/penalty) has been treated by the company as contingent liability as on 30th September 2024 as the decision on the acceptance of the appeal was pending before the Division Bench of Hon'ble Jharkhand-High Court.

Reco	: REDUCE
CMP	: Rs 118
Target Price	: Rs 112
Potential Upside	: -5.2%

Stock data (as on Nov 8, 2024)

Nifty	24,148
52 Week h/l (Rs)	175 / 84
Market cap (Rs/USD mn)	509542 / 6038
Outstanding Shares (mn)	4,131
6m Avg t/o (Rs mn):	4,932
Div yield (%):	0.7
Bloomberg code:	SAIL IN
NSE code:	SAIL

Stock performance



	1M	3M	1Y
Absolute return	-9.3%	-8.6%	35.6%

Shareholding pattern (As of Sep'24 end)

Promoter	65.0%
FII+DII	18.7%
Others	16.3%

Δ in estimates

	New	Old
FY26E		
EBITDA/t	118,426	134,745
FY27E		
Sales (mt)	20.29	NA
EBITDA/t	136,492	NA

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	SELL
Target Price	112	112

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	1,008,609	1,114,254	1,148,610
YoY (%)	(4.28)	10.47	3.08
EBIDTA	109,056	118,426	136,492
EBITDA (%)	10.81	10.63	11.88
PAT	36,685	36,299	47,418
EPS	8.88	8.79	11.48
ROE (%)	6.37	5.94	7.23

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Exhibit 1: Actuals vs Estimates

Rs mn	Actuals	Estimates		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Revenue	246,747	228,932	252,845	7.8%	(2.4%)	Performance suffers amidst falling steel prices; Railway price revisions bring in one-time cheer
EBITDA	29,043	19,267	17,259	50.7%	68.3%	
EBITDA (%)	11.77%	8.42%	6.83%	399 bps	724 bps	
PAT	8,335	3,379	-1,068	146.7%	(880.4%)	

Source: YES Sec

Exhibit 2: Standalone Quarterly Snapshot (As Reported)

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
Revenue	243,576	297,135	233,455	279,580	239,978	246,747	2.8%	(17.0%)
Cost of goods sold	130,515	155,336	111,902	144,907	120,553	115,637	(4.1%)	(25.6%)
Employee costs	28,448	31,251	29,382	28,398	27,782	28,717	3.4%	(8.1%)
Other expenses	68,142	71,858	70,770	71,521	69,449	73,351	5.6%	2.1%
EBITDA	16,471	38,690	21,402	34,754	22,194	29,043	30.9%	(24.9%)
EBITDA %	6.8%	13.0%	9.2%	12.4%	9.2%	11.8%	27.3%	(9.6%)
Other income	4,425	1,737	1,785	3,534	2,002	2,695	34.6%	55.2%
Depreciation	12,749	13,263	13,206	13,557	14,021	13,037	(7.0%)	(1.7%)
Finance costs	6,126	6,052	6,139	6,421	6,915	7,575	9.6%	25.2%
Exceptional items	-	(4,150)	765	(5,023)	(3,118)	-	NA	NA
Profit before tax	2,022	16,962	4,607	13,286	143	11,126	NA	NA
Taxes	523	4,555	1,294	3,174	36	2,790	NA	NA
Profit after tax	1,498	12,407	3,314	10,112	107	8,335	NA	NA
EPS	0.36	3.00	0.80	2.45	0.03	2.02	NA	NA

Source: Company, YES Sec

Exhibit 3: Standalone Quarterly Snapshot (Adjusted)

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
Revenue	243,576	297,135	233,455	279,580	239,978	230,378	(4.0%)	(22.5%)
Cost of goods sold	130,515	155,336	111,902	144,907	120,553	115,637	(4.1%)	(25.6%)
Employee costs	28,448	31,251	29,382	28,398	27,782	28,717	3.4%	(8.1%)
Other expenses	68,142	71,858	70,770	71,521	69,449	73,351	5.6%	2.1%
EBITDA	16,471	38,690	21,402	34,754	22,194	12,673	(42.9%)	(67.2%)
EBITDA %	6.8%	13.0%	9.2%	12.4%	9.2%	5.5%	(40.5%)	(57.8%)
Other income	4,425	1,737	1,785	3,534	2,002	2,695	34.6%	55.2%
Depreciation	12,749	13,263	13,206	13,557	14,021	13,037	(7.0%)	(1.7%)
Finance costs	6,126	6,052	6,139	6,421	6,915	7,575	9.6%	25.2%
Exceptional items	-	(4,150)	765	(5,023)	(3,118)	-	NA	NA
Profit before tax	2,022	16,962	4,607	13,286	143	(5,244)	NA	NA
Taxes	523	4,555	1,294	3,174	36	2,790	NA	NA
Profit after tax	1,498	12,407	3,314	10,112	107	(8,034)	NA	NA
EPS	0.36	3.00	0.80	2.45	0.03	(1.95)	NA	NA

Source: Company, YES Sec

Exhibit 4: Standalone Operational Performance (As Reported)

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
Standalone highlights (mt)								
Hot metal production	5.037	5.098	5.018	5.343	5.040	5.084	0.9%	(0.3%)
Crude steel production	4.667	4.800	4.750	5.020	4.683	4.774	1.9%	(0.5%)
Saleable steel production	4.405	4.762	4.550	4.720	4.182	4.595	9.9%	(3.5%)
Saleable steel sales	3.884	4.800	3.779	4.561	4.013	4.095	2.0%	(14.7%)
Revenues	243,576	297,135	233,455	279,580	239,978	246,747	2.8%	(17.0%)
Realization/t (Rs)	62,713	61,903	61,777	61,298	59,800	60,256	0.8%	(2.7%)
EBITDA	16,471	38,690	21,402	34,754	22,194	29,043	30.9%	(24.9%)
EBITDA/t (Rs)	4,241	8,060	5,663	7,620	5,531	7,092	28.2%	(12.0%)

Source: Company, YES Sec

Exhibit 5: Standalone Operational Performance (Adjusted)

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	% qoq	% yoy
Standalone highlights (mt)								
Hot metal production	5.037	5.098	5.018	5.343	5.040	5.084	0.9%	(0.3%)
Crude steel production	4.667	4.800	4.750	5.020	4.683	4.774	1.9%	(0.5%)
Saleable steel production	4.405	4.762	4.550	4.720	4.182	4.595	9.9%	(3.5%)
Saleable steel sales	3.884	4.800	3.779	4.561	4.013	4.095	2.0%	(14.7%)
Revenues	243,576	297,135	233,455	279,580	239,978	230,378	(4.0%)	(22.5%)
Realization/t (Rs)	62,713	61,903	61,777	61,298	59,800	56,258	(5.9%)	(9.1%)
EBITDA	16,471	38,690	21,402	34,754	22,194	12,673	(42.9%)	(67.2%)
EBITDA/t (Rs)	4,241	8,060	5,663	7,620	5,531	3,095	(44.0%)	(61.6%)

Source: Company, YES Sec

Exhibit 6: Valuation Summary

Particulars (Rs mn)	FY27E
EBITDA	136,492
EV Multiple (x)	6.00
Enterprise value	818,951
(-) Net debt (H1FY25)	355,960
Equity value	462,991
Shares outstanding (mn)	4,131
Rs/sh	112
CMP	118
Upside %	(5.2%)

Source: YES Sec

KEY CONFERENCE CALL HIGHLIGHTS

Global economic scenario

- China continues to dominate the world crude steel production contributing almost 55% of overall global production during 9M CY'24. The production in China has, however, been at lower by 3.6% over CPLY.
- Among the major producers, India (5.8%), Germany (4.0%), Turkey (13.8%) and Brazil (4.4%) have registered positive growth in production during 9M CY'24 over CPLY.

General business updates

- Rail pricing revision is expected to continue to flow during Q3FY25 as well as Q4FY25.
- The current Net Debt stands at Rs 35,596 crores. Targeted debt for FY25: Rs 30,000 crores
- The sales volumes have not grown during the quarter as compared to the peers in the industry on account of falling steel exports.
- Structural steel production has improved this quarter – Two major new mills at Durgapur and Universal Structure Mill at IISCO, which have increased the sales volumes of structural steels
- Rourkela debottlenecking will take place over the next two years and Durgapur debottlenecking in the next year and a half.

Pricing outlook

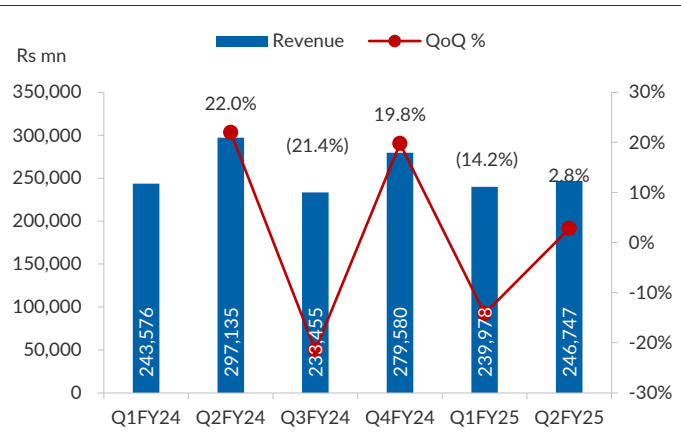
- Imported coking coal cost for Q2FY25 was in the range of Rs 22,000/t vs Rs 24,000/t in Q1FY25. Average was in the range of Rs 23,000/t for H1FY25.
 - For Q3FY25, the coking coal prices are expected to be between Rs 20,000-21,000/t.
 - October 2024, saw an average imported coking coal price of Rs 20,000/t which is expected to go up during the month of December.
- Indigenous (domestic coal) prices would be in the range of Rs 13,000-13,500/t during Q2FY25.
- Q2FY25 Blended NSR – Rs 50,500/t
- Blended realizations/t during October 2024 stood at Rs 48,000/t and for November 2024 is expected to average at Rs 49,500/t.

Production, capex targets and growth plans

- The crude steel production target for FY25: 19.2 mt. Saleable steel sales volumes for FY25: ~18.0 mt
- Capex in H1FY25: Rs 2,260 crores.
- Stage 2 approval for Durgapur should take another 6 to 8 months. For IISCO plant 8 out of 14 packages have been tendered – offers should come in by next year.
- The company is trying to add 2.0 to 2.5 mtpa of capacity through debottlenecking over the next two to three years.
- Capex guidance: FY25: ~Rs 6,000 crores (initial budgeting of Rs 6,300 crores), FY26 should be more than FY25 since Durgapur BF revamping will be undertaken.

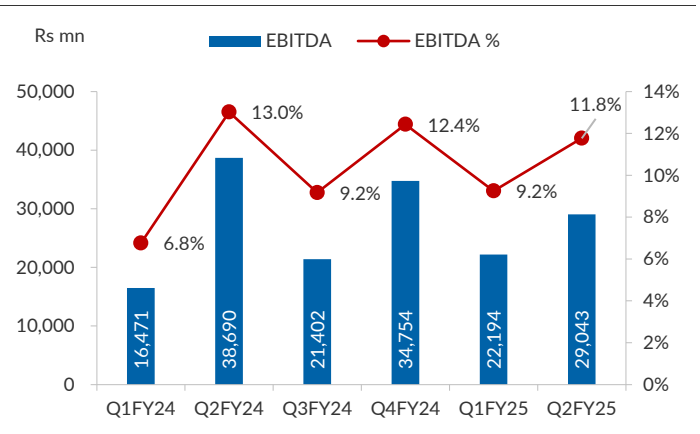
QUARTERLY PERFORMANCE IN CHARTS

Exhibit 8: Revenues up ~3% QoQ owing to railway price revisions



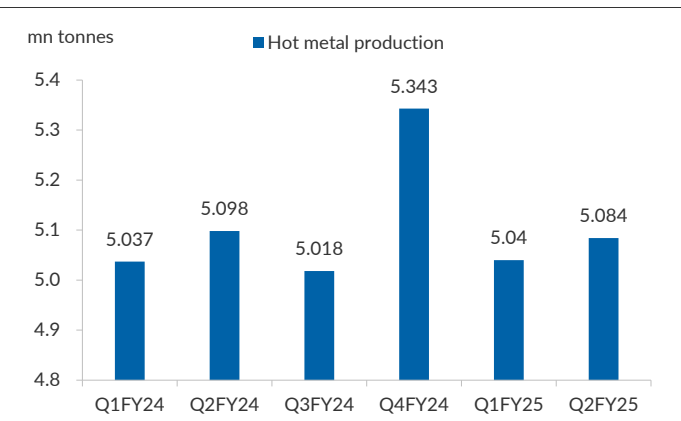
Source: Company, YES Sec

Exhibit 9: EBITDA follows the same suit



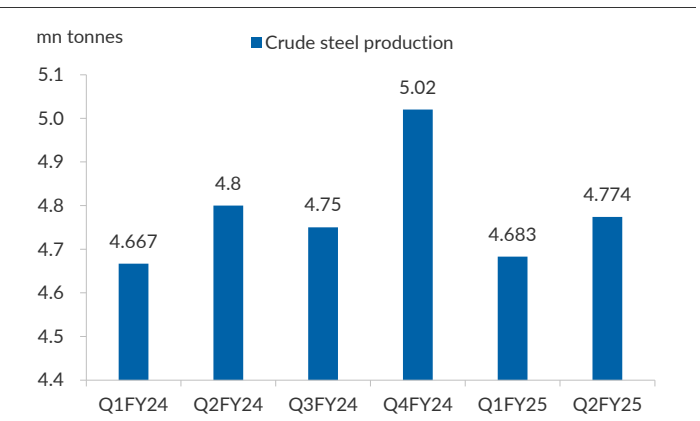
Source: Company, YES Sec

Exhibit 10: Hot metal production scenario



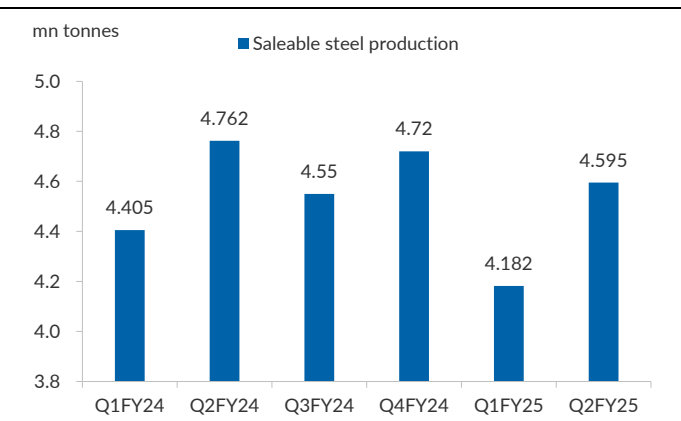
Source: Company, YES Sec

Exhibit 11: Crude steel production



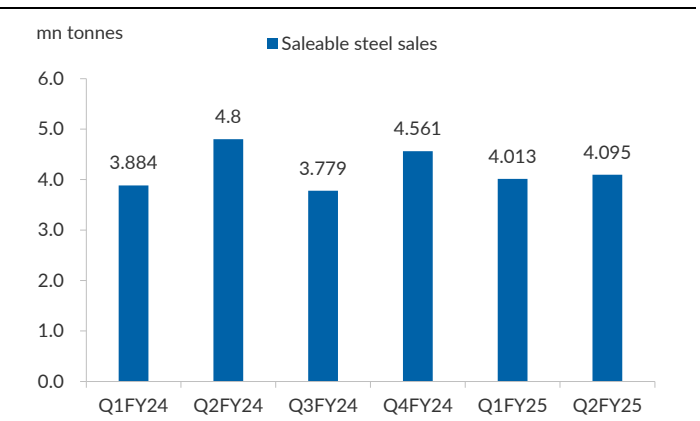
Source: Company, YES Sec

Exhibit 12: Saleable steel production trend



Source: Company, YES Sec

Exhibit 13: Saleable steel sales over the quarters



Source: Company, YES Sec

FINANCIALS OVERVIEW

Exhibit 14: Income Statement

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	691,100	1,034,733	1,044,474	1,053,746	1,008,609	1,114,254	1,148,610
Cost of goods sold	274,048	424,915	569,310	542,659	483,671	533,413	535,445
Employee cost	104,459	128,462	120,536	117,479	121,734	139,282	143,576
Other expenses	185,313	268,135	274,387	282,290	294,147	323,134	333,097
EBITDA	127,281	213,222	80,241	111,317	109,056	118,426	136,492
% margin	18.4%	20.6%	7.7%	10.6%	10.8%	10.6%	11.9%
Depreciation & amortization	41,020	42,742	49,625	52,775	46,596	51,477	53,064
Other income	10,117	10,420	13,548	11,481	12,481	12,481	12,481
Finance costs	28,171	16,979	20,375	24,738	28,367	31,032	31,875
Exceptional items	584	(3,534)	2,580	(8,408)	-	-	-
Profit before tax	68,790	160,387	26,369	36,877	46,574	48,398	64,034
Taxes	30,290	40,237	7,338	9,546	9,889	12,100	16,616
Profit after tax	38,500	120,150	19,031	27,331	36,685	36,299	47,418
EPS	9.32	29.09	4.61	6.62	8.88	8.79	11.48

Source: Company, YES Sec

Exhibit 15: Balance Sheet

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Assets							
PPE	641,153	683,627	670,915	653,966	655,370	655,893	682,829
CWIP	88,785	47,100	48,914	61,406	73,406	86,406	106,406
Non-current assets	851,835	891,145	899,557	896,503	908,585	925,203	973,145
Inventories	152,720	195,300	277,163	326,456	312,970	345,157	346,472
Trade receivables	81,388	47,368	53,625	83,087	79,291	87,597	90,298
Cash and equivalents	4,684	598	64	137	8,443	7,817	10,986
Bank	2,121	5,881	3,915	5,279	30,607	54,059	65,045
Current assets	305,319	286,127	377,300	478,670	493,078	560,948	580,600
Total assets	1,157,324	1,177,411	1,277,150	1,375,325	1,401,663	1,486,151	1,553,744
Equity and liabilities							
Equity share capital	41,305	41,305	41,305	41,305	41,305	41,305	41,305
Other equity	393,644	478,866	480,087	500,000	534,851	569,335	614,382
Non-current liabilities	271,761	264,063	262,703	299,764	303,967	313,333	333,939
Current liabilities	450,615	393,177	493,055	534,255	521,539	562,178	564,118
Total equity and liabilities	1,157,324	1,177,411	1,277,150	1,375,325	1,401,663	1,486,151	1,553,744

Source: Company, YES Sec

Exhibit 16: Cash Flow Statement

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cash flow from operations							
Profit before tax	68,790	160,387	26,369	36,877	46,574	48,398	64,034
Depreciation & amortization	41,020	42,742	49,625	52,775	46,596	51,477	53,064
Finance costs	28,171	16,979	20,375	24,738	28,367	31,032	31,875
CFO before working capital changes	133,815	215,656	88,355	107,164	121,688	130,906	148,972
Working capital changes	100,367	94,816	(138,224)	(76,898)	(28,490)	(29,405)	(3,556)
Cash generated from operations	234,182	310,472	(49,869)	30,266	93,199	101,501	145,416
Income taxes paid	(224)	(836)	(4,196)	(934)	(9,889)	(12,100)	(16,616)
Net CFO	233,959	309,636	(54,065)	29,332	83,310	89,401	128,800
Cash flow from investing							
Purchase of PPE	(37,096)	(38,522)	(43,145)	(48,631)	(48,000)	(52,000)	(80,000)
Other investing activities	4,366	(1,225)	10,810	5,828	(10,678)	(16,094)	(21,006)
Net CFI	(32,730)	(39,747)	(32,335)	(42,803)	(58,678)	(68,094)	(101,006)
Cash flow from financing							
Proceeds from long-term borrowings	(147,933)	(97,708)	-	50,000	5,000	7,500	20,000
Proceeds from short-term borrowings	(15,417)	(124,516)	-	-	35,000	25,000	-
Other financing activities	(34,729)	(51,752)	85,867	(36,456)	(30,998)	(30,981)	(33,639)
Net CFF	(198,079)	(273,976)	85,867	13,544	9,002	1,519	(13,639)
Net change in cash	3,150	(4,086)	(533)	73	33,634	22,826	14,155
Cash at beginning	1,534	4,684	598	64	137	8,443	7,817
Cash at end	4,684	598	64	137	8,443	7,817	10,986

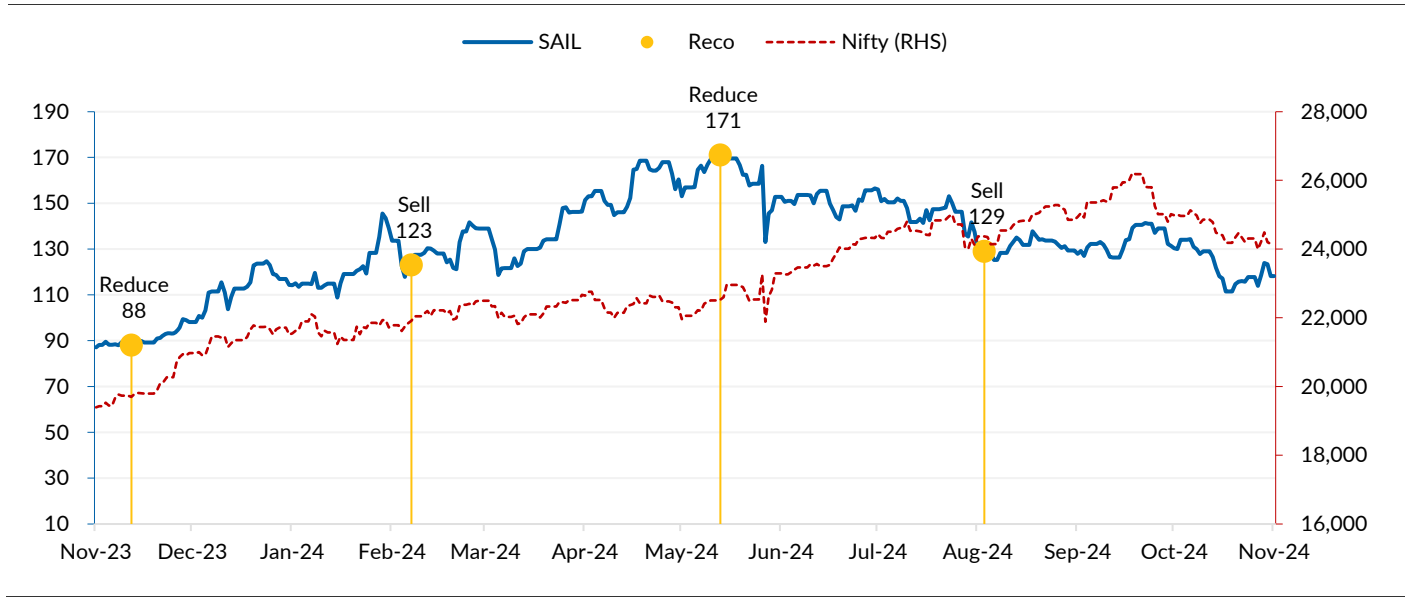
Source: Company, YES Sec

Exhibit 17: Key Ratios

Y/e 31 Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth (%)							
Revenues	12.08	49.72	0.94	0.89	(4.28)	10.47	3.08
EBITDA	24.80	67.52	(62.37)	38.73	(2.03)	8.59	15.26
EBIT	33.86	97.63	(82.04)	91.22	6.69	7.19	24.61
PAT	90.45	212.08	(84.16)	43.62	34.23	(1.05)	30.63
Margins (%)							
EBITDA	18.42	20.61	7.68	10.56	10.81	10.63	11.88
EBIT	12.48	16.48	2.93	5.56	6.19	6.01	7.26
PAT	5.57	11.61	1.82	2.59	3.64	3.26	4.13
Return profile (%)							
ROE	8.85	23.10	3.65	5.05	6.37	5.94	7.23
ROCE	46.84	80.75	30.54	37.13	35.88	37.80	40.87

Source: Company, YES Sec

Recommendation Tracker



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