

Largely Inline Q3, Higher Leverage Risk Persists; Maintain HOLD
Est. Vs. Actual for Q3FY25: Adj Revenue – **INLINE**; Adj. EBITDA – **BEAT**; Adj PAT – **BEAT**
Change in Estimates YoY post Q3FY25:
FY25E/FY26E: Revenue: -6%/-3%; **EBITDA:** -18%/-6%, **PAT:** -48%/-15%

Recommendation Rationale

- **Spreads likely to improve slightly in Q4FY25:** Blended Coking coal costs are expected to come down by ~Rs 1,000/t QoQ in Q4FY25, led by declining imported coking coal prices. Average blended NSR in Jan'25 was down by ~Rs 1,000/t at Rs 48,500/t; however, prices are likely to increase in coming months as market sentiments are now positive for flat steel. This could improve spreads slightly QoQ in Q4FY25.
- **Higher Capex intensity ahead for expansion projects:** SAIL will raise its capacity to 35 MT from 20 MT currently in phases with a total capex of Rs 1.1-1.2 Lc Cr. In Phase I it will add 7.5 MT capacity by FY31 where it has got stage I approval for the IISCO greenfield steel plant, Bokaro and Durgapur expansion and for phase II it is in the process of getting the stage-I approval for the Rourkela and Durgapur steel plant which will add another 7.5 MT capacity.
- **Borrowings are down QoQ, but the risk of increasing leverage remains:** Total borrowings currently stand at Rs 32,600 Cr, down from Rs 35,596 Cr as of the end of Q2FY25. The company has guided to reduce the borrowings to ~Rs 30,500 Cr, which will be similar to the level seen at the end of FY24. During the expansion phase, it will target D: E of 1:1; however, execution risk remains as expansion capex kicks in from FY27 onwards.

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 from H2FY26/FY27 and peaks in FY28/29. FY25 Capex guidance is at Rs 5,700 Cr (Revised down from Rs 6,000 Cr). FY26 capex will be higher at Rs 7,500 Cr as some portion of it will go for the start of the expansion projects. Crude steel production guidance is 18.5 MT (revised down from 19.2 MT earlier). Sales volume will be at ~17.5 MT (revised down from earlier guidance of 18 MT).

Current Valuation: 6.0x EV/EBITDA on Dec'26E EBITDA (From Sep'26E earlier).

Current TP: Rs 115/share (From Rs 130/share)

Recommendation: We maintain our HOLD rating.

Financial Performance: SAIL reported largely in-line numbers amidst weak steel prices and post-weak Q2FY25 results. Adj Revenue (up 5%/6% YoY/QoQ) stood inline with our and consensus estimate. Crude steel production and Sales volume stood at 4.63 MT (down 3% YoY/QoQ each, 6% below our estimate) and 4.43 MT (up 16%/8% YoY, 5% below our estimate), respectively. Adj EBITDA (adjusted for provisional rail price impact) stood at Rs 2,030 Cr (down 5% YoY, but up 59% QoQ on impacted Q2FY25), a 5% beat vs. our estimate (a 2% miss against consensus) aided by lower employee cost and other expenses. Adj PAT stood at Rs 129 Cr (down 65% YoY, vs loss of Rs 354 Cr in Q2FY25), 41% ahead of our estimate, led by higher other income and lower interest expense partly offset by higher D&A.

Key Financials (Consolidated)

(Rs Cr)	Q3FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Adj Net Sales	24,490	6%	5%	24,604	0%
Adj EBITDA	2,030	59%	-5%	1,935	5%
Adj EBITDA/t	4,582	47%	-18%	4,165	10%
Underlying Net Profit	129	NA	-65%	92	41%
EPS (Rs) Underlying	0.31	NA	-65%	0.22	41%

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

(CMP as of 12th February 2024)

CMP (Rs)	106
Upside /Downside (%)	8%
High/Low (Rs)	176/85
Market cap (Cr)	48,884
Avg. daily vol. (6m) Shrs.	2,90,91,998
No. of shares (Cr)	413

Shareholding (%)

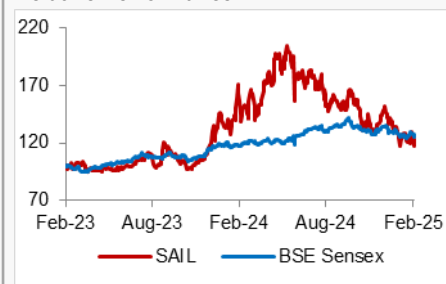
	Jun-24	Sep-24	Dec-24
Promoter	65.00	65.00	65.00
FII	3.01	2.82	2.59
Mutual Funds / UTI	6.37	5.92	5.08
Financial Institutions	0.02	0.01	0.01
Others	25.60	26.25	27.32

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	98,611	99,573	1,09,548
EBITDA	8,083	10,050	12,697
Net Profit	428	1,938	3,917
EPS (Rs.)	1.0	4.7	7.8
PER (x)	102.2	22.6	13.6
P/BV (x)	0.8	0.7	0.7
EV/EBITDA (x)	9.4	7.6	6.2
ROE (%)	0.8	3.4	6.5

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	-1%	-6%	-3%
EBITDA	-25%	-18%	-6%
PAT	-83%	-48%	-15%

Relative Performance


Source: ACE Equity, Axis Securities

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Outlook:

- SAIL's next phase of the Capex wave raises concerns as it 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 H2FY26/FY27 onwards, leverage will be the key factor to monitor in the future. We factor in lower NSRs and cut our EBITDA estimates for FY26/27E.

Valuation & Recommendation:

- We value the company at 6.0x Dec'26E EBITDA (from Sep'26E) to arrive at a target price of Rs 115/share (from Rs 130/share). The TP implies an upside of 8.4% from the CMP. We maintain our HOLD rating on the stock.

Key Concall Highlights

- **Flat and long steel prices:** Long steel prices in Q2FY25 were at Rs 52,000/t; in Q3FY25, it increased to Rs 53,400/t. Flat prices were at Rs 49,000/t in Q2FY25, which came down to Rs 46,800/t in Q3FY25. On a blended basis, NSR was at Rs 50,500/t in Q2FY25, which came down to Rs 49,700/t in Q3FY25 because of the weakness in the flat prices. The average blended price in Jan'25 was down by ~Rs 1,000/t at Rs 48,500/t. However, prices are expected to increase in the coming months as market sentiments are now positive for flat steel.
- **Coal cost:** Blended coal cost (85% imported and the rest domestic coal) in Q2FY25 was Rs 20,600/t, which came down to Rs 19,200/t in Q3FY25, led by a reduction in the imported coking coal prices. Blended coal cost in Q4FY25 is expected to decrease further by Rs 1,000/t as the imported coal prices will likely come down to ~Rs 18,700/t to Rs 19,000/t from Rs 20,000/t in Q3FY25.
- **Sales volume growth in Q3FY25:** Sales volume grew by 16%/8% YoY/QoQ, mainly due to demand from the infrastructure sector. Sales volume in Q2FY25 was impacted. In FY25, crude steel production guidance is 18.5 MT, and the sales volume target is 17.5 MT (for Q4FY25—up to Jan'25, the company achieved a sales volume of 1.57 MT).
- **Capex:** 9MFY25 Capex is around Rs 3,900 Cr and FY25 capex will be at Rs 5,700 Cr. FY26 capex guidance is at Rs 7,500 Cr as some portion of expansion capex will start from FY26.
- **Expansion projects:** The entire expansion project of 35 MTPA by FY31 from 20 MTPA will currently be done in two phases and incur a tentative Capex of Rs 1.1-1.2 Lc Cr, and the debt will maximise in FY29. The company will target the Debt-to-Equity ratio of 1:1 during the expansion phase. In phase I of 7.5 MT of expansion - Stage I approval for the IISCO, Bokaro and Durgapur steel plant is in place, and when the project costs get finalised, it will go for Stage II approval. These three plants will add 7.5 MT additional capacity at a capex of Rs 55,000 Cr to Rs 56,000 Cr by FY31. For Phase II, the company will be in the process of getting the stage I approval for the Rourkela, Bhilai and Durgapur steel plant, which will add another 7.5MT capacity.
- **Total borrowings** currently stand at Rs 32,600 Cr, down from Rs 35,596 Cr as of the end of Q2FY25. The company has guided to reduce the borrowings to ~Rs 30,500 Cr, which will be similar to the level seen at the end of FY24.
- **Inventory level:** The total inventory of finished and semi-finished goods is 2.98 MT (1.79 MT of finished steel vs. 1.93 MT as of the end of Q2FY25). This value is around Rs 12,000 Cr—Rs 13,000 Cr.
- **Regulatory updates:** On the safeguard duty of 25%, the Finance Ministry has not communicated as of now. On the Royalty on minerals based on the SC decision, the company has mines in Chhattisgarh, Jharkhand, and Odisha. While Jharkhand has already levied a cess of Rs 100/t on iron ore, the other two states have not made such demands so far. On the Karnataka mining tax order, SAIL has no mines in the state, so it has no impact.

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		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	98,611	99,573	1,09,548	1,00,063	1,06,007	1,13,330	-1%	-6%	-3%
EBITDA	8,083	10,050	12,697	10,795	12,225	13,458	-25%	-18%	-6%
PAT	428	1,938	3,917	2,521	3,724	4,612	-83%	-48%	-15%
Sales volume (mt)	17.49	18.24	19.05	17.30	18.27	19.05	1%	0%	0%

Source: Company, Axis Securities

Result Review

Consolidated Rs Cr	Q3FY24 Actual	Q2FY25 Actual	Q3FY25 Axis Sec Est	Q3FY25 Consensus	Q3FY25 Actual	YoY %	QoQ %	Vs Axis %	Vs Cons %
HRC Ex-Mumbai (Rs/t)	57,374	51,802	48,734		48,734	-15%	-6%	0%	NA
Crude steel Production (Mn t)	4.75	4.78	4.94		4.63	-3%	-3%	-6%	NA
Saleable steel Sales (Mn t)	3.81	4.10	4.65		4.43	16%	8%	-5%	NA
		1,636.94							
Revenues	23,349	24,675	24,604	24,634	24,490	5%	-1%	0%	-1%
Revenue Exl Railway Provision	23,349	23,038	24,604	24,634	24,490	5%	6%	0%	-1%
Adjusted Realisation (Rs/t) Exl Rail	61,234	56,246	52,957		55,282	-10%	-2%	4%	NA
Consumption of Raw Materials	13,765	12,267	12,146		12,069	-12%	-2%	-1%	NA
Increase/Decrease in Stocks	-2,552	-676	-		595	NA	NA	NA	NA
Employees Cost	2,942	2,877	3,119		2,725	-7%	-5%	-13%	NA
Other Expenses	7,052	7,295	7,404		7,071	0%	-3%	-4%	NA
Total Expenditure	21,206	21,762	22,669		22,460	6%	3%	-1%	NA
EBITDA	2,142	2,913	1,935	2,066	2,030	-5%	-30%	5%	-2%
EBITDA Exl Railway Provision	2,142	1,276	1,935	2,066	2,030	-5%	59%	5%	-2%
EBITDA margin (%)	9.2%	11.8%	7.9%	8.4%	8.3%				
EBITDA per tonne (Rs/tonne)	5,619	7,111	4,165		4,582	-18%	-36%	10%	NA
EBITDA Exl Railway Provision (Rs/tonne)	5,619	3,115	4,165		4,582	-18%	47%	10%	NA
Depreciation	1,321	1,304	1,349		1,421	8%	9%	5%	NA
Other Income	144	167	148		234	63%	40%	58%	NA
Interest Expense	614	758	817		680	11%	-10%	-17%	NA
Exceptional Items	76	-	-		29	-63%	NA	NA	NA
Share of P/L of Associates	135	155	155		131	-2%	-15%	-15%	NA
PBT Reported	563	1,173	71		323	-43%	-72%	355%	NA
PBT Exl Railway Provision	563	-464	71		323	-43%	NA	355%	NA
Tax	140	276	-21		181	30%	-34%	NA	NA
Tax Rate %	25%	24%	-30%		56%				
PAT excl. Exceptional	365	897	92	217	129	-65%	-86%	41%	-40%
PAT excl. Exceptional & Railway Provision	365	-354	92		129	-65%	NA	41%	NA
Reported PAT	423	897	92	217	142	-66%	-84%	54%	-35%
									NA
Underlying EPS (Rs/sh)	0.88	2.17	0.22		0.31	-65%	-86%	41%	NA
Underlying EPS (Rs/sh) Exl Railway Provisions	0.88	-0.86	0.22		0.31	-65%	NA	41%	NA
Reported EPS (Rs/sh)	1.02	2.17	0.22		0.34	-66%	-84%	54%	NA

Source: Company, Axis Securities, Bloomberg Consensus

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Total Operating income	1,05,378	98,611	99,573	1,09,548
Consumption of Raw Materials	57,709	52,120	48,072	54,078
Increase/Decrease in Stocks	(3,355)	(1,701)	(682)	(1,501)
Employees Cost	11,766	11,286	11,512	11,742
Other Expenses	28,109	28,822	30,620	32,532
Total Expenditure	94,229	90,527	89,523	96,850
EBITDA	11,149	8,083	10,050	12,697
Depreciation and Amortization	5,278	5,488	5,597	5,827
EBIT	5,871	2,595	4,454	6,871
Other Income	1,067	730	597	657
Share Of P/L Of Associates (Net of Tax)	439	530	534	588
Less: Interest & Fin Chg.	2,474	2,946	3,179	3,089
Less: Exceptional Items	841	283	-	-
Profit before tax	4,062	626	2,406	5,027
Provision for Tax	995	197	468	1,110
Reported PAT	3,067	428	1,938	3,917
EPS (Rs/sh)	7.4	1.0	4.7	7.8
DPS (Rs/sh)	2.0	0.3	1.3	2.1

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Net Block	65,415	63,917	63,570	64,743
Other Tangible assets	5,522	5,522	5,522	5,522
CWIP	6,141	7,851	10,101	13,101
Intangible assets	1,489	1,489	1,489	1,489
Investments	4,589	4,589	4,589	4,589
Inventories	37,347	32,420	32,736	36,016
Trade Receivables	8,355	7,835	7,911	8,704
Cash / Bank balance	673	4,235	3,375	1,137
Misc. Assets	11,178	11,178	11,178	11,178
Total assets	1,40,709	1,39,035	1,40,471	1,46,478
Equity capital	4,131	4,131	4,131	4,131
Reserves	52,971	52,573	54,396	57,791
Minority Interests	0	0	0	0
Borrowings	36,323	35,323	34,323	34,323
Def Tax Liabilities	6,286	6,483	6,951	8,060
Other Liabilities and Provision	18,635	18,635	18,635	18,635
Provisions	7,032	7,032	7,032	7,032
Trade Payables	15,332	14,859	15,004	16,507
Capital employed	1,40,709	1,39,035	1,40,471	1,46,478

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Profit before tax	4,062	96	1,872	4,439
Depreciation	5,278	5,488	5,597	5,827
Interest Expenses	2,474	2,946	3,179	3,089
Non-operating / EO item	(1,150)	530	534	588
Change in W/C	(7,650)	4,974	(248)	(2,569)
Income Tax	(104)	-	-	-
Operating Cash Flow	2,911	14,034	10,934	11,374
Capital Expenditure	(4,711)	(5,700)	(7,500)	(10,000)
Free cash Flow	(1,800)	8,334	3,434	1,374
Other Investments	450	-	-	-
Investing Cash Flow	(4,261)	(5,700)	(7,500)	(10,000)
Proceeds / (Repayment) of Borrowings	4,138	(1,000)	(1,000)	-
Finance cost paid	(2,157)	(2,946)	(3,179)	(3,089)
Dividend paid	(620)	(826)	(115)	(522)
Financing Cash Flow	1,362	(4,772)	(4,294)	(3,611)
Change in Cash	12	3,562	(860)	(2,238)
Opening Cash	57	673	4,235	3,375
Closing Cash	69	4,235	3,375	1,137

Source: Company, Axis Securities

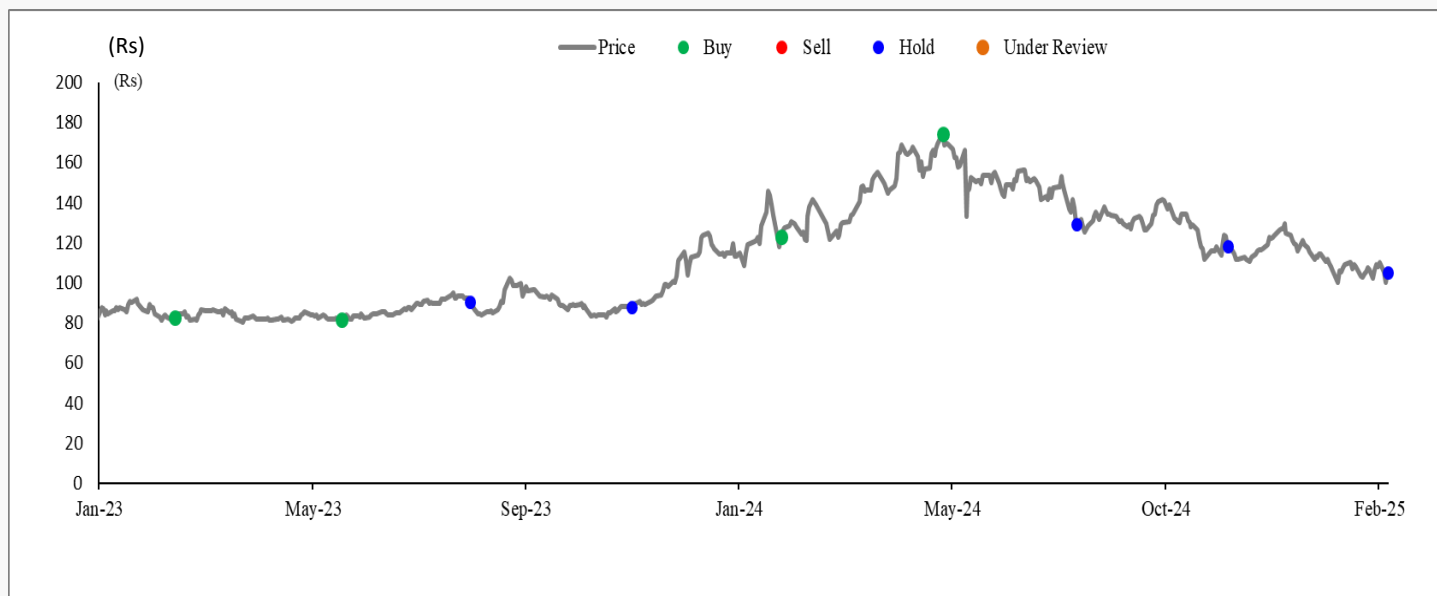
Ratio Analysis

(%)

Y/E March	FY24A	FY25E	FY26E	FY27E
Operational Ratios				
Sales growth (% YoY)	1%	-6%	1%	10%
EBITDA growth (% YoY)	39%	-27%	24%	26%
Op. profit growth (% YoY)	91%	-56%	72%	54%
Net Profit growth (% YoY)	41%	-86%	352%	102%
EBITDA Margin %	11%	8%	10%	12%
Net profit Margin %	3%	0%	2%	4%
EBITDA/t (Rs/tonne)	6,047	4,449	5,426	6,463
Tax Rate %	27%	206%	25%	25%
Efficiency Ratios				
Total Asset Turnover (x)	0.8	0.7	0.7	0.8
Sales/Gross block (x)	0.9	0.8	0.8	0.8
Sales/Net block(x)	1.6	1.5	1.6	1.7
Working capital/Sales (x)	0.3	0.3	0.3	0.3
Valuation Ratios				
PER (x)	14.3	102.2	22.6	13.6
P/BV (x)	0.8	0.8	0.7	0.7
EV/Ebitda (x)	7.2	9.4	7.6	6.2
EV/Sales (x)	0.8	0.8	0.8	0.7
Dividend Yield (%)	2%	0%	1%	2%
Return Ratios				
ROE	5.5%	0.8%	3.4%	6.5%
ROCE	7.0%	3.0%	5.1%	7.5%
ROIC	4.5%	-3.1%	3.7%	5.3%
Leverage Ratios				
Debt/equity (x)	0.7	0.7	0.6	0.6
Net debt/ Equity (x)	0.6	0.6	0.6	0.6
Net debt/Ebitda (x)	3.3	4.0	3.2	2.7
Interest Coverage ratio (x)	4.5	2.7	3.2	4.1

Source: Company, Axis Securities

SAIL Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
16-Feb-23	BUY	95	Result Update
29-May-23	BUY	93	Result Update
14-Aug-23	HOLD	95	Result Update
17-Nov-23	HOLD	95	Result Update
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

Source: Axis Securities

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In case of any grievances please call us at 022-40508080 or write to us helpdesk@axisdirect.in.

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