

# Steel Authority of India

## BUY

EBITDA at all time high; Debt continues to decline

### Summary

SAIL's Q1FY22 result was ahead of our expectations; EBITDA and PAT was 19%/22% higher than our forecast. Its EBITDA/tonne jumped to Rs19,728 as blended realization increased 51% YoY to Rs62,045/tonne. Overall, EBITDA increased to Rs66 bn compared to EBITDA loss of Rs4 bn in Q1FY21. However, the company has cut its FY22 sales volume guidance to 16.5 mn tonnes from 18 mn tonnes guided in Q4FY21. Nevertheless, we continue to maintain our FY22 estimate at 16.5 mn tonnes.

Despite the second wave of Covid-19, domestic steel prices have remained flattish led by firm steel prices in global markets. We raise our EBITDA estimates for FY22-FY23 by 7-15% as we foresee improved domestic demand and price recovery. We continue to value the stock at an EV/EBITDA multiple of 4x FY23 to derive a target price of Rs168 (earlier Rs152).

### Key Highlights and Investment Rationale

- EBITDA higher QoQ despite fall in volumes:** Although SAIL's Q1FY22 sales volumes fell 24% QoQ, its realizations were higher by 17% QoQ at Rs62,045/tonne. Further, employees costs fell 32% QoQ to Rs28 bn leading to EBITDA growing by 7% QoQ to Rs66bn. EBITDA/tonne increased sharply to Rs19,728 (+42% QoQ).
- Structural issues behind:** SAIL's expansion projects were delayed by 4-5 years despite being brownfield expansions - these delays also led to cost overruns until FY20-21. Nevertheless, SAIL's major expansions are nearly complete and now it remains well-poised to benefit from firm steel prices. Further its net debt is likely to fall meaningfully as it does not have any major capex plans in the near term. The next phase of growth capex will be much more efficient in our view.
- Outlook:** SAIL remains exposed to sharp fall in profitability in case steel cycle weakens due to its high and sticky fixed costs. However, we believe the steel cycle is likely to remain positive over the coming two years and SAIL is likely to benefit from higher volumes, improvement in profitability and falling debt. Lastly, valuation at 3.5x FY23E EV/EBITDA is inexpensive in our view. Hence, we maintain our positive stance on the stock.

TP	Rs168	
CMP	Rs141	
Potential upside / downside	+19%	

### V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	37.3	28.6
Consensus	33.2	22.6
% difference	12.2	26.6

### Shareholding Pattern (%)

Promoters	65.0
FII	5.0
DII	15.5
Public	14.5

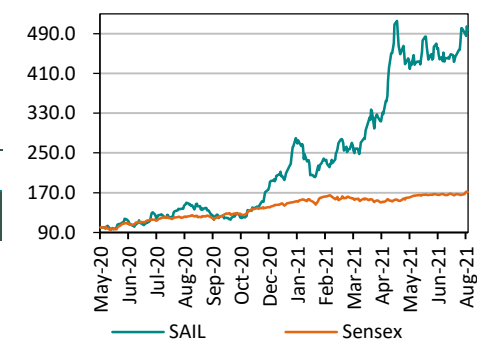
### Price Performance (%)

	-1m	-3m	-12m
Absolute	14.6	5.5	275.6
Rel to Sensex	11.9	(5.3)	232.9

### Key Stock Data

Bloomberg / Reuters	SAIL IN / SAIL.BO
Sector	Metal
Shares o/s (mn)	4,131
Market cap. (Rs mn)	582,611
Market cap. (US\$ mn)	7,830
3-m daily average value (Rs mn)	6,132.9
52-week high / low	Rs151 / 33
Sensex / Nifty	54,278 / 16,238

### Relative to Sensex (%)



### Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	669,673	616,606	691,100	896,728	925,590
EBITDA	97,341	101,990	127,281	259,632	205,878
EBITDA (%)	14.5	16.5	18.4	29.0	22.2
Adj. PAT	25,682	27,933	37,916	154,039	117,953
EPS (Rs)	6.2	6.8	9.2	37.3	28.6
EPS Growth (%)	(605.4)	8.8	35.7	306.3	(23.4)
PE (x)	22.7	20.9	15.4	3.8	4.9
Dividend Yield (%)	-	0.4	1.3	2.1	2.8
EV/EBITDA (x)	10.2	10.7	7.3	3.0	3.5
RoE (%)	7.0	7.2	9.1	30.5	18.8
RoCE (%)	7.5	7.1	9.4	24.9	18.0

Source: IDBI Capital Research;

**Exhibit 1: Quarterly Snapshot**

(Rs mn)

Financial snapshot	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	YoY (%)
<b>Net sales</b>	<b>2,06,424</b>	<b>2,32,860</b>	<b>(11.4)</b>	<b>90,675</b>	<b>127.7</b>
Total expenditure	1,40,788	1,71,331	(17.8)	94,703	48.7
<b>EBITDA</b>	<b>65,636</b>	<b>61,529</b>	<b>6.7</b>	<b>(4,028)</b>	<b>NA</b>
<i>EBITDA margin (%)</i>	<i>31.8%</i>	<i>26.4%</i>	<i>537bps</i>	<i>(4.4%)</i>	<i>NA</i>
<i>EBITDA/tonne</i>	<i>19,728</i>	<i>13,984</i>	<i>41.1</i>	<i>(1,831)</i>	<i>NA</i>
Interest	5,030	5,404	(6.9)	8,863	(43.2)
Depreciation	10,261	11,577	(11.4)	9,733	5.4
PBT	51,449	47,749	7.7	(19,847)	NA
Tax	12,949	11,647	11.2	(7,144)	NA
Exceptional items	-	(1,664)	NA	-	NA
<b>Net profit</b>	<b>38,500</b>	<b>34,438</b>	<b>11.8</b>	<b>(12,703)</b>	<b>NA</b>
<b>Diluted EPS</b>	<b>9.3</b>	<b>8.3</b>	<b>11.8</b>	<b>(3.1)</b>	<b>NA</b>

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs estimates**

(Rs mn)

	Q1FY22E	Q1FY22A	% Variance
Net sales	2,17,494	2,06,424	(5.1)
EBTIDA	55,332	65,636	18.6
<i>Margin (%)</i>	<i>25.4</i>	<i>31.8</i>	<i>636bps</i>
Net profit	31,626	38,500	21.7
Dil. EPS	7.7	9.3	21.7

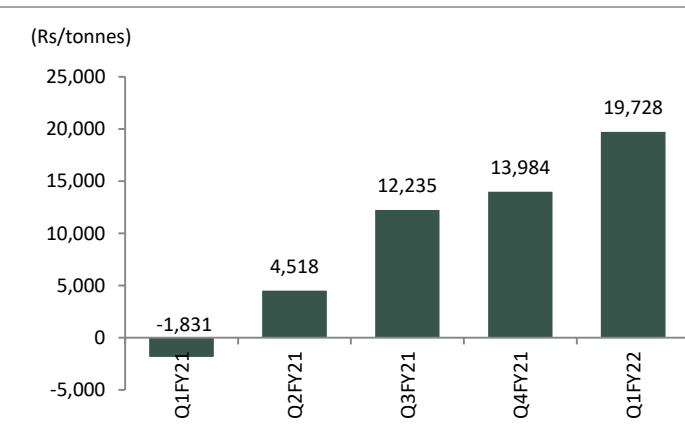
Source: Company; IDBI Capital Research

**Exhibit 3: Change in estimates**

	FY22E			FY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	9,43,242	8,96,728	(4.9)	9,50,109	9,25,590	(2.6)
EBITDA (Rs mn)	2,25,955	2,59,632	14.9	1,93,263	2,05,878	6.5
EBITDA margin (%)	24.0	29.0	495bps	20.3	22.2	194bps
Net profit (Rs mn)	1,32,447	1,54,039	16.3	1,13,717	1,17,953	3.7
EPS (Rs)	32.1	37.3	16.2	27.5	28.6	3.8

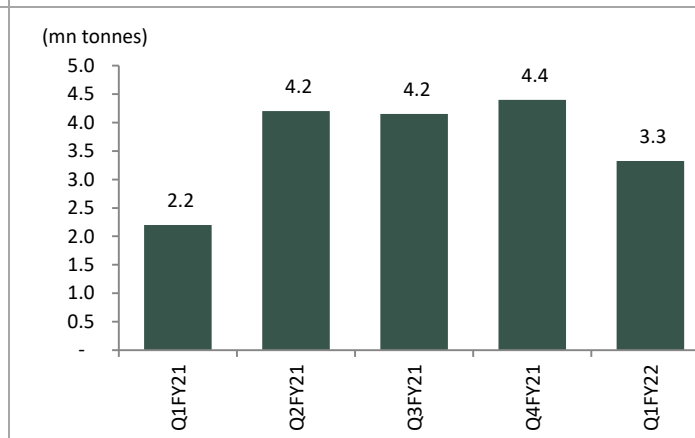
Source: Company; IDBI Capital Research

**Exhibit 4: EBIDTA/tonne jumped up sharply**



Source: Company; IDBI Capital Research

**Exhibit 5: Sales volume fell QoQ**



Source: Company; IDBI Capital Research

### Con-call highlights

- In Q1FY22 crude steel production was lower 13% QoQ to 3.7 mn tonnes and also lower than all India production average reduction of 8.3%. This was due to impact of 2nd Covid wave and major repair of Blast furnace. However with weakening of 2nd Covid wave and completion of major repair company has ramp up production in July'21 and expects sales to pick up after monsoon till then company will focus on exports.
- The domestic realisation was higher 16% QoQ and NSR of exports showed a robust growth. During Q1FY22 export was 11% of total sales volume.
- Inventory increased by 0.3 mn tonnes and stood at 0.92 mn tonnes as on June'21.
- Company lowered its net debt by Rs51 bn to Rs302 bn as on 30th June'21. Also company reduced borrowing by another Rs20 bn in July'21 to Rs282 bn.
- Company faced challenges due to sharp rise in import coal prices which has double since April '21. In Q1FY22 coal cost is 30% of total cost and company consumes 87% of imported coal in its billet which will have been impact.
- Company is targeting to expand capacity to 50 mn tonnes in 2 phases; currently company has started phase 1 with available land in Burnpur, Rourkela, Bokaro with capacity expansion of 13 mn tonnes in each plant over FY23-24
- SAIL doesn't have much presence in auto segment. Also it is working on product mix which has good margins and good growth
- Average Long products realization was Rs50,120/tonnes and Average flat products realisation Rs59,569/tonne
- Capex guideline from government is Rs80 bn in FY22 but company is expected to spend Rs60 bn. The capex spent Rs7 bn in Q1FY22.

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>616,606</b>	<b>691,100</b>	<b>896,728</b>	<b>925,590</b>
<i>Growth (%)</i>	<i>(7.9)</i>	<i>12.1</i>	<i>29.8</i>	<i>3.2</i>
Operating expenses	(514,615)	(563,820)	(637,096)	(719,713)
<b>EBITDA</b>	<b>101,990</b>	<b>127,281</b>	<b>259,632</b>	<b>205,878</b>
<i>Growth (%)</i>	<i>4.8</i>	<i>24.8</i>	<i>104.0</i>	<i>(20.7)</i>
Depreciation	(37,551)	(41,020)	(41,663)	(43,354)
<b>EBIT</b>	<b>64,440</b>	<b>86,261</b>	<b>217,969</b>	<b>162,524</b>
Interest paid	(34,868)	(28,171)	(17,297)	(11,349)
Other income	9,852	10,117	4,829	6,096
<b>Pre-tax profit</b>	<b>31,707</b>	<b>68,790</b>	<b>205,501</b>	<b>157,271</b>
Tax	(11,491)	(30,290)	(51,462)	(39,318)
<i>Effective tax rate (%)</i>	<i>36.2</i>	<i>44.0</i>	<i>25.0</i>	<i>25.0</i>
Minority interest	20,215	38,500	154,039	117,953
<b>Net profit</b>	<b>(7,718)</b>	<b>584</b>	<b>-</b>	<b>-</b>
<b>Adjusted net profit</b>	<b>27,933</b>	<b>37,916</b>	<b>154,039</b>	<b>117,953</b>
<i>Growth (%)</i>	<i>8.8</i>	<i>35.7</i>	<i>306.3</i>	<i>(23.4)</i>
<i>Shares o/s (mn)</i>	<i>4,131</i>	<i>4,131</i>	<i>4,131</i>	<i>4,131</i>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	31,707	68,790	205,501	157,271
Depreciation	37,551	41,020	41,663	43,354
Tax paid	(11,491)	(30,290)	(51,462)	(39,318)
Chg in working capital	(112,744)	82,539	27,114	22,844
Other operating activities	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>(54,978)</b>	<b>162,059</b>	<b>222,816</b>	<b>184,151</b>
Capital expenditure	(19,553)	(29,748)	(60,000)	(80,000)
Chg in investments	(3)	15,850	-	-
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(19,555)</b>	<b>(13,897)</b>	<b>(60,000)</b>	<b>(80,000)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	97,669	(156,246)	(120,000)	(70,000)
Dividend (incl. tax)	(2,977)	(8,922)	(12,392)	(16,522)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>94,692</b>	<b>(165,168)</b>	<b>(132,392)</b>	<b>(86,522)</b>
<b>Net chg in cash (a+b+c)</b>	<b>20,160</b>	<b>(17,006)</b>	<b>30,424</b>	<b>17,629</b>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	741,210	729,937	748,275	784,921
Investments	15,861	11	11	11
Other non-curr assets	84,723	79,525	79,525	79,525
<b>Current assets</b>	<b>409,185</b>	<b>362,124</b>	<b>439,798</b>	<b>454,866</b>
Inventories	237,472	195,083	233,395	240,907
Sundry Debtors	88,124	71,240	80,153	70,053
Cash and Bank	3,633	6,805	28,380	36,275
Loans and advances	497	505	530	556
<b>Total assets</b>	<b>1,250,978</b>	<b>1,171,597</b>	<b>1,267,608</b>	<b>1,319,322</b>
<b>Shareholders' funds</b>	<b>397,774</b>	<b>434,949</b>	<b>576,596</b>	<b>678,027</b>
Share capital	41,305	41,305	41,305	41,305
Reserves & surplus	356,469	393,644	535,291	636,722
<b>Total Debt</b>	<b>512,008</b>	<b>355,762</b>	<b>235,762</b>	<b>165,762</b>
Secured loans	512,008	355,762	235,762	165,762
Unsecured loans	-	-	-	-
Other liabilities	58,086	74,501	74,501	74,501
<b>Curr Liab &amp; prov</b>	<b>283,111</b>	<b>306,385</b>	<b>380,749</b>	<b>401,032</b>
Current liabilities	259,561	285,987	360,351	380,633
Provisions	23,549	20,398	20,398	20,398
<b>Total liabilities</b>	<b>853,204</b>	<b>736,648</b>	<b>691,012</b>	<b>641,295</b>
<b>Total equity &amp; liabilities</b>	<b>1,250,978</b>	<b>1,171,597</b>	<b>1,267,608</b>	<b>1,319,322</b>
<b>Book Value (Rs)</b>	<b>96</b>	<b>105</b>	<b>140</b>	<b>164</b>

Source: Company; IDBI Capital Research

**Financial Ratios**

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	6.8	9.2	37.3	28.6
Adj. EPS growth (%)	8.8	35.7	306.3	(23.4)
EBITDA margin (%)	16.5	18.4	29.0	22.2
Pre-tax margin (%)	5.1	10.0	22.9	17.0
ROE (%)	7.2	9.1	30.5	18.8
ROCE (%)	7.1	9.4	24.9	18.0
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.5	0.6	0.7	0.7
Leverage factor (x)	3.1	2.9	2.4	2.1
Net margin (%)	4.5	5.5	17.2	12.7
Net Debt/Equity (x)	1.3	0.8	0.4	0.2
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	141	103	95	95
Receivable days	52	38	33	28
Payable days	45	45	45	45

**Valuation**

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	20.9	15.4	3.8	4.9
Price / Book value (x)	1.5	1.3	1.0	0.9
PCE (x)	8.9	7.4	3.0	3.6
EV / Net sales (x)	1.8	1.3	0.9	0.8
EV / EBITDA (x)	10.7	7.3	3.0	3.5
Dividend Yield (%)	0.4	1.3	2.1	2.8



# Notes

Dealing

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