

## Steel Authority of India

BUY

Wage provisions hits profitability; deleveraging continues

## Summary

SAIL's Q3FY22 EBITDA was marred down by higher provisions due to wage revision. EBITDA fell to Rs34 bn (-51% QoQ, -33% YoY) vs our estimate of Rs47 bn. EBITDA/tonne declined 36% YoY to Rs7,813/tonne. Its crude steel production grew by 4% YoY to 4.5 mn tonnes while saleable steel sales grew by 5% YoY to 4.3 mn tonnes (in line with our forecast). SAIL's net debt fell by Rs28 bn QoQ to Rs191 bn and the company aims to become net debt free during FY23. We lower our FY22 EBITDA estimate by 18% given the lower than expected Q3FY22 EBITDA and sharp rise in coking coal prices which is likely to affect Q4FY22 profitability. Nevertheless,, we broadly maintain our FY23-24 forecasts. We value the stock at an EV/EBITDA multiple of 3x FY24 to derive a target price of Rs139.

## Key Highlights and Investment Rationale

- Rising prices of raw materials and employee revision impacts profitability:** SAIL's Q3FY22 raw material cost increased by 22% QoQ to Rs25,700/tonne. Further, employee's costs rose 11% QoQ to Rs37 bn as the company revised salaries and wage agreement. This resulted in sharp fall in EBITDA by 52% QoQ to Rs7,813/tonne.
- 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 FY21. Nevertheless, these issues have been discounted in the current stock price. SAIL remains exposed to sharp fall in profitability in case steel cycle weakens due to its high and sticky fixed costs. Nevertheless, we expect steel spreads to remain above historical levels which should lead to strong free cash flows for SAIL over FY22-24. Lastly, valuation under 3x FY24E EV/EBITDA is inexpensive in our view. Hence, we maintain our positive stance on the stock.

TP **Rs139**CMP **Rs103**

Potential upside/downside +34%

Previous Rating BUY

## Price Performance (%)

	-1m	-3m	-12m
Absolute	(7.7)	(16.3)	55.1
Rel to Sensex	(6.3)	(13.8)	40.3

## V/s Consensus

EBITDA (Rs)	FY22E	FY23E	FY24E
IDBI Capital	226	197	186
Consensus	248	182	200
% difference	(8.6)	(8.2)	(7.0)

## Key Stock Data

Bloomberg / Reuters	SAIL IN / SAIL.BO
Sector	Metal
Shares o/s (mn)	4,131
Market cap. (Rs mn)	427,096
3-m daily average value (Rs mn)	434.0
52-week high / low	Rs151 / 62
Sensex / Nifty	58,926 / 17,606

## Shareholding Pattern (%)

Promoters	65.0
FII	4.4
DII	10.5
Public	20.1

## Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	616,606	691,100	998,980	1,037,490	1,069,779
Change (yoy, %)	(8)	12	45	4	3
EBITDA	101,990	127,281	226,881	197,445	186,559
Change (yoy, %)	5	25	78	(13)	(6)
EBITDA Margin(%)	16.5	18.4	22.7	19.0	17.4
Adj.PAT	27,933	37,916	134,239	118,086	113,277
EPS (Rs)	6.8	9.2	32.5	28.6	27.4
Change (yoy, %)	8.8	35.7	254.0	(12.0)	(4.1)
PE(x)	15.5	11.4	3.2	3.7	3.8
Dividend Yield (%)	0.6	1.7	5.7	5.7	5.7
EV/EBITDA (x)	9.2	6.1	2.7	2.4	2.3
RoE (%)	7.2	9.1	27.5	20.1	16.7
RoCE (%)	7.1	9.4	22.3	19.8	18.0

Source: IDBI Capital Research

**Exhibit 1: Quarterly Snapshot**

(Rs mn)

Financial snapshot	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)
<b>Net sales</b>	<b>252,459</b>	<b>268,269</b>	<b>(5.9)</b>	<b>198,329</b>	<b>27.3</b>
Total expenditure	218,355	198,100	10.2	147,555	48.0
<b>EBITDA</b>	<b>34,104</b>	<b>70,169</b>	<b>(51.4)</b>	<b>50,775</b>	<b>(32.8)</b>
<i>EBITDA margin (%)</i>	<i>13.5</i>	<i>26.2</i>	<i>(1265bps)</i>	<i>25.6</i>	<i>(1209bps)</i>
<i>EBITDA/tonne</i>	<i>7,813</i>	<i>16,395</i>	<i>(52.3)</i>	<i>12,235</i>	<i>(36.1)</i>
Interest	3,158	4,390	(28.1)	6,701	(52.9)
Depreciation	10,487	10,556	(0.7)	9,813	6.9
PBT	22,949	57,529	(60.1)	36,424	(37.0)
Tax	4,879	14,493	(66.3)	23,617	(79.3)
Exceptional items	(3639)	-	-	24.8	N.M
<b>Net profit</b>	<b>14,431</b>	<b>43,036</b>	<b>(66.5)</b>	<b>12,832</b>	<b>12.5</b>
<b>Diluted EPS</b>	<b>3.5</b>	<b>10.4</b>	<b>(66.5)</b>	<b>3.1</b>	<b>12.5</b>

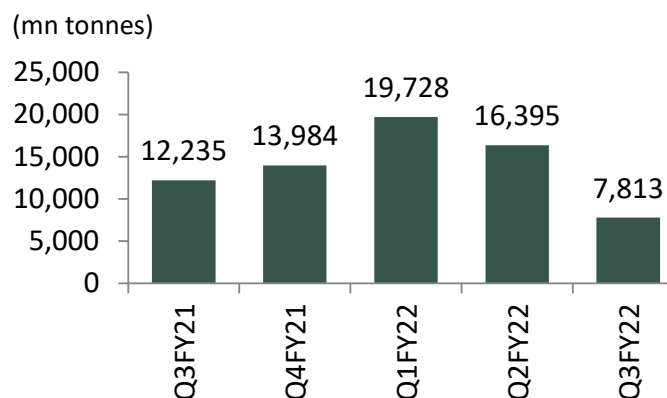
Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs estimates**

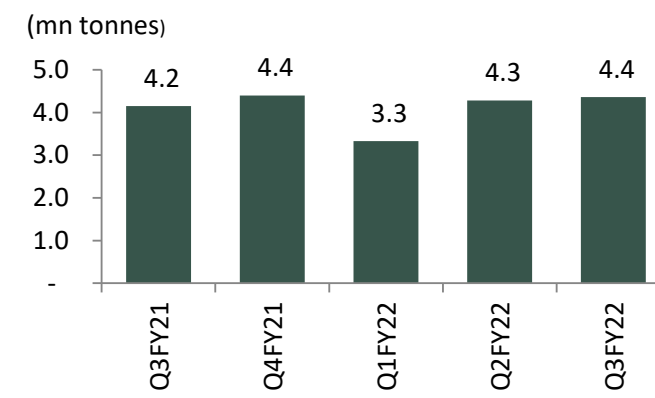
(Rs mn)

	Q2FY22E	Q2FY22A	% Variance
Net sales	252,998	252,459	(0.2)
EBTIDA	46,634	34,104	(26.9)
<i>Margin (%)</i>	<i>18.4</i>	<i>13.5</i>	<i>(492bps)</i>
Net profit	25,849	14,431	(44.2)
Dil. EPS	6.3	3.5	(44.2)

Source: Company; IDBI Capital Research

**Exhibit 3: EBIDTA/tonne fell 52% QoQ**

Source: Company; IDBI Capital Research

**Exhibit 4: Sales volume flattish QoQ**

Source: Company; IDBI Capital Research

**Exhibit 5: Change in estimates**

	FY22E			FY23E			FY24E		
	Old	New	(%) Chg	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	10,68,953	9,98,980	(6.5)	11,15,462	10,37,490	(7.0)	11,60,283	10,69,779	(7.8)
EBITDA (Rs mn)	2,75,705	2,26,881	(17.7)	1,89,763	1,97,445	4.0	1,75,102	1,86,559	6.5
EBITDA margin (%)	25.8	22.7	(309bps)	17	19.0	203bps	15.1	17.4	234bps
Net profit (Rs mn)	1,68,535	1,34,239	(20.3)	1,09,958	1,18,086	7.4	1,02,822	1,13,277	10.2
EPS (Rs)	40.8	32.5	(20.3)	26.6	28.6	7.5	24.9	27.4	10.1

Source: Company; IDBI Capital Research

### Conference call highlights

- SAIL witnessed a decline in overall profitability primarily led by rising prices of imported thermal and coking coal and flattening of steel prices in Q3FY22.
- The company witnessed highest ever quarterly production of Crude steel (4.5 mn tonnes), Hot steel (4.8 mn tonnes) and saleable steel (4.3 mn tonnes).
- Consumption cost of coking coal stood at Rs25,000/tonne as compared to Rs15,154/tonne in Q2FY22.
- Employee cost stood at Rs37,123 mn i.e higher by 11% QoQ on account of wage provision. Further, revaluation on certain employee benefits like gratuity and leave of Rs115 -120 bn will be done in FY23.
- Exports were stood at 1.13 mn tonnes in Q3FY22 and it is expected to be in the range of 11-13% in Q4FY22.
- Average long products realization was around Rs53-54000/tonne and average flat products realization was Rs65-66,000/tonne
- 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
- Going ahead, company will continue to deleverage its balance sheet by lowering receivables, reducing long term debt and focusing on working capital requirements.
- SAIL is estimating to hit a sales volume of 4.5 mn tonnes in Q4FY22 as company is witnessing good demand for long and flat products. it sold 1.6 mn tonnes in the month of January.
- The company is confident in achieving its target of 16.3 mn tonnes of steel production in FY22
- In FY23, company will be incurring a capex of Rs80 bn which will be used towards debottlenecking, modernization and expansion of existing plans.

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net sales</b>	<b>669,673</b>	<b>616,606</b>	<b>691,100</b>	<b>998,980</b>	<b>1,037,490</b>	<b>1,069,779</b>
<i>Change (yoy, %)</i>	16	(8)	12	45	4	3
Operating expenses	(572,332)	(514,615)	(563,820)	(772,099)	(840,046)	(883,219)
<b>EBITDA</b>	<b>97,341</b>	<b>101,990</b>	<b>127,281</b>	<b>226,881</b>	<b>197,445</b>	<b>186,559</b>
<i>Change (yoy, %)</i>	111	5	25	78	(13)	(6)
<i>Margin (%)</i>	14.5	16.5	18.4	22.7	19.0	17.4
Depreciation	(33,847)	(37,551)	(41,020)	(41,896)	(43,438)	(45,201)
<b>EBIT</b>	<b>63,494</b>	<b>64,440</b>	<b>86,261</b>	<b>184,985</b>	<b>154,007</b>	<b>141,358</b>
Interest paid	(31,549)	(34,868)	(28,171)	(15,420)	(8,797)	(5,772)
Other income	5,328	9,852	10,117	8,539	12,238	15,450
<b>Pre-tax profit</b>	<b>33,379</b>	<b>31,707</b>	<b>68,790</b>	<b>174,464</b>	<b>157,448</b>	<b>151,036</b>
Tax	(11,591)	(11,491)	(30,290)	(43,864)	(39,362)	(37,759)
<i>Effective tax rate (%)</i>	35	36	44	25	25	25
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>21,788</b>	<b>20,215</b>	<b>38,500</b>	<b>130,600</b>	<b>118,086</b>	<b>113,277</b>
Exceptional items	(3,894)	(7,718)	584	(3,639)	-	-
<b>Adjusted net profit</b>	<b>25,682</b>	<b>27,933</b>	<b>37,916</b>	<b>134,239</b>	<b>118,086</b>	<b>113,277</b>
<i>Change (yoy, %)</i>	(605.4)	8.8	35.7	254.0	(12.0)	(4.1)
EPS	6.2	6.8	9.2	32.5	28.6	27.4
Dividend per sh	-	1	2	6	6	6
<i>Dividend Payout %</i>	-	11	24	18	21	22

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Shareholders' funds</b>	<b>381,516</b>	<b>397,774</b>	<b>434,949</b>	<b>540,765</b>	<b>634,068</b>	<b>722,562</b>
Share capital	41,305	41,305	41,305	41,305	41,305	41,305
Reserves & surplus	340,210	356,469	393,644	499,460	592,763	681,256
<b>Total Debt</b>	<b>414,339</b>	<b>512,008</b>	<b>355,762</b>	<b>175,762</b>	<b>55,762</b>	<b>5,762</b>
Other liabilities	58,860	58,086	74,501	74,501	74,501	74,501
<b>Curr Liab &amp; prov</b>	<b>309,662</b>	<b>283,111</b>	<b>306,385</b>	<b>403,712</b>	<b>429,063</b>	<b>434,434</b>
Current liabilities	286,575	259,561	285,987	383,314	408,664	414,036
Provisions	23,088	23,549	20,398	20,398	20,398	20,398
<b>Total liabilities</b>	<b>782,862</b>	<b>853,204</b>	<b>736,648</b>	<b>653,975</b>	<b>559,326</b>	<b>514,697</b>
<b>Total equity &amp; liabilities</b>	<b>1,164,377</b>	<b>1,250,978</b>	<b>1,171,597</b>	<b>1,194,740</b>	<b>1,193,394</b>	<b>1,237,258</b>
Net fixed assets	759,208	741,210	729,937	748,041	784,604	819,402
Investments	15,858	15,861	11	11	11	11
Other non-curr assets	66,819	84,723	79,525	79,525	79,525	79,525
<b>Current assets</b>	<b>322,493</b>	<b>409,185</b>	<b>362,124</b>	<b>367,164</b>	<b>329,254</b>	<b>338,321</b>
Inventories	194,418	237,472	195,083	240,937	236,013	243,358
Sundry Debtors	44,951	88,124	71,240	75,608	64,310	51,657
Cash and Bank	2,194	3,633	6,805	5,844	6,252	18,387
Loans and advances	532	497	505	530	556	584
Other current assets	80,398	79,459	88,491	44,245	22,123	24,335
<b>Total assets</b>	<b>1,164,377</b>	<b>1,250,978</b>	<b>1,171,597</b>	<b>1,194,740</b>	<b>1,193,394</b>	<b>1,237,258</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	33,379	31,707	68,790	174,464	157,448	151,036
Depreciation	31,539	37,551	41,020	41,896	43,438	45,201
Tax paid	(11,591)	(11,491)	(30,290)	(43,864)	(39,362)	(37,759)
Chg in working capital	(4,792)	(112,744)	82,539	47,080	41,546	10,651
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>48,536</b>	<b>(54,978)</b>	<b>162,059</b>	<b>219,576</b>	<b>203,069</b>	<b>169,130</b>
Capital expenditure	(35,232)	(19,553)	(29,748)	(60,000)	(80,000)	(80,000)
Chg in investments	(937)	(3)	15,850	-	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(36,169)</b>	<b>(19,555)</b>	<b>(13,897)</b>	<b>(60,000)</b>	<b>(80,000)</b>	<b>(80,000)</b>
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(5,876)	97,669	(156,246)	(180,000)	(120,000)	(50,000)
Dividend (incl. tax)	-	(2,977)	(8,922)	(24,783)	(24,783)	(24,783)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(5,876)</b>	<b>94,692</b>	<b>(165,168)</b>	<b>(204,783)</b>	<b>(144,783)</b>	<b>(74,783)</b>
<b>Net chg in cash (a+b+c)</b>	<b>6,491</b>	<b>20,160</b>	<b>(17,006)</b>	<b>(45,207)</b>	<b>(21,714)</b>	<b>14,346</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	92	96	105	131	154	175
Adj EPS (Rs)	6.2	6.8	9.2	32.5	28.6	27.4
Adj EPS growth (%)	(605)	9	36	254	(12)	(4)
EBITDA margin (%)	14.5	16.5	18.4	22.7	19.0	17.4
Pre-tax margin (%)	5.0	5.1	10.0	17.5	15.2	14.1
Net Debt/Equity (x)	1.1	1.3	0.8	0.3	0.1	(0.0)
ROCE (%)	7.5	7.1	9.4	22.3	19.8	18.0
ROE (%)	7.0	7.2	9.1	27.5	20.1	16.7

### DuPont Analysis

Asset turnover (x)	0.6	0.5	0.6	0.8	0.9	0.9
Leverage factor (x)	3.1	3.1	2.9	2.4	2.0	1.8
Net margin (%)	3.8	4.5	5.5	13.4	11.4	10.6

### Working Capital & Liquidity ratio

Inventory days	106	141	103	88	83	83
Receivable days	24	52	38	28	23	18
Payable days	46	45	45	45	45	45

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	16.9	15.5	11.4	3.2	3.7	3.8
Price/Book value (x)	1.1	1.1	1.0	0.8	0.7	0.6
EV/Net sales (x)	1.3	1.5	1.1	0.6	0.5	0.4
EV/EBITDA (x)	8.7	9.2	6.1	2.7	2.4	2.3
Dividend Yield (%)	0.0	0.6	1.7	5.7	5.7	5.7

Source: Company; IDBI Capital Research





# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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