

Steel Authority of India

BUY

EBITDA at all time high; Debt falls sharply

Summary

SAIL's Q2FY22 result was ahead of our expectations; Its EBITDA/tonne jumped 2.7x YoY to Rs16,395 backed by strong improvement in realizations. Overall, EBITDA increased to Rs70 bn compared to EBITDA of Rs19 bn in Q2FY21. Importantly, SAIL's net debt fell by Rs133 bn to Rs219 bn in H1FY22 and the company aims to become net debt free by Q1FY23. However, rising coking coal price will impact its operating margin in the near-term.

We introduce FY24 forecast in our report and expect EBITDA to fall 8% YoY in FY24 as steel cycle is likely to normalize over FY22-24. We now value the stock at an EV/EBITDA multiple of 3.5x FY24 (earlier 4.0x FY23) to derive a target price of Rs161 (earlier Rs168).

Key Highlights and Investment Rationale

- Rising cost affects EBITDA margin:** Although SAIL's Q2FY22 realizations were flat QoQ, its raw material cost increased 28% QoQ to Rs21,418/tonne. Further, employees costs rose 20% QoQ to Rs33 bn leading to fall in EBITDA by 17% QoQ to Rs16,395/tonne. Nevertheless, its EBITDA increased to all-time high at Rs70 bn (+2.7x YoY, +7% 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 FY21. 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 2.6x FY24E EV/EBITDA is inexpensive in our view. Hence, we maintain our positive stance on the stock.

TP	Rs161
CMP	Rs115
Potential upside / downside	40%
Previous Rating	BUY

V/s Consensus

EBITDA (Rs bn)	FY23E	FY24E
IDBI Capital	189	175
Consensus	196	188
% difference	(3.5)	(6.9)

Shareholding Pattern (%)

Promoters	65.0
FII	5.4
DII	12.5
Public	17.1

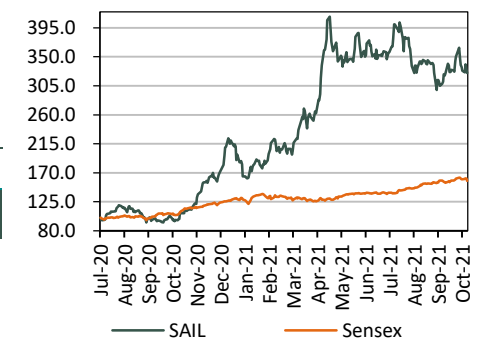
Price Performance (%)

	-1m	-3m	-12m
Absolute	0.4	(19.0)	241.8
Rel to Sensex	0.6	(31.7)	192.6

Key Stock Data

Bloomberg / Reuters	SAIL IN / SAIL.BO
Sector	Metal
Shares o/s (mn)	4,131
Market cap. (Rs mn)	475,010
Market cap. (US\$ mn)	6,337
3-m daily average value (Rs mn)	434.0
52-week high / low	Rs151 / 33
Sensex / Nifty	59,307 / 17,672

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	616,606	691,100	1,068,953	1,115,462	1,160,283
EBITDA	101,990	127,281	275,705	189,763	175,102
EBITDA (%)	16.5	18.4	25.8	17.0	15.1
Adj. PAT	27,933	37,916	168,535	109,958	102,822
EPS (Rs)	6.8	9.2	40.8	26.6	24.9
EPS Growth (%)	8.8	35.7	344.5	(34.8)	(6.5)
PE (x)	20.9	12.5	2.8	4.3	4.6
Dividend Yield (%)	0.4	1.6	5.2	5.2	5.2
EV/EBITDA (x)	10.7	6.5	2.3	2.7	2.6
RoE (%)	7.2	9.1	33.3	17.7	14.6
RoCE (%)	7.1	9.4	27.6	17.9	16.0

Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot

(Rs mn)

Financial snapshot	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Net sales	268,269	206,424	30.0	169,236	58.5
Total expenditure	198,100	140,788	40.7	150,231	31.9
EBITDA	70,169	65,636	6.9	19,005	269.2
<i>EBITDA margin (%)</i>	26.2%	31.8%	-564bps	11.2%	1493bps
<i>EBITDA/tonne</i>	16,395	19,728	(16.9)	4,518	262.8
Interest	4,390	5,030	(12.7)	7,204	(39.1)
Depreciation	10,556	10,261	2.9	9,898	6.7
PBT	57,529	51,449	11.8	3,879	1,383.0
Tax	14,493	12,949	11.9	2,170	567.9
Exceptional items	-	-	-	2223.9	(100.0)
Net profit	43,036	38,500	11.8	3,933	994.2
Diluted EPS	10.4	9.3	11.8	1.0	994.2

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs estimates

(Rs mn)

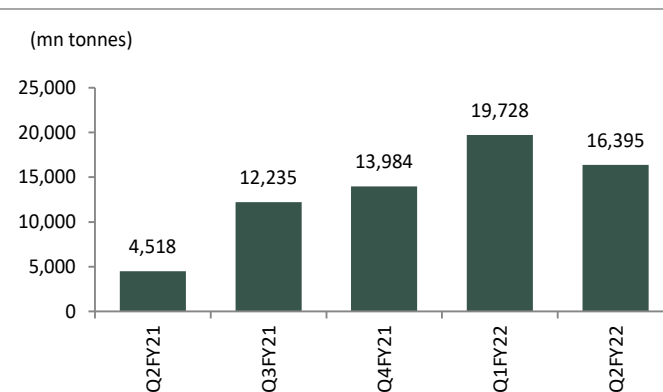
	Q2FY22E	Q2FY22A	% Variance
Net sales	227,066	268,269	18.1
EBTIDA	66,440	70,169	5.6
<i>Margin (%)</i>	29.3	26.2	-310bps
Net profit	39,540	43,036	8.8
Dil. EPS	9.6	10.4	8.8

Source: Company; IDBI Capital Research

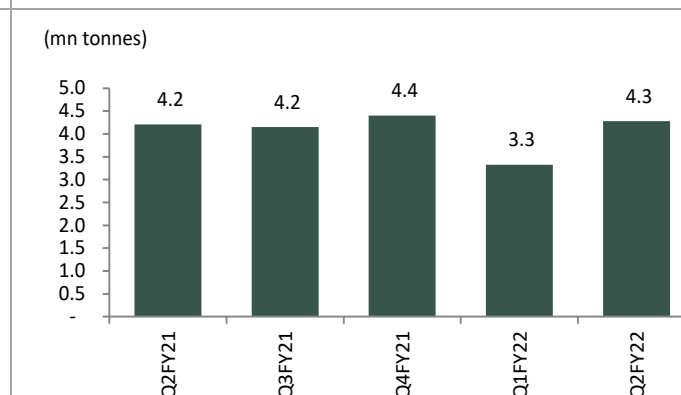
Exhibit 3: Change in estimates

	FY22E			FY23E			FY24E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	896,728	1,068,953	19.2	925,590	1,115,462	20.5	1,160,283
EBITDA (Rs mn)	259,632	275,705	6.2	205,878	189,763	(7.8)	175,102
EBITDA margin (%)	29.0	25.8	-316bps	22.2	17.0	-523bps	15.1
Net profit (Rs mn)	154,039	168,535	9.4	117,953	109,958	(6.8)	102,822
EPS (Rs)	37.3	40.8	9.4	28.6	26.6	(6.9)	24.9

Source: Company; IDBI Capital Research

Exhibit 4: EBIDTA/tonne falls QoQ

Source: Company; IDBI Capital Research

Exhibit 5: Sales volume flattish YoY

Source: Company; IDBI Capital Research

Conference call highlights

- In Q2FY22, SAIL saw a topline growth of 58% YoY on account of strong revival in construction and infrastructure activities, resulting in improvement in operating efficiency and volume growth.
- Inventory decreased by 0.18 mn tonnes and stood at 0.75 mn tonnes as on Sept'21.
- Employee cost stood at Rs 33,343mn i.e higher by 20% QoQ on account of wage provision. Further, revaluation on certain employee benefits like gratuity and leave will be done which will impact Q4FY22.
- Total employee cost is expected to be around Rs105 bn in FY23.
- During the quarter, the company sold 0.9 mn tonnes of Iron ore.
- Exports were stable at 11% of total sales in Q2FY22 due to Covid impact in South east Asia markets and Europe quota. It is expected to pick up from the month of December.
- Capacity utilization of all the plants stood at 91% in Q2FY22.
- 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
- On cost front, coking coal contributed 31% of total cost while it incurred 24% of overall revenue.
- Succession for Hot stripped mill has started and commercial production is expected to begin from Q4FY22.
- SAIL doesn't have much presence in auto segment. Also it is working on product mix which has good margins and good growth.
- In H1FY22, Capex was Rs21 bn while the target is to spend Rs60 bn in FY22.
- Average long products realization was Rs49,170/tonne and average flat products realisation was Rs63,026/tonne
- The company is looking for alternative source of import for coking coal to reduce the dependency on a single country.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	691,100	1,068,953	1,115,462	1,160,283
<i>Growth (%)</i>	12.1	54.7	4.4	4.0
Operating expenses	(563,820)	(793,248)	(925,700)	(985,181)
EBITDA	127,281	275,705	189,763	175,102
<i>Growth (%)</i>	24.8	116.6	(31.2)	(7.7)
Depreciation	(41,020)	(42,247)	(44,161)	(45,954)
EBIT	86,261	233,458	145,601	129,148
Interest paid	(28,171)	(16,927)	(11,006)	(7,221)
Other income	10,117	8,445	12,015	15,169
Pre-tax profit	68,790	224,977	146,611	137,096
Tax	(30,290)	(56,441)	(36,653)	(34,274)
<i>Effective tax rate (%)</i>	44.0	25.1	25.0	25.0
Minority interest	-	-	-	-
Net Profit	38,500	168,535	109,958	102,822
Exceptional items	584	-	-	-
Adjusted net profit	37,916	168,535	109,958	102,822
<i>Growth (%)</i>	35.7	344.5	(34.8)	(6.5)
<i>Shares o/s (mn)</i>	4,131	4,131	4,131	4,131

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	68,790	224,977	146,611	137,096
Depreciation	41,020	42,247	44,161	45,954
Tax paid	(30,290)	(56,441)	(36,653)	(34,274)
Chg in working capital	82,539	27,539	49,172	10,292
Other operating activities	-	-	-	-
Cash flow from operations (a)	162,059	238,322	203,292	159,068
Capital expenditure	(29,748)	(60,000)	(80,000)	(80,000)
Chg in investments	15,850	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(13,897)	(60,000)	(80,000)	(80,000)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(156,246)	(180,000)	(120,000)	(50,000)
Dividend (incl. tax)	(8,922)	(24,783)	(24,783)	(24,783)
Other financing activities	-	-	-	-
Cash flow from financing (c)	(165,168)	(204,783)	(144,783)	(74,783)
Net chg in cash (a+b+c)	(17,006)	(26,461)	(21,491)	4,285

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23E	FY24E
Net fixed assets	729,937	747,690	783,529	817,575
Investments	11	11	11	11
Other non-curr assets	79,525	79,525	79,525	79,525
Current assets	362,124	408,081	370,793	372,186
Inventories	195,083	257,813	253,750	263,946
Sundry Debtors	71,240	80,903	69,143	56,027
Cash and Bank	6,805	24,589	25,221	27,294
Marketable securities	-	-	-	-
Loans and advances	505	530	556	584
Other current assets	88,491	44,245	22,123	24,335
Total assets	1,171,597	1,235,307	1,233,858	1,269,297
Shareholders' funds	434,949	578,701	663,876	741,915
Share capital	41,305	41,305	41,305	41,305
Reserves & surplus	393,644	537,396	622,571	700,610
Total Debt	355,762	175,762	55,762	5,762
Secured loans	355,762	175,762	55,762	5,762
Unsecured loans	-	-	-	-
Other liabilities	74,501	74,501	74,501	74,501
Curr Liab & prov	306,385	406,343	439,719	447,119
Current liabilities	285,987	385,945	419,320	426,720
Provisions	20,398	20,398	20,398	20,398
Total liabilities	736,648	656,606	569,982	527,382
Total equity & liabilities	1,171,597	1,235,307	1,233,858	1,269,297
Book Value (Rs)	105	140	161	180

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22	FY23E	FY24E
Adj. EPS (Rs)	9.2	40.8	26.6	24.9
Adj. EPS growth (%)	35.7	344.5	(34.8)	(6.5)
EBITDA margin (%)	18.4	25.8	17.0	15.1
Pre-tax margin (%)	10.0	21.0	13.1	11.8
ROE (%)	9.1	33.3	17.7	14.6
ROCE (%)	9.4	27.6	17.9	16.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	0.6	0.9	0.9	0.9
Leverage factor (x)	2.9	2.4	2.0	1.8
Net margin (%)	5.5	15.8	9.9	8.9
Net Debt/Equity (x)	0.8	0.3	0.0	(0.0)
Working Capital & Liquidity ratio				
Inventory days	103	88	83	83
Receivable days	38	28	23	18
Payable days	45	45	45	45

Valuation

Year-end: March	FY21	FY22	FY23E	FY24E
P/E (x)	12.5	2.8	4.3	4.6
Price / Book value (x)	1.1	0.8	0.7	0.6
PCE (x)	6.0	2.3	3.1	3.2
EV / Net sales (x)	1.2	0.6	0.5	0.4
EV / EBITDA (x)	6.5	2.3	2.7	2.6
Dividend Yield (%)	1.6	5.2	5.2	5.2



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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