

RETAIL EQUITY RESEARCH

Steel Authority of India Ltd

Steel Products

BSE CODE: 500410

NSE CODE: SAIL

Bloomberg CODE: SAIL:IN

SENSEX: 32,607

HOLD

Rating as per Largecap

12months investment period

CMP Rs. 62 TARGET Rs. 65 RETURN 6% ↑

24th October 2017

Sail to turn profitable in FY19

Steel Authority of India Ltd (SAIL), a public-sector undertaking, is India's largest steel manufacturing company with an installed capacity of ~14 mtpa. SAIL operates through five integrated plants and three special steel plants located primarily in eastern and central India.

- Despite 3.8% QoQ growth in realisation, SAIL reported 9% QoQ decline in standalone revenue in Q1FY18 mainly due to lower volumes.
- SAIL witnessed contraction in losses at the EBITDA level by 68% QoQ in Q1FY18 mainly due to inclusion of prior period revenues and write back of executive benefit. However, adjusting for prior period items, EBITDA loss per tonne more than doubled to Rs. 1,655.
- We factor revenue CAGR of 19% over FY17-19E owing to healthy growth in volumes (13% CAGR) led by ramp-up of capacities.
- We model EBITDA margin of 5.2%/9% in FY18E/19E given the company's focus on cost optimisation coupled with relatively better mix and higher realisation.
- However, we expect the company to continue to report losses at net level in FY18E and to be marginally profitable in FY19E owing to higher depreciation and interest costs led by huge capacity expansion.
- We believe steel prices to remain firm in the near term. Hence, we recommend "HOLD" rating on the stock with a revised TP of Rs. 65 based on 0.75x FY19E P/BV.

On an expansion spree

The company reported 9% QoQ decline in standalone revenue in Q1FY18 mainly due to 11% fall in sales volume offsetting the 3.8% increase in realisation. However, adjusting for prior period sales of ~Rs. 248 cr received on account of finalisation of prices of rails supplied to the Railways by the Bhilai Steel plant for the period FY13 to FY15, standalone revenue fell by ~11% QoQ while growth in realisation was restricted to ~2%. Besides, the management has guided for saleable steel production volume of 16-16.5MT for FY18 and 18MT for FY19. Also, it has highlighted that the expansion and modernisation work have mostly completed, while in case of Bhilai facility it is expected to complete by the end of FY18. With the management focusing on ramping up of existing capacities, we expect healthy volumes CAGR of 13% over FY17-19E.

Cost pressure hurts profitability

SAIL witnessed sharp contraction in losses at the EBITDA level in Q1FY18 to Rs. 84 cr as against a loss of Rs. 264 cr in Q4FY17 owing to inclusion of prior period revenues and write back of executive benefit. As a result, EBITDA loss/tonne reduced to Rs. 277 in Q1FY18 from Rs. 767 in Q4FY17. However, adjusting for prior period items, EBITDA loss widened to Rs. 501 cr with EBITDA loss per tonne increasing to Rs. 1,655. Further, net loss increased by 3.9% QoQ to Rs. 801 cr, while, adjusted net loss widened by 57% QoQ.

To be marginally profitable in FY19E

During the quarter, the company undertook price hike to offset the impact of higher coking coal prices. The management has further increased the prices in July and August 2017 across products. As a result, we expect consolidated revenue to grow at 19% CAGR over FY17-19E.

Further, decline in coking coal prices, focus on cost optimisation and relatively better product mix augurs well for the margins going ahead. Hence, we model EBITDA margin of 5.2%/9% in FY18E/19E.

Outlook & Valuation:

The company is ailing with structural issues given its high cost structure and weak product mix. Further, we expect the company to continue to report losses at net level in FY18E and to be only marginally profitable in FY19E owing to higher depreciation and interest costs led by huge capacity expansion. We believe steel prices to remain firm in the near term. Hence, we recommend "HOLD" rating on the stock with a revised TP of Rs. 65 based on 0.75x FY19E P/BV.

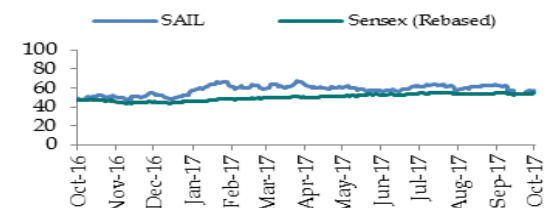
Company Data

Market Cap (Rs. cr)	25,423
Enterprise Value (Rs. cr)	71,596
Outstanding Shares (cr)	413.1
Free Float	25%
Dividend Yield	0.0%
52 week high	Rs. 69
52 week low	Rs. 45
6m average volume (cr)	0.6
Beta	2.0
Face value	Rs. 10

Shareholding %	Q3FY17	Q4FY17	Q1FY18
Promoters	75.0	75.0	75.0
FII's	4.0	4.3	4.0
MFs/Insti	16.7	16.6	16.4
Public	3.2	3.1	3.4
Others	1.1	1.0	1.2
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	(3%)	2%	23%
Absolute Sensex	1%	10%	16%
Relative Return*	(4%)	(8%)	7%

*over or under performance to benchmark index



Consolidated (Rs.cr)	FY17	FY18E	FY19E
Sales	43,947	54,895	62,098
Growth (%)	14.0%	24.9%	13.1%
EBITDA	67	2,911	5,638
Margin(%)	0.2	5.2	9.0
PAT Adj	(2,539)	(1,374)	284
Growth (%)	(39.2%)	(45.9%)	-
Adj.EPS	(6.1)	(3.3)	0.7
Growth (%)	(39.2%)	(45.9%)	-
P/E	-	-	89.7
P/B	0.7	0.7	0.7
EV/EBITDA	953.1	22.5	11.6
RoE (%)	(6.6)	(3.8)	0.8
D/E	1.1	1.1	1.1

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
Net Sales	11,580	9,238	25.3	12,691	(8.8)
EBITDA	(84)	234	-	(264)	(68.3)
Margin (%)	(0.7)	2.5	-	(2.1)	136
Depreciation	695	600	15.7	744	(6.6)
EBIT	(779)	(366)	112.5	(1,008)	(22.8)
Interest	588	594	(1.0)	720	(18.4)
Other Income	89	89	0.0	309	(71.1)
Exceptional Items	(10)	(54)	-	0	-
PBT	(1,287)	(925)	39.1	(1,419)	(9.3)
Tax	(486)	(390)	24.6	(648)	(25.0)
PAT	(801)	(536)	49.6	(771)	3.9
Minority Interest	-	-	-	-	-
Reported PAT	(801)	(536)	49.6	(771)	3.9
Adjustment	10	54	-	(0)	-
Adj PAT	(791)	(481)	64.4	(772)	2.5
No. of shares (cr)	413.1	413.1	-	413.1	-
EPS (Rs)	(1.9)	(1.2)	64.4	(1.9)	2.5

Segmental Revenue

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
Bhilai Steel Plant	3,886	3,190	21.8	4,193	(7.3)
Durgapur Steel Plant	1,291	1,445	(10.6)	1,718	(24.9)
Rourkela Steel Plant	2,661	2,049	29.9	2,913	(8.6)
Bokaro Steel Plant	3,381	2,547	32.7	3,546	(4.7)
IISCO Steel Plant	1,432	916	56.3	1,515	(5.5)
Alloy Steel Plant	172	164	5.3	139	24.1
Salem Steel Plant	320	461	(30.5)	508	(36.9)
Visvesvaraya Iron & Steel Plant	47	41	13.6	55	(15.7)
Others	986	835	18.0	982	0.4
Total segment revenue	14,177	11,648	21.7	15,570	(8.9)
Less: Inter segment revenue	1,193	1,312	(9.1)	1,336	(10.7)
Gross Sales	12,983	10,336	25.6	14,234	(8.8)

Source: Company, Geojit Research

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Revenue	52,665	59,669	54,895	62,098	4.2	4.1
EBITDA	3,345	6,346	2,911	5,638	(13.0)	(11.2)
Margin (%)	6.3	10.5	5.2	9.0	(110 bps)	(150bps)
Adj. PAT	(1,349)	477	(1,374)	284	1.9	(40.5)
EPS	(3.3)	1.2	(3.3)	0.7	-	(41.7)

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Sales	45,591	38,551	43,947	54,895	62,098
% change	-1.9%	-15.4%	14.0%	24.9%	13.1%
EBITDA	4,726	(2,903)	67	2,911	5,638
% change	8.7	-161.4	-102.3	4238.7	93.7
Depreciation	1,907	2,404	2,682	2,931	3,200
EBIT	2,819	(5,307)	(2,615)	(20)	2,438
Interest	1,555	2,300	2,528	2,832	2,832
Other Income	981	529	449	512	528
PBT	2,245	(7,078)	(4,693)	(2,340)	134
% change	-2.0	-415.3	-33.7	-50.1	-105.7
Tax	306	(2,938)	(1,960)	(772)	44
Tax Rate (%)	13.6	41.5	41.8	33.0	33.0
Reported PAT	2,035	(4,177)	(2,756)	(1,374)	284
Adj*	-	-	(217)	-	-
Adj PAT	2,035	(4,177)	(2,539)	(1,374)	284
% change	27.5	-305.2	-39.2	-45.9	-120.6
No. of shares (cr)	413.1	413.1	413.1	413.1	413.1
Adj EPS (Rs)	4.9	(10.1)	(6.1)	(3.3)	0.7
% change	27.5	-305.2	-39.2	-45.9	-120.6
DPS (Rs)	0.2	0.2	-	-	-

Cash flow

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	2,245	(7,114)	(4,716)	(2,146)	328
Depreciation	1,927	2,404	2,682	2,931	3,200
Changes in W.C	(1,949)	5,751	1,746	237	(177)
Others	931	2,696	2,436	2,320	2,304
Tax paid	(574)	306	13	772	(44)
C.F.O	2,579	4,043	2,160	4,114	5,611
Capital exp.	(7,704)	(6,652)	(5,454)	(3,300)	(3,000)
Change in inv.	229	(137)	2	-	-
Other invest.CF	1,183	1,984	(14)	512	528
C.F - investing	(6,292)	(4,805)	(5,467)	(2,788)	(2,472)
Issue of equity	28	-	-	-	-
Issue/repay debt	-	3,167	5,830	1,413	-
Dividends paid	(723)	(124)	-	-	-
Other finance.CF	4,470	(2,300)	(2,528)	(2,832)	(2,832)
C.F - Financing	3,775	743	3,302	(1,419)	(2,832)
Chg. in cash	63	(20)	(5)	(93)	307
Closing cash	2,636	346	379	286	593

Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	2,636	346	379	286	593
Accounts Receivable	3,250	3,151	2,935	3,666	4,147
Inventories	18,036	14,708	15,736	18,349	19,713
Other Cur. Assets	5,196	6,534	7,109	7,438	7,728
Investments	61	2,279	2,475	2,475	2,475
Gross Fixed Assets	71,159	77,780	84,593	92,893	1,00,893
Net Fixed Assets	39,011	45,943	50,300	55,669	60,469
CWIP	29,328	24,927	23,275	18,275	13,275
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	(2,565)	1,670	3,849	3,849	3,849
Other Assets	5,117	1,744	1,556	1,556	1,556
Total Assets	1,00,068	1,01,302	1,07,615	1,11,564	1,13,805
Current Liabilities	18,849	23,114	26,559	30,469	32,427
Provisions	-	-	-	-	-
Debt Funds	32,146	33,071	38,901	40,313	40,313
Other Liabilities	5,618	4,966	5,114	5,114	5,114
Equity Capital	4,131	4,131	4,131	4,131	4,131
Reserves and Surplus	39,641	36,021	32,912	31,538	31,821
Shareholder's Fund	43,771	40,151	37,042	35,668	35,952
Minority Interest	(317)	-	0	0	0
Total Liabilities	1,00,068	1,01,302	1,07,615	1,11,564	1,13,805
BVPS (Rs)	106.0	97.2	89.7	86.4	87.0

Ratios

Y.E March	FY15	FY16	FY17	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	10.3	(7.4)	0.2	5.2	9.0
EBIT margin (%)	6.1	(13.6)	(5.9)	(0.0)	3.9
Net profit mgn.(%)	4.4	(10.7)	(5.7)	(2.5)	0.5
ROE (%)	4.7	(10.0)	(6.6)	(3.8)	0.8
ROCE (%)	5.2	(6.4)	(2.9)	0.6	3.9
W.C & Liquidity					
Receivables (days)	23.2	26.5	21.7	21.7	21.7
Inventory (days)	169.5	139.0	138.7	136.1	135.0
Payables (days)	33.6	34.7	42.9	43.1	43.0
Current ratio (x)	1.5	1.1	1.0	1.0	1.0
Quick ratio (x)	0.6	0.4	0.4	0.4	0.4
Turnover & Levq.					
Gross asset T.O (x)	0.7	0.5	0.5	0.6	0.6
Total asset T.O (x)	0.5	0.4	0.4	0.5	0.5
Adj. debt/equity (x)	0.7	0.8	1.1	1.1	1.1
Valuation ratios					
EV/Net Sales (x)	1.2	1.5	1.5	1.2	1.0
EV/EBITDA (x)	11.6	(20.0)	953.1	22.5	11.6
P/E (x)	12.5	-	-	-	89.7
P/BV (x)	0.6	0.6	0.7	0.7	0.7

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
28 February 2014	REDUCE	42
17 May 2014	REDUCE	63
08 October 2014	REDUCE	55
30 April 2015	REDUCE	60
25 June 2015	REDUCE	55
11 September 2015	REDUCE	48
29 January 2016	REDUCE	39
27 February 2017	REDUCE	44
24 October 2017	HOLD	65

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is 10% or more.
Hold	-	Upside or downside is less than 10%.
Reduce	-	Downside is 10% or more.

Mid Cap and Small Cap;

Buy	-	Upside is 15% or more.
Accumulate*	-	Upside between 10% - 15%.
Hold	-	Absolute returns between 0% - 10%.
Reduce/Sell	-	Absolute returns less than 0%.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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