

May 25, 2022

## Performs well , challenging times ahead...

**About the stock:** Steel Authority of India (SAIL) is one of the leading steel producers in India, which has five large integrated steel plants (Bhilai steel plant, Rourkela steel plant, Durgapur steel plant, Bokaro steel plant and IISCO). In addition, SAIL also has three special steel plants.

- SAIL has iron ore mines in states of Chhattisgarh, Jharkhand and Odisha, which aids in meeting 100% of its iron ore requirements captively
- In FY22, SAIL reported crude steel production of 17.36 million tonnes (MT) and steel sales volume of 16.15 MT

**Q4FY22 Results:** SAIL reported a healthy performance in Q4FY22.

- For Q4FY22, SAIL reported a standalone revenue of ₹ 30578 crore, up 32% YoY and 22% QoQ, broadly in line with our estimate of ₹ 30375 crore. For the quarter, SAIL reported sales volume of 4.71 MT, up 9% YoY and 23% QoQ, higher than our estimate of 4.5 MT
- Standalone EBITDA for the quarter was at ₹ 4331 crore, up 27% QoQ but down 30% YoY, higher than our estimate of ₹ 3510 crore
- Standalone operations EBITDA/tonne for the quarter was at ₹ 9196/tonne higher than our estimate of ₹ 7800/tonne (₹ 8881/tonne for Q3FY22 and ₹ 14177/tonne in Q4FY21). EBITDA margin for the quarter was at 14.1% higher than our estimate of 11.6% (13.5% in Q3FY22 and 26.4% in Q4FY21)
- Ensuing Standalone PAT for quarter was at ₹ 2418 crore, up 68% QoQ but down 30%, higher than our estimate of ₹ 1710 crore

**What should investors do?** SAIL's share price has given a return of ~147% over the last two years (from ~₹ 30 in May 2020 to ~₹ 74 levels in May 2022).

- We downgrade the stock from BUY to **HOLD**, due to elevated coking coal prices

**Target Price and Valuation:** We value SAIL at ₹ 80, 5x FY24E EV/EBITDA.

### Key triggers for future price performance:

- Wage bill (employee cost) is expected to be ~₹ 12000 crore for FY23E (during FY22 – employee expenses were at ₹ 12846 crore)
- SAIL has given a capex guidance of ₹ 8000 crore for FY23E

**Alternate Stock Idea:** In our metal coverage, we like Ratnamani Metals and Tubes

- Ratnamani Metals and Tubes (RMTL) is a niche player with superior capabilities in the industrial pipes and tubes segment
- BUY with a target price of ₹ 2950



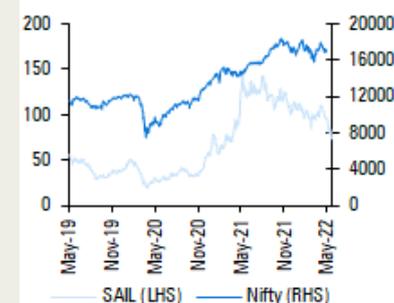
### Particulars

Particulars	Amount
Market Capitalization	30566
Total Debt (FY22)	13386
Cash & Inv (FY22)	648
EV (₹ crore)	43303
52 week H/L (₹)	₹146/72
Equity Capital (₹ crore)	₹4131
Face Value (₹)	10

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	65.0	65.0	65.0	65.0
FIs	5.0	5.4	4.4	4.6
DIs	15.6	12.5	10.5	10.2
Public	14.4	17.2	20.1	20.2
Total	100.0	100.0	100.0	100.0

### Price Chart



### Key Risks

- Steel prices staying elevated for a longer time frame
- Higher than expected increase in operating costs

### Research Analyst

Dewang Sanghavi  
dewang.sanghavi@icicisecurities.com

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR in % (FY18-FY22)	FY23E	FY24E	CAGR in % (FY22-FY24E)
Net Sales	66,967	61,661	69,110	1,03,473	18%	1,01,917	1,10,072	3%
EBITDA	9,734	10,199	12,728	21,322	NA	7,225	10,799	-29%
EBITDA Margin (%)	14.5	16.5	18.4	20.6		7.1	9.8	
Net Profit	2,179	2,022	3,850	12,015	NA	1,185	3,787	-44%
Adj EPS (₹)	6.2	6.8	9.2	29.9		2.9	9.2	
P/E (x)	11.9	10.9	8.1	2.5		25.8	8.1	
EV/EBITDA (x)	7.7	8.0	5.1	2.0		6.9	4.8	
RoCE (%)	7.6	7.1	10.9	26.1		3.3	7.9	
RoE (%)	5.7	5.1	8.9	23.1		2.2	6.8	

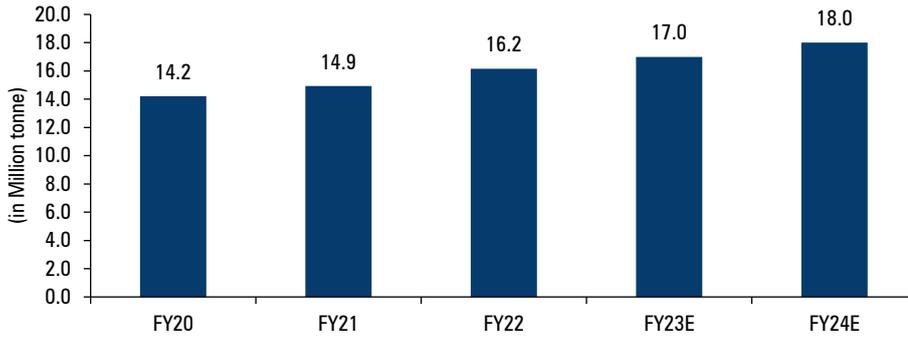
Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
<b>Total Operating Income</b>	30,758	30,375	23,286	32%	25,246	22%	Topline came broadly in line with our estimates
Other Income	452	150	320	41%	249	82%	
Total Operating Expense	26,427	26,865	17,133	54%	21,835	21%	
<b>EBITDA</b>	<b>4,331</b>	<b>3,510</b>	<b>6,153</b>	<b>-30%</b>	<b>3,410</b>	<b>27%</b>	EBITDA came in higher than our estimate
EBITDA Margin (%)	14.1	11.6	26.4	-1234 bps	13.5	57 bps	EBITDA margin came in higher than our estimate
Depreciation	1,144	1,075	1,158	-1%	1,049	9%	
Interest	440	300	540	-19%	316	39%	
Exceptional Items	11	0	-166	LP	-364	LP	
PBT	<b>3,210</b>	<b>2,285</b>	<b>4,608</b>	<b>-30%</b>	<b>1,931</b>	<b>66%</b>	
Tax Outgo	792	575	1,165	-32%	488	62%	
<b>Reported PAT</b>	<b>2,418</b>	<b>1,710</b>	<b>3,444</b>	<b>-30%</b>	<b>1,443</b>	<b>68%</b>	PAT came in higher than our estimate
<b>Key Metrics</b>							
Sales Volume (in MT)	4.7	4.5	4.3	9%	3.8	23%	Sales volume came in higher than our estimate
EBITDA/Tonne (in ₹/tonne)	9,196	7,800	14,177	-35%	8,881	4%	EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

## Financial story in charts

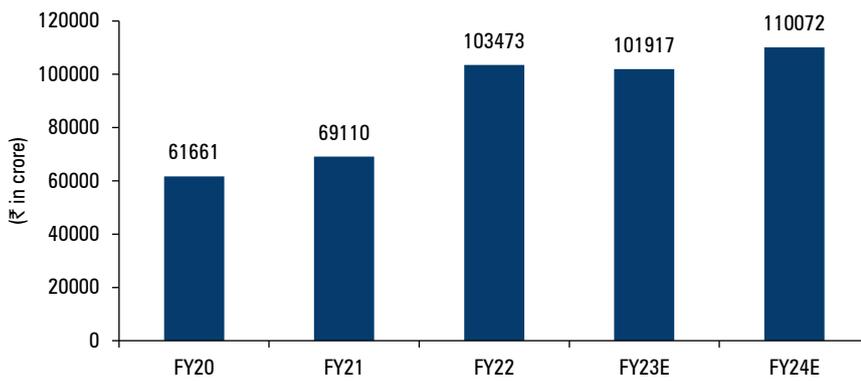
Exhibit 2: Trend in sales volume (in MT)



We model sales volume of 17 MT for FY23E and 18 MT for FY24E

Source: Company, ICICI Direct Research

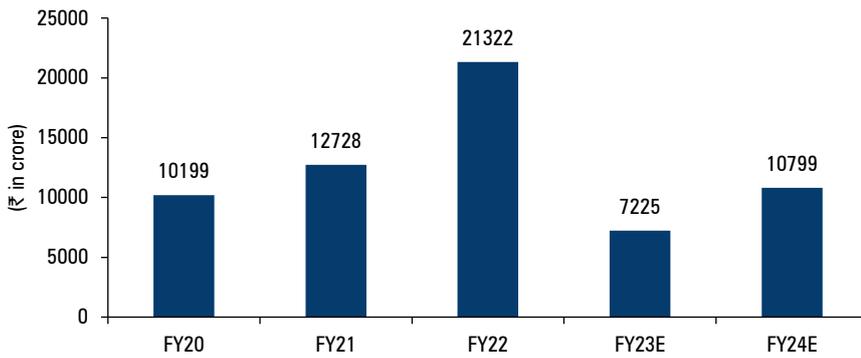
Exhibit 3: Trend in revenue (in ₹ crore)



We expect SAIL's revenue to grow at a CAGR of 3% during FY22-24E

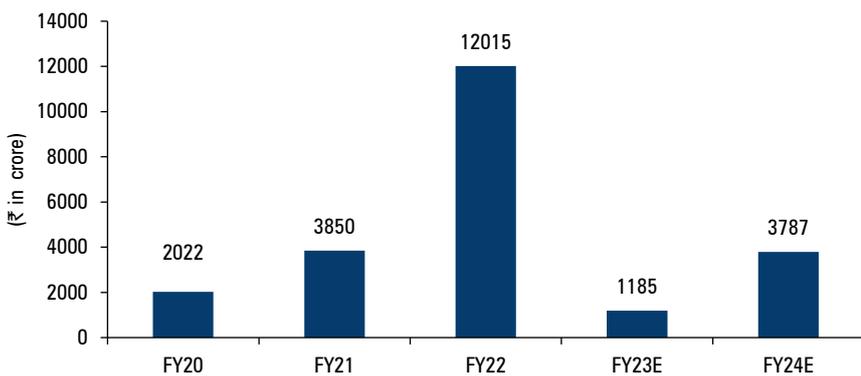
Source: Company, ICICI Direct Research

Exhibit 4: Trend in EBITDA (in ₹ crore)



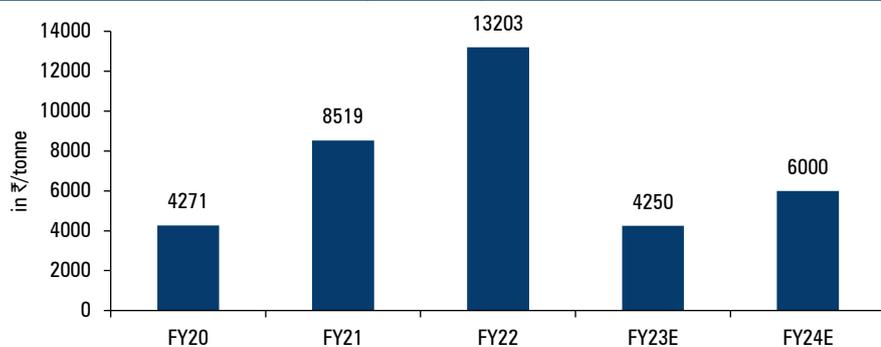
Source: Company, ICICI Direct Research

Exhibit 5: Trend in PAT (in ₹ crore)



Source: Company, ICICI Direct Research

**Exhibit 6: Trend in EBITDA/tonne (in ₹/tonne)**



*We model EBITDA/tonne of ₹ 4250/tonne for FY23E and ₹6000/tonne in FY24E*

Source: Company, ICICI Direct Research

**Exhibit 7: Valuation Matrix**

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	61661	-8%	6.8	-7%	10.9	8.0	5.1	7.1
FY21	69110	12%	9.2	36%	8.1	5.1	8.9	10.9
FY22	103473	50%	29.9	226%	2.5	2.0	23.1	26.1
FY23E	101917	-2%	2.9	-90%	25.8	6.9	2.2	3.3
FY24E	110072	8%	9.2	220%	8.1	4.8	6.8	7.9

Source: ICICI Direct Research, Company

## Financial Summary (Standalone)

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>69110</b>	<b>103473</b>	<b>101917</b>	<b>110072</b>
Growth (%)	12%	50%	-2%	8%
Total Operating Expenditure	56382	82151	94692	99273
<b>EBITDA</b>	<b>12728</b>	<b>21322</b>	<b>7225</b>	<b>10799</b>
Growth (%)	25%	68%	-66%	49%
Interest & Finance Cost	2817	1698	1819	1961
Depreciation	4102	4274	4787	4669
Other Income	1012	1042	964	892
<b>PBT before Exceptional Items</b>	<b>6821</b>	<b>16392</b>	<b>1583</b>	<b>5061</b>
Add/less: Exceptional Items	58	-353	0	0
Share of profit from Associates	0	0	0	0
<b>PBT</b>	<b>6879</b>	<b>16039</b>	<b>1583</b>	<b>5061</b>
Total Tax	3029	4024	399	1274
<b>PAT</b>	<b>3850</b>	<b>12015</b>	<b>1185</b>	<b>3787</b>
Growth (%)	90%	212%	-90%	220%
<b>Adjusted PAT</b>	<b>3792</b>	<b>12368</b>	<b>1185</b>	<b>3787</b>
Growth (%)	36%	226%	-90%	220%
<b>EPS</b>	<b>9</b>	<b>30</b>	<b>3</b>	<b>9</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	3850	12015	1185	3787
Add: Dep. & Amortization	4102	4274	4787	4669
Net (Inc) / dec.in Current Asse	6947	3067	-4197	-2715
Net Inc / (dec) in Current Liab.	3018	4235	4391	763
<b>CF from Operating Actv.</b>	<b>17917</b>	<b>23591</b>	<b>6165</b>	<b>6505</b>
(Inc)/dec in Investments	-10	-29	-25	-65
(Inc)/dec in Fixed Assets	-2810	-3852	-8000	-8000
Others	0	0	0	0
<b>CF from Investing Actv.</b>	<b>-2820</b>	<b>-3882</b>	<b>-8025</b>	<b>-8065</b>
Inc / (Dec) in Equity Capital	0	0	0	0
Inc / (Dec) in Loans	-15905	-22191	6825	1575
Dividend & Dividend Tax	-743	-3614	-413	-826
Others	1869	6064	-4576	828
<b>CF from Financing Actv.</b>	<b>-14780</b>	<b>-19741</b>	<b>1836</b>	<b>1577</b>
Net Cash flow	317	-32	-24	17
Opening Cash	363	680	648	625
<b>Closing Cash</b>	<b>680</b>	<b>648</b>	<b>625</b>	<b>642</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	4131	4131	4131	4131
Reserve and Surplus	39364	47887	48658	51620
<b>Total Shareholders funds</b>	<b>43495</b>	<b>52017</b>	<b>52789</b>	<b>55750</b>
Total Debt	35576	13386	20211	21786
Other Non-Current Liabilities	1671	7680	2854	3082
Deferred Tax Liability (net)	1253	5260	5510	6110
<b>Source of Funds</b>	<b>81995</b>	<b>78342</b>	<b>81363</b>	<b>86728</b>
<b>Net Block</b>	<b>67600</b>	<b>73657</b>	<b>70786</b>	<b>71867</b>
Capital WIP	8878	4017	10102	12352
<b>Net Fixed Assets</b>	<b>76478</b>	<b>77674</b>	<b>80888</b>	<b>84219</b>
Investments	1595	1624	1649	1714
Inventory	19508	24128	23734	25633
Cash	680	648	625	642
Debtors	7124	4737	5585	6031
Loans & Advances & Other CA	9873	4573	8317	8685
<b>Total Current Assets</b>	<b>37185</b>	<b>34086</b>	<b>38260</b>	<b>40992</b>
Creditors	7014	16918	16754	16586
Provisions & Other CL	28150	22481	27036	27967
Total Current Liabilities	35164	39399	43790	44554
Net Current Assets	2021	-5313	-5530	-3562
Other Non-current assets	1901	4356	4356	4356
<b>Application of Funds</b>	<b>81995</b>	<b>78342</b>	<b>81363</b>	<b>86728</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	9.2	29.9	2.9	9.2
BV	105	126	128	135
DPS	1.8	8.8	1.0	2.0
<b>Operating Ratios (%)</b>				
EBITDA margins	18.4	20.6	7.1	9.8
PBT margins	10.0	15.5	1.6	4.6
Net Profit margins	5.6	11.6	1.2	3.4
Inventory days	103	85	85	85
Debtor days	38	17	20	20
Creditor days	37	60	60	55
<b>Return Ratios (%)</b>				
RoE	8.9	23.1	2.2	6.8
RoCE	10.9	26.1	3.3	7.9
RoIC	11.0	26.3	3.4	8.0
<b>Valuation Ratios (x)</b>				
P/E	8.1	2.5	25.8	8.1
EV / EBITDA	5.1	2.0	6.9	4.8
EV / Revenues	0.9	0.4	0.5	0.5
Market Cap / Revenues	0.4	0.3	0.3	0.3
Price to Book Value	0.7	0.6	0.6	0.5
<b>Solvency Ratios</b>				
Debt / Equity	0.8	0.3	0.4	0.4
Debt/EBITDA	2.8	0.6	2.8	2.0
Current Ratio	1.1	0.9	0.9	0.9
Quick Ratio	0.5	0.3	0.3	0.3

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)				FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E	FY21	FY22	FY23E
Coal India	182	195	Buy	112418	20.6	25.7	28.0	8.8	7.1	6.5	5.4	4.4	4.1	42.3	46.5	44.3	34.8	37.3	35.5	
Hindalco	401	725	Buy	90055	25.5	62.8	73.7	15.7	6.4	5.4	9.6	5.3	4.5	8.8	17.3	17.5	8.5	18.7	18.3	
Ratnamani	2565	2950	Buy	11986	59.0	69.0	91.6	43.4	37.2	28.0	28.3	23.9	18.3	15.7	17.3	19.6	13.9	14.3	16.4	
Graphite Ind.	444	650	Buy	8683	-1.6	29.7	62.4	NA	15.0	7.1	NA	14.5	5.2	-5.4	10.0	22.6	-0.7	11.7	20.7	
Sail	74	80	Hold	30687	9.2	29.9	2.9	8.1	2.5	25.8	5.1	2.0	6.9	10.9	26.1	3.3	8.9	23.1	2.2	
Jindal Stainless	119	225	Buy	5993	8.6	36.3	23.7	19.3	4.6	7.0	7.8	3.9	5.3	16.0	31.3	19.0	13.0	36.5	20.1	
Jindal Stainless Hisar	234	439	Buy	5514	29.5	82.5	55.8	7.9	2.8	4.2	8.2	4.4	5.5	18.6	28.1	17.7	23.2	39.4	21.8	
Vardhman Special Steel	223	300	Buy	905	10.9	24.8	27.6	20.4	9.0	8.1	11.1	6.7	6.6	13.2	24.5	20.1	9.6	18.2	17.2	
Tata Metaliks	714	900	Hold	2245	69.9	75.4	76.5	10.2	9.5	9.3	6.0	6.0	5.9	24.6	20.7	18.2	17.0	15.6	13.9	

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

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