

BSE SENSEX
58,283

S&P CNX
17,368



Stock Info

	SAIL IN
Bloomberg	SAIL IN
Equity Shares (m)	4,130
M.Cap.(INRb)/(USDb)	467 / 6.2
52-Week Range (INR)	151 / 54
1, 6, 12 Rel. Per (%)	0/-27/69
12M Avg Val (INR M)	6914
Free float (%)	35.0

Financials Snapshot (INR b)

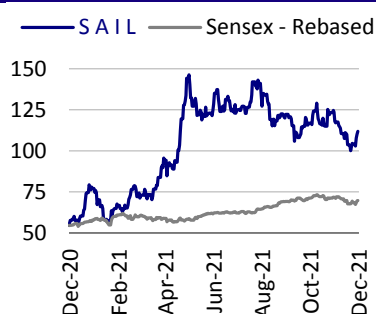
Y/E Mar	2021	2022E	2023E
Net Sales	691.1	965.9	947.0
EBITDA	127.4	203.8	155.4
PAT	36.8	114.0	79.0
EPS (INR)	13.1	28.1	19.6
Gr. (%)	-2,880.6	114.6	-30.2
BV/Sh (INR)	109.9	130.5	142.7
RoE (%)	12.4	23.4	14.3
RoCE (%)	10.7	19.8	13.8
P/E (x)	8.5	4.0	5.7
P/BV (x)	1.0	0.9	0.8
EV/EBITDA (x)	6.5	3.4	4.2

Shareholding pattern (%)

As On	Sep-21	Jun-21	Sep-20
Promoter	65.0	65.0	75.0
DII	12.5	15.6	13.7
FII	5.4	5.0	3.2
Others	17.1	14.4	8.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR113 TP: INR142 (+26%)

Buy

Expect demand revival in 4Q

Weakness in current quarter is temporary

Demand remains tepid in current quarter

- This quarter was impacted by several factors, seasonal and non-seasonal, resulting in lower-than-anticipated demand.
- The correction in international steel prices has been the key reason for poor demand as buyers have deferred purchases.
- Most of the buyers are waiting sideways and ordering only on an absolute requirement basis; no restocking demand is observed.
- Dealers have sufficient inventory and appear to be de-stocking in the event of a price correction.
- There is strong competition from secondary steel players in the Pipes and Tubes segment. They have started rolling narrow sheets from bigger billets and have been supplying sheets to the P&T segment – this is in direct competition with the Hot Rolled Coil market, especially in the Narrow-width segment
- An extended monsoon in the southern region and non-seasonal rains in the northern region have contributed to the market disruption.
- NCR, a major construction market, is facing a ban due to pollution, which has now become an annual feature around this time of the year.
- The resurgence of COVID in the form of the Omicron variant is bringing back memories of the disruption witnessed during the Delta variant.

Target to turn net debt zero by 1QFY23

- SAIL has not chalked out its growth capex and has maintenance capex for the current year, in our view.
- We believe the growth capex may not start before 2HFY23 as the company plans the entire capex, scopes the land requirement and matches the availability, works out the end product configuration, and finalizes the suppliers.
- By this time, the company will have achieved the net debt nil status, which it had almost a decade ago.

Next round of growth capex to be modular, with low debt burden

- SAIL is unlikely to embark on a big bang capex – which the company had initiated in FY10, as a result of which it was saddled with debt and had challenges commissioning its plants in various locations.
- The current management has decided to implement a modular strategy, i.e., it plans to adopt the ‘one location at a time’ approach – SAIL will initiate capex at a single location; when this nears completion, it will initiate capex at another location. In this manner, cashflow from the newly commissioned facilities should augment the cashflow needed for the next round of capex.

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- Notably, the company has made a big shift in its capex strategy and is unlikely to fall into the debt trap again, which should allay investor concerns regarding its capex plans.
- We believe SAIL may construct a single blast furnace with capacity of 3–4mt at each of its locations, with matching downstream as a part of the next round of growth capex. Although, the new norm for most economical blast furnaces is 5mt. However, these plans are still in the drawing board stage.

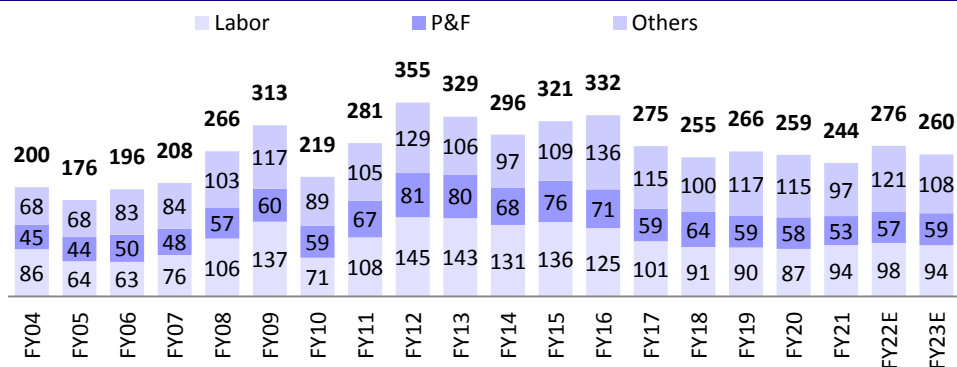
3QFY22 to witness trough EBITDA margin

- The management highlighted that coking coal costs would be higher by INR7,000–7,500/t on a QoQ basis
- NSR is also down in the quarter for the reasons discussed above.
- Exports have been lower on a QoQ basis due to EU quotas for the quarter being exhausted on the first day of the quarter.
- With sales volumes down QoQ, fixed cost absorption should also be lower, resulting in reduced overall EBITDA.
- However, the stock has corrected 30% from the peak in anticipation of this reduction and now prices in the steel price correction.

Our view: Stock has bottomed out in the near term

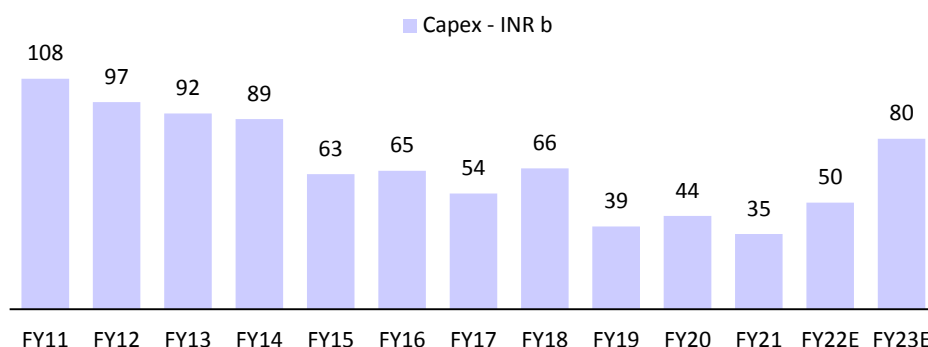
- The management has reiterated its decision to turn net debt zero by 1QFY23.
- The company has already made cumulative provisions of INR20b towards wage revision, and we believe any further provision may not be material. Additionally, the company would benefit from the normal attrition process (retirement). Positions have not been filled completely due to process improvements, automation, and productivity improvements. Furthermore, the replacements are at a significantly lower cost, with higher productivity.
- SAIL has higher exposure to the Construction segment vis-à-vis peers. Hence, any revival in the Construction segment in 4Q should help the company improve its margins on a QoQ basis.
- It also has a lower proportion of exports compared with peers – which are likely to witness a sharper correction in NSR (v/s SAIL) as export opportunities have reduced sharply in 3QFY22.
- While coking coal prices would impact 3QFY22 margins significantly, we believe this is already priced in. The coking coal impact is likely to ebb in 4Q as prices have already softened from the peak, while steel prices are likely to pick up from Jan/Feb.
- We expect commodities to revive in China post the Beijing Olympics as the country eases construction activity and strives to lower carbon emissions – to ensure clear skies during the Winter Olympics.
- We further note that the downturn in Steel and Real Estate, the two most important components in China's GDP, is unlikely to sustain.
- The stock is trading at 3.4x/4x/2x our FY22E/FY23E EV/EBITDA. It is trading at a P/B of 0.8x on FY22E/FY23E; we do not build in a recessionary scenario and expect demand to revive in 4Q. We maintain a BUY rating, with Target Price of INR142 at 5x FY23E EV/EBITDA. A key risk to our call is the prolonged downturn in China steel prices.

Exhibit 1: Conversion cost impacted in FY22 due to wage provisioning



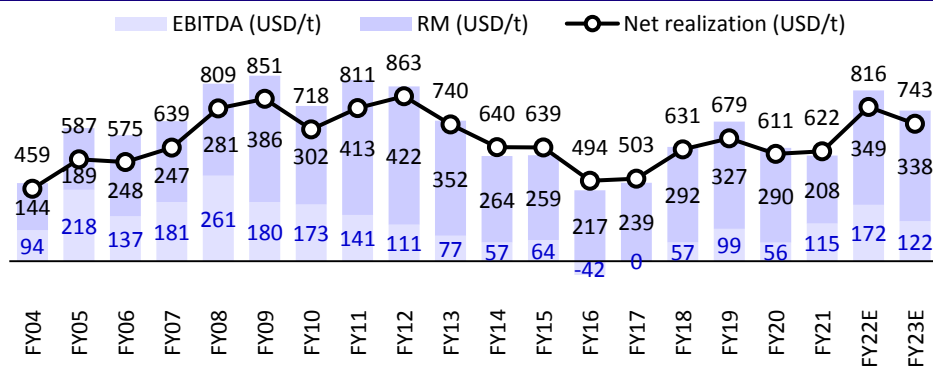
Source: MOFSL, Company

Exhibit 2: Capex likely to pick up in 2HFY23



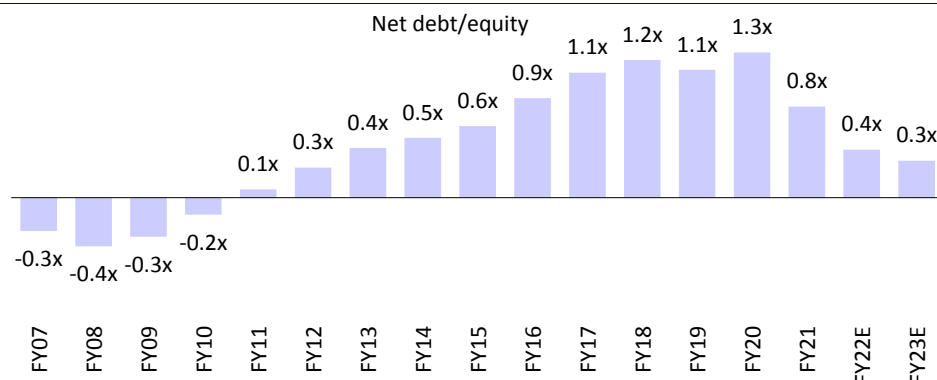
Source: MOFSL, Company

Exhibit 3: EBITDA/t in FY23E should remain higher than previous cycle

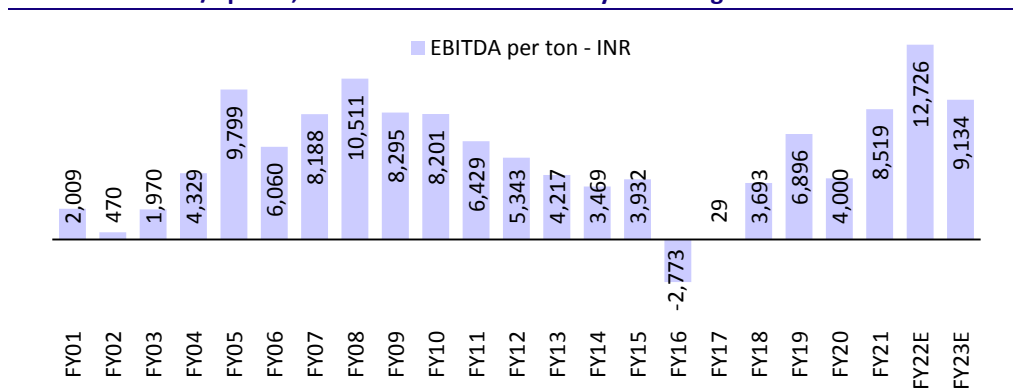


Source: MOFSL, Company

Exhibit 4: While company expects to turn net debt zero, we remain conservative



Source: MOFSL, Company

Exhibit 5: EBITDA/t peaks, but should remain above cycle average

Source: MOFSL, Company

Exhibit 6: Valuation remains comfortable

YEAR	2016	2017	2018	2019	2020	2021	2022E	2023E
Sales (m tons)	12.1	13.1	14.1	14.1	14.2	14.9	16.0	17.0
EBITDA (INR per ton)	-2,399	51	3,705	6,916	4,012	8,526	12,737	9,144
EBITDA	-29.0	0.7	52.2	97.6	57.1	127.4	203.8	155.4
Target EV/EBITDA(x)								5.0
Target EV								777.2
less: Net Debt (INR m)	348.0	410.2	450.6	448.8	533.6	366.3	228.7	192.7
Equity value								584.5
Target price (INR/sh.)								142

Source: MOFSL

Financials and Valuations

Income Statement								(INR m)	
Y/E Mar	2016	2017	2018	2019	2020	2021	2022E	2023E	
Net Sales	3,90,984	4,45,018	5,75,600	6,69,736	6,16,642	6,91,136	9,65,936	9,47,036	
Change (%)	-14.9	13.8	29.3	16.4	-7.9	12.1	39.8	-2.0	
EBITDA	-29,025	671	52,176	97,615	57,097	1,27,387	2,03,786	1,55,446	
EBITDA Margin (%)	-7.4	0.2	9.1	14.6	9.3	18.4	21.1	16.4	
Depreciation	24,044	26,816	30,660	33,853	37,557	41,028	42,343	42,913	
EBIT	-53,069	-26,145	21,516	63,762	19,540	86,360	1,61,443	1,12,533	
Interest	23,005	25,278	28,228	31,549	34,868	28,172	16,012	13,491	
Other Income	5,290	4,495	4,152	4,945	9,058	8,607	6,917	7,688	
Extraordinary items	0	-2,167	-5,556	-3,894	37,342	584	0	0	
PBT	-70,784	-49,096	-8,115	33,264	31,073	67,379	1,52,348	1,06,730	
Tax	-29,377	-19,595	-2,452	12,005	11,809	30,575	38,318	27,750	
Tax Rate (%)	41.5	39.9	30.2	36.1	38.0	45.4	25.2	26.0	
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0	
Reported PAT	-41,765	-27,562	-2,814	23,487	21,207	41,481	1,15,973	80,923	
Adjusted PAT	-41,765	-26,259	1,063	25,976	-1,944	54,051	1,15,973	80,923	
Change (%)	-293.5	-37.1	-104.0	2,344.1	-107.5	-2,880.6	114.6	-30.2	

Balance Sheet								(INR m)	
Y/E Mar	2016	2017	2018	2019	2020	2021	2022E	2023E	
Share Capital	41,305	41,305	41,305	41,305	41,305	41,305	41,305	41,305	
Reserves	3,60,209	3,29,117	3,28,161	3,55,156	3,73,797	4,12,757	4,97,873	5,47,940	
Net Worth	4,01,514	3,70,423	3,69,467	3,96,462	4,15,102	4,54,062	5,39,178	5,89,245	
Debt	3,51,414	4,13,957	4,54,087	4,51,700	5,38,026	3,74,275	2,74,275	2,24,275	
Deferred Tax	-16,698	-38,488	-41,620	-28,668	-20,222	13,341	49,463	61,108	
Total Capital Employed	7,36,230	7,45,892	7,81,934	8,19,494	9,32,907	8,41,678	8,62,917	8,74,628	
Gross Fixed Assets	7,74,222	8,41,918	9,55,829	10,17,173	11,31,328	11,58,195	12,26,725	13,06,725	
Less: Acc Depreciation	3,14,793	3,38,915	3,69,575	4,03,428	4,40,985	4,82,013	5,24,356	5,67,268	
Net Fixed Assets	4,59,428	5,03,003	5,86,254	6,13,745	6,90,343	6,76,182	7,02,369	7,39,456	
Capital WIP	2,49,272	2,32,754	1,83,954	1,60,136	87,533	88,806	70,276	70,276	
Investments	22,790	24,755	26,289	29,748	32,404	34,423	34,423	34,423	
Current Assets	2,64,834	2,77,154	3,16,293	3,47,226	4,38,775	3,93,057	4,43,535	4,15,830	
Inventory	1,47,082	1,57,361	1,70,243	1,95,103	2,38,363	1,95,704	1,98,480	1,92,002	
Debtors	31,514	29,347	38,710	44,975	88,447	71,546	84,685	80,433	
Cash & Bank	3,456	3,788	3,456	2,877	4,450	7,964	45,527	31,552	
Loans & Adv, Others	82,782	86,658	1,03,884	1,04,271	1,07,514	1,17,843	1,14,843	1,11,843	
Curr Liabs & Provns	2,60,095	2,91,773	3,30,856	3,31,361	3,16,139	3,50,781	3,87,678	3,85,348	
Curr. Liabilities	2,00,873	2,26,561	2,67,985	2,65,251	2,51,418	2,85,029	3,21,926	3,19,596	
Provisions	59,221	65,213	62,871	66,110	64,722	65,752	65,752	65,752	
Net Current Assets	4,739	-14,620	-14,563	15,865	1,22,635	42,277	55,858	30,482	
Total Assets	7,36,230	7,45,892	7,81,934	8,19,494	9,32,915	8,41,687	8,62,926	8,74,637	

Financials and Valuations

Ratios

Y/E Mar	2016	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)								
EPS	-10.1	-6.4	0.3	6.3	-0.5	13.1	28.1	19.6
Cash EPS	-4.2	-0.6	6.1	13.3	13.8	18.8	37.9	29.5
Book Value	97.2	89.7	89.4	96.0	100.5	109.9	130.5	142.7
DPS	0.0	0.0	0.0	0.5	0.0	2.8	7.0	7.0
Valuation(x)								
P/E	-10.9	-17.3	428.1	17.5	-234.1	8.4	3.9	5.6
Price / Book Value	1.1	1.2	1.2	1.1	1.1	1.0	0.8	0.8
EV/Sales	2.1	1.9	1.6	1.3	1.6	1.2	0.7	0.7
EV/EBITDA	-27.7	1289.5	17.4	9.3	17.3	6.4	3.4	4.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	6.4	6.4
EV(USD/Ton)	0	1,605	1,569	1,562	1,694	1,341	1,042	929
Profitability Ratios (%)								
RoE	-9.9	-7.1	0.3	6.8	-0.5	12.4	23.4	14.3
RoCE	-6.3	-2.9	3.4	8.6	3.3	10.7	19.8	13.8
RoIC	-11.7	-5.3	4.1	10.7	2.7	11.4	22.7	15.5
Turnover Ratios (%)								
Asset Turnover (x)	0.5	0.6	0.7	0.8	0.7	0.8	1.1	1.1
Debtors (No. of Days)	29	24	25	25	52	38	32	31
Inventory (No. of Days)	137	129	108	106	141	103	75	74
Creditors (No. of Days)	35	43	53	46	41	45	45	45
Leverage Ratios (%)								
Net Debt/Equity (x)	0.9	1.1	1.2	1.1	1.3	0.8	0.4	0.3

Cash Flow Statement

Y/E Mar	2016	2017	2018	2019	2020	2021	2022E	2023E
(INR m)								
Adjusted EBITDA	-29,025	671	52,176	97,615	57,097	1,27,387	2,03,786	1,55,446
Non cash opr. exp (inc)	0	0	0	0	0	0	0	0
(Inc)/Dec in Wkg. Cap.	57,506	17,457	11,183	-26,646	-1,06,582	1,00,643	20,982	8,400
Tax Paid	3,060	125	-1,371	22	-935	-262	-2,195	-16,105
Other operating activities	8,886	3,348	-353	1,161	44,249	6,536	0	0
CF from Op. Activity	40,428	21,601	61,635	72,152	-6,171	2,34,304	2,22,573	1,47,741
(Inc)/Dec in FA & CWIP	-64,930	-54,267	-66,045	-38,805	-43,813	-35,297	-50,000	-80,000
Free cash flows	-24,502	-32,666	-4,410	33,347	-49,984	1,99,007	1,72,573	67,741
(Pur)/Sale of Invt	-1,373	16	1,267	265	62	80	0	0
Others	-1,864	-38	116	1,301	1,464	1,326	6,917	7,688
CF from Inv. Activity	-68,167	-54,290	-64,662	-37,239	-42,287	-33,891	-43,083	-72,312
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	31,675	58,300	31,210	-2,387	89,074	-1,63,350	-1,00,000	-50,000
Interest Paid	-23,005	-25,278	-28,515	-33,104	-36,538	-29,419	-16,012	-13,491
Divd Paid (incl Tax) & Others	-1,243	0	0	0	-2,505	-4,131	-28,914	-28,914
CF from Fin. Activity	7,427	33,021	2,694	-35,491	50,032	-1,96,899	-1,44,926	-92,404
Inc/(Dec) in Cash	-20,312	333	-333	-579	1,573	3,513	34,564	-16,976
Add: Opening Balance	23,768	3,456	3,788	3,456	2,877	4,450	7,964	45,527
Closing Balance	3,456	3,788	3,456	2,877	4,450	7,964	42,527	28,552

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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