

CMP: ₹ 86

Target: ₹ 90 (5%)

Target Period: 12 months

HOLD

November 13, 2022

## Subdued operational performance...

**About the stock:** Steel Authority of India (SAIL) is one of the leading steel producers in India, with 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 Chhattisgarh, Jharkhand and Odisha, which aids in meeting 100% of its iron ore requirements captive
- In FY22, SAIL reported crude steel production of 17.36 million tonnes (MT) and steel sales volume of 16.15 MT

**Q2FY23 Results:** SAIL reported a muted performance in Q2FY23 wherein the company reported a loss at the net level.

- For Q2FY23, SAIL reported sales volume of 4.2 million tonnes (MT), up 34% QoQ but down 2% YoY, broadly in line with our estimate of 4.1 MT. Topline for the quarter was at ₹ 26246 crore, up 9% QoQ but down 2% YoY (our estimate of ₹ 26831 crore)
- EBITDA for the quarter was at ₹ 733 crore, down 90% YoY, 68% QoQ, lower than our estimate of ₹ 1316 crore. EBITDA margin for the quarter was at 2.8%, down 2340 bps YoY, 680 bps QoQ, lower than our estimate of 4.9%. EBITDA/tonne for the quarter was at ₹ 1740/tonne, down 89% YoY, 76% QoQ (our estimate of ₹ 3250/tonne)
- Ensuing net loss for the quarter was at ₹ 386 crore

**What should investors do?** SAIL's share price has given a return of ~115% over the last two years (from ~₹ 40 in November 2020 to ~₹ 86 levels in November 2022).

- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value SAIL at ₹ 90, 5x FY24E EV/EBITDA.

### Key triggers for future price performance:

- Going forward, we expect SAIL to report EBITDA/tonne of ₹ 4500/tonne for FY23E and ₹ 7250/tonne for FY24E
- Going forward, we expect SAIL to report sales volume of 16 MT for FY23E (upward revised from 15 MT earlier) and 17 MT for FY24E (upward revised from 16.5 MT earlier)

**Alternate Stock Idea:** In our metal sector coverage, we also like Jindal Stainless.

- Jindal Stainless (JSL) operates an integrated stainless steel plant at Jajpur, Odisha
- BUY with a target price of ₹ 180



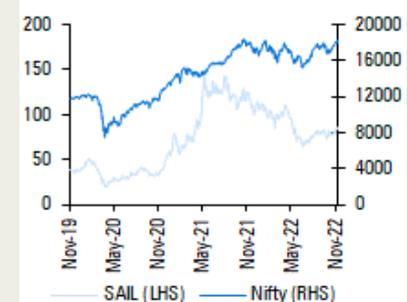
### Particulars

| Particulars              | Amount  |
|--------------------------|---------|
| Market Capitalization    | 35109   |
| Total Debt (FY22)        | 13386   |
| Cash & Inv (FY22)        | 648     |
| EV (₹ crore)             | 47846   |
| 52 week H/L (₹)          | ₹121/64 |
| Equity Capital (₹ crore) | ₹4131   |
| Face Value (₹)           | 10      |

### Shareholding pattern

| (in %)       | Dec-21       | Mar-22       | Jun-22       | Sep-22       |
|--------------|--------------|--------------|--------------|--------------|
| Promoter     | 65.0         | 65.0         | 65.0         | 65.0         |
| FIs          | 4.4          | 4.6          | 4.2          | 4.3          |
| DIs          | 10.5         | 10.2         | 8.8          | 9.4          |
| Public       | 20.1         | 20.2         | 22.0         | 21.3         |
| <b>Total</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

### Price Chart



### Key Risks

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

### Research Analyst

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### 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%                   | 1,03,322 | 1,07,229 | 2%                     |
| EBITDA            | 9,734  | 10,199 | 12,728 | 21,322   | NA                    | 7,201    | 12,325   | -24%                   |
| EBITDA Margin (%) | 14.5   | 16.5   | 18.4   | 20.6     |                       | 7.0      | 11.5     |                        |
| Net Profit        | 2,179  | 2,022  | 3,850  | 12,015   | NA                    | 796      | 4,690    | -38%                   |
| Adj EPS (₹)       | 6.2    | 6.8    | 9.2    | 29.9     |                       | 1.9      | 11.4     |                        |
| P/E (x)           | 13.7   | 12.6   | 9.3    | 2.8      |                       | 44.1     | 7.5      |                        |
| EV/EBITDA (x)     | 8.2    | 8.5    | 5.5    | 2.2      |                       | 8.4      | 4.8      |                        |
| RoCE (%)          | 7.6    | 7.1    | 10.9   | 26.1     |                       | 3.1      | 9.4      |                        |
| RoE (%)           | 5.7    | 5.1    | 8.9    | 23.1     |                       | 1.5      | 8.3      |                        |

Source: Company, ICICI Direct Research

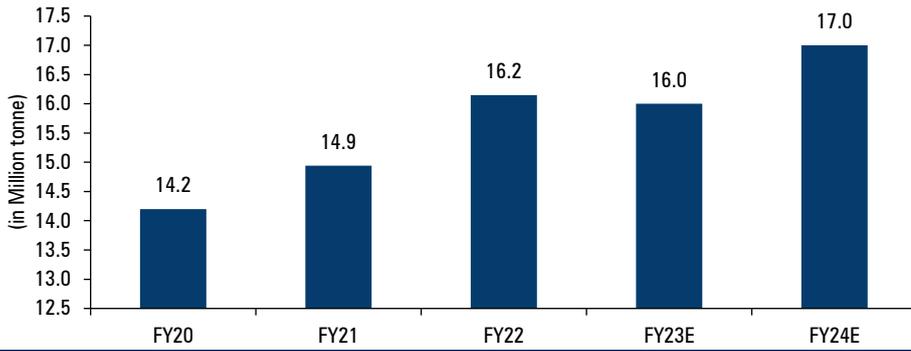
Exhibit 1: Variance Analysis (Standalone)

|                              | Q2FY23      | Q2FY23E      | Q2FY22       | YoY (%)     | Q1FY23       | QoQ (%)     | Comments   |
|------------------------------|-------------|--------------|--------------|-------------|--------------|-------------|--|
| <b>Total Operating Incon</b> | 26,246      | 26,831       | 26,827       | -2%         | 24,029       | 9%          | Topline came in broadly in line with our estimate      |
| Other Income                 | 441         | 325          | 231          | 91%         | 305          | 44%         |  |
| Total Operating Expense      | 25,514      | 25,515       | 19,810       | 29%         | 21,728       | 17%         |  |
| <b>EBITDA</b>                | <b>733</b>  | <b>1,316</b> | <b>7,017</b> | <b>-90%</b> | <b>2,301</b> | <b>-68%</b> | EBITDA came in lower than our estimate                 |
| EBITDA Margin (%)            | 2.8         | 4.9          | 26.2         | -2336 bps   | 9.6          | -678 bps    | EBITDA margin came in lower than our estimate          |
| Depreciation                 | 1,183       | 1,200        | 1,056        | 12%         | 1,194        | -1%         |  |
| Interest                     | 506         | 375          | 439          | 15%         | 374          | 35%         |  |
| Exceptional Items            | 0           | 0            | 0            | NA          | 0            | NA          |  |
| PBT                          | <b>-516</b> | <b>66</b>    | <b>5,753</b> | <b>PL</b>   | <b>1,038</b> | <b>PL</b>   |  |
| Tax Outgo                    | -130        | 17           | 1,449        | -109%       | 262          | -150%       |  |
| <b>Reported PAT</b>          | <b>-386</b> | <b>50</b>    | <b>4,304</b> | <b>PL</b>   | <b>776</b>   | <b>PL</b>   | Reported net loss for the quarter                      |
| <b>Key Metrics</b>           |             |              |              |             |              |             |  |
| Sales Volume (in MT)         | 4.2         | 4.1          | 4.3          | -2%         | 3.2          | 34%         | Sales volume came in broadly in line with our estimate |
| EBITDA/Tonne (in ₹/tonne)    | 1,740       | 3,250        | 16,395       | -89%        | 7,304        | -76%        | EBITDA/tonne came in lower than our estimate           |

Source: Company, ICICI Direct Research

## Financial story in charts

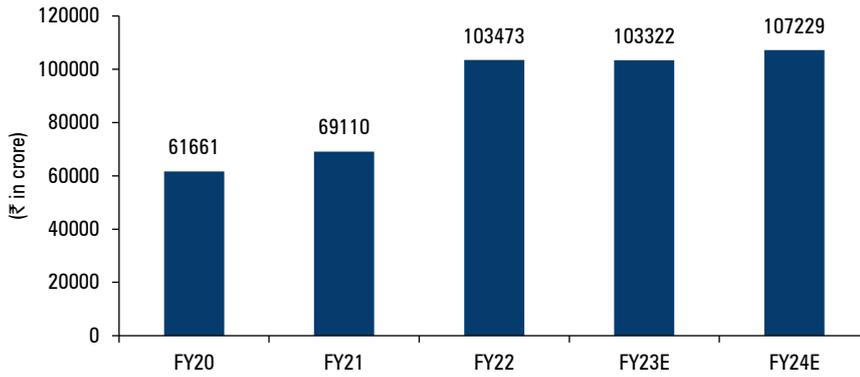
Exhibit 2: Trend in sales volume (in MT)



We model sales volume of 16 MT for FY23E and 17 MT for FY24E

Source: Company, ICICI Direct Research

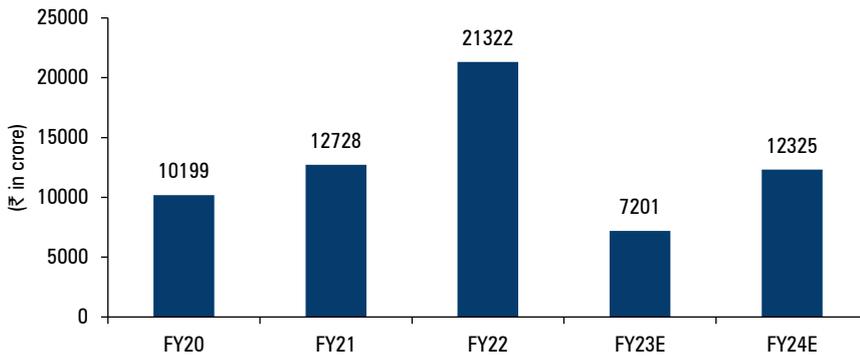
Exhibit 3: Trend in revenue (in ₹ crore)



We expect SAIL to report topline of ₹ 103322 crore for FY23E and ₹ 107229 crore for FY24E

Source: Company, ICICI Direct Research

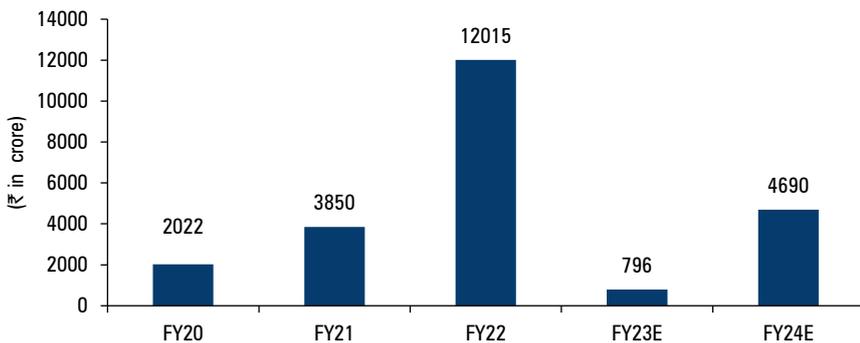
Exhibit 4: Trend in EBITDA (in ₹ crore)



We expect SAIL to report EBITDA of ₹ 7201 crore for FY23E and ₹ 12325 crore for FY24E

Source: Company, ICICI Direct Research

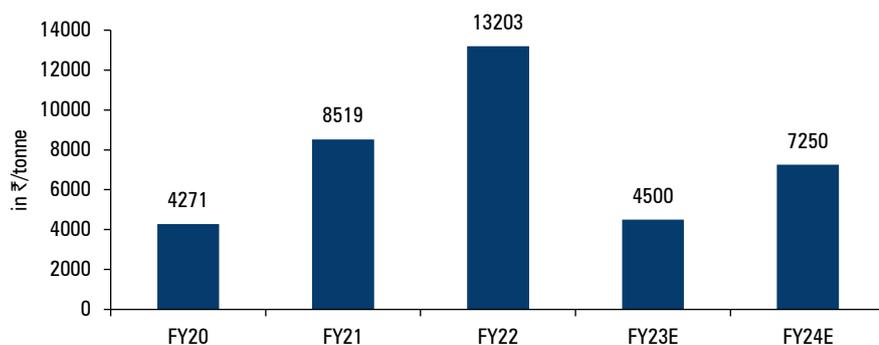
Exhibit 5: Trend in PAT (in ₹ crore)



We expect SAIL to report PAT of ₹ 796 crore for FY23E and ₹ 4690 crore for FY24E

Source: Company, ICICI Direct Research

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



We model EBITDA/tonne of ₹ 4500/tonne for FY23E and ₹ 7250/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%    | 12.6 | 8.5       | 5.1  | 7.1  |
| FY21  | 69110  | 12%    | 9.2  | 36%    | 9.3  | 5.5       | 8.9  | 10.9 |
| FY22  | 103473 | 50%    | 29.9 | 226%   | 2.8  | 2.2       | 23.1 | 26.1 |
| FY23E | 103322 | 0%     | 1.9  | -94%   | 44.1 | 8.4       | 1.5  | 3.1  |
| FY24E | 107229 | 4%     | 11.4 | 489%   | 7.5  | 4.8       | 8.3  | 9.4  |

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>103322</b> | <b>107229</b> |  |
| Growth (%)                           | 12%          | 50%           | 0%            | 4%            |  |
| Total Operating Expenditure          | 56382        | 82151         | 96121         | 94904         |  |
| <b>EBITDA</b>                        | <b>12728</b> | <b>21322</b>  | <b>7201</b>   | <b>12325</b>  |  |
| Growth (%)                           | 25%          | 68%           | -66%          | 71%           |  |
| Interest & Finance Cost              | 2817         | 1698          | 2314          | 2280          |  |
| Depreciation                         | 4102         | 4274          | 4787          | 4669          |  |
| Other Income                         | 1012         | 1042          | 964           | 892           |  |
| <b>PBT before Exceptional Items</b>  | <b>6821</b>  | <b>16392</b>  | <b>1064</b>   | <b>6268</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>1064</b>   | <b>6268</b>   |  |
| Total Tax                            | 3029         | 4024          | 268           | 1578          |  |
| <b>PAT</b>                           | <b>3850</b>  | <b>12015</b>  | <b>796</b>    | <b>4690</b>   |  |
| Growth (%)                           | 90%          | 212%          | -93%          | 489%          |  |
| <b>Adjusted PAT</b>                  | <b>3792</b>  | <b>12368</b>  | <b>796</b>    | <b>4690</b>   |  |
| Growth (%)                           | 36%          | 226%          | -94%          | 489%          |  |
| <b>EPS</b>                           | <b>9.2</b>   | <b>29.9</b>   | <b>1.9</b>    | <b>11.4</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         | 796          | 4690         |  |
| Add: Dep. & Amortization         | 4102          | 4274          | 4787         | 4669         |  |
| Net (Inc) / dec.in Current Asse  | 6947          | 3067          | -10313       | -1766        |  |
| Net Inc / (dec) in Current Liab. | 3018          | 4235          | 3358         | 1061         |  |
| <b>CF from Operating Actv.</b>   | <b>17917</b>  | <b>23591</b>  | <b>-1373</b> | <b>8654</b>  |  |
| (Inc)/dec in Investments         | -10           | -29           | -25          | -65          |  |
| (Inc)/dec in Fixed Assets        | -2810         | -3852         | -6000        | -8000        |  |
| Others                           | 0             | 0             | 0            | 0            |  |
| <b>CF from Investing Actv.</b>   | <b>-2820</b>  | <b>-3882</b>  | <b>-6025</b> | <b>-8065</b> |  |
| Inc / (Dec) in Equity Capital    | 0             | 0             | 0            | 0            |  |
| Inc / (Dec) in Loans             | -15905        | -22191        | 12325        | -375         |  |
| Dividend & Dividend Tax          | -743          | -3614         | -413         | -826         |  |
| Others                           | 1869          | 6064          | -4536        | 709          |  |
| <b>CF from Financing Actv.</b>   | <b>-14780</b> | <b>-19741</b> | <b>7375</b>  | <b>-492</b>  |  |
| Net Cash flow                    | 317           | -32           | -22          | 97           |  |
| Opening Cash                     | 363           | 680           | 648          | 626          |  |
| <b>Closing Cash</b>              | <b>680</b>    | <b>648</b>    | <b>626</b>   | <b>723</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        | 48270        | 52134        |  |
| <b>Total Shareholders funds</b> | <b>43495</b> | <b>52017</b> | <b>52400</b> | <b>56265</b> |  |
| Total Debt                      | 35576        | 13386        | 25711        | 25336        |  |
| Other Non-Current Liabilities   | 1671         | 7680         | 2893         | 3002         |  |
| Deferred Tax Liability (net)    | 1253         | 5260         | 5510         | 6110         |  |
| <b>Source of Funds</b>          | <b>81995</b> | <b>78342</b> | <b>86514</b> | <b>90713</b> |  |
| Gross Block - Fixed Assets      | 115394       | 125726       | 127641       | 133391       |  |
| Accumulated Depreciation        | 47794        | 52069        | 56855        | 61524        |  |
| <b>Net Block</b>                | <b>67600</b> | <b>73657</b> | <b>70786</b> | <b>71867</b> |  |
| Capital WIP                     | 8878         | 4017         | 8102         | 10352        |  |
| <b>Net Fixed Assets</b>         | <b>76478</b> | <b>77674</b> | <b>78888</b> | <b>82219</b> |  |
| Investments                     | 1595         | 1624         | 1649         | 1714         |  |
| Inventory                       | 19508        | 24128        | 28307        | 28790        |  |
| Cash                            | 680          | 648          | 626          | 723          |  |
| Debtors                         | 7124         | 4737         | 7077         | 7344         |  |
| Loans & Advances & Other CA     | 9873         | 4573         | 8367         | 9383         |  |
| <b>Total Current Assets</b>     | <b>37185</b> | <b>34086</b> | <b>44378</b> | <b>46241</b> |  |
| Creditors                       | 7014         | 16918        | 15569        | 16158        |  |
| Provisions & Other CL           | 28150        | 22481        | 27188        | 27660        |  |
| Total Current Liabilities       | 35164        | 39399        | 42757        | 43818        |  |
| Net Current Assets              | 2021         | -5313        | 1620         | 2423         |  |
| Other Non-current assets        | 1901         | 4356         | 4356         | 4356         |  |
| <b>Application of Funds</b>     | <b>81995</b> | <b>78342</b> | <b>86514</b> | <b>90713</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    | 1.9   | 11.4  |  |
| BV                          | 105  | 126     | 127   | 136   |  |
| DPS                         | 1.8  | 8.8     | 1.0   | 2.0   |  |
| <b>Operating Ratios (%)</b> |      |         |       |       |  |
| EBITDA margins              | 18.4 | 20.6    | 7.0   | 11.5  |  |
| PBT margins                 | 10.0 | 15.5    | 1.0   | 5.8   |  |
| Net Profit margins          | 5.6  | 11.6    | 0.8   | 4.4   |  |
| Inventory days              | 103  | 85      | 100   | 98    |  |
| Debtor days                 | 38   | 17      | 25    | 25    |  |
| Creditor days               | 37   | 60      | 55    | 55    |  |
| <b>Return Ratios (%)</b>    |      |         |       |       |  |
| RoE                         | 8.9  | 23.1    | 1.5   | 8.3   |  |
| RoCE                        | 10.9 | 26.1    | 3.1   | 9.4   |  |
| RoIC                        | 11.0 | 26.3    | 3.1   | 9.5   |  |
| <b>Valuation Ratios (x)</b> |      |         |       |       |  |
| P/E                         | 9.3  | 2.8     | 44.1  | 7.5   |  |
| EV / EBITDA                 | 5.5  | 2.2     | 8.4   | 4.8   |  |
| EV / Revenues               | 1.0  | 0.5     | 0.6   | 0.6   |  |
| Market Cap / Revenues       | 0.5  | 0.3     | 0.3   | 0.3   |  |
| Price to Book Value         | 0.8  | 0.7     | 0.7   | 0.6   |  |
| <b>Solvency Ratios</b>      |      |         |       |       |  |
| Debt / Equity               | 0.8  | 0.3     | 0.5   | 0.5   |  |
| Debt/EBITDA                 | 2.8  | 0.6     | 3.6   | 2.1   |  |
| Current Ratio               | 1.1  | 0.9     | 1.0   | 1.1   |  |
| Quick Ratio                 | 0.5  | 0.3     | 0.4   | 0.4   |  |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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