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India | Equity Research | Q4FY24 results review

Steel Authority of India

Metals

Earnings beat on lower-than-expected cost

Steel Authority of India's (SAIL) EBITDA, adjusted for rail price revision impact, surpassed consensus estimates mainly on lower cost. Key points: 1) Sales volume rose 20% QoQ at 4.56mt. 2) EBITDA/t (adj.), at INR 4,894, was ahead of our estimates due to lower manpower/other expenses. 3) Debt rose by 9% QoQ to INR 305bn owing to working capital build-up. 4) Board has recommended dividend of INR 1/share. Going ahead, management expects the lower coking coal cost and stabilising margins to have a favourable impact on spreads. That said, debt has further increased to INR 350bn and capex is set to rise as SAIL moves ahead with its expansion plan. At CMP, the stock is trading at rich valuations of 7.8x FY26E EBITDA. Maintain **SELL** with an unchanged TP of INR 110/share based on 6x FY26E EBITDA.

Performance falls short of estimates; cost control a key plus

SAIL's Q4FY24 EBITDA (adj.) of INR 22.3bn (down 24% YoY) surpassed consensus estimates by 24%. Key points: 1) Sales volume, at 4.56mt (up 20% QoQ), was in-line. 2) Employee expenses declined 17% QoQ, at INR 28.4bn, mainly due to superannuation and lower actuarial provisions. 3) Other expenses declined 1.8% YoY to INR 71.2bn, mainly due to lower power and fuel costs and lesser provisions. 4) The impact of rail price revision for the prior periods was INR 1.68bn while for the current quarter, it was at INR 2.2bn. 5) Coking coal cost rose INR 2,824/t QoQ while blended realisation dropped INR 2,665/te QoQ. 6) Gross debt rose 9% QoQ to INR 305bn, mainly due to working capital build-up. Finished product inventory, as on end-Mar'24, is at 1.6mt; Management expects margins to improve due to lower coking coal cost (expected to be down USD 30/t) and progressive improvement in steel prices.

Rising capex and rich valuations mar the upside

SAIL has embarked on expansion of crude steel capacity to 35mtpa by FY31 in stages. While management is confident of applying its learnings from the last expansion to rein in the net debt, we believe that capex of INR 1.1–1.2tn would lead to significant escalation in leverage when capex hits its peak. Besides, the stock is trading at 7.6x FY26E EBITDA – highest among peers and with the lowest RoE. Furthermore, we see the immediate benefits of domestic consumption growth to be least for SAIL.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	10,44,474	10,53,746	10,32,121	10,50,208
EBITDA	80,241	1,11,317	1,14,130	1,36,191
EBITDA Margin (%)	7.7	10.6	11.1	13.0
Net Profit	17,169	33,563	30,851	45,742
EPS (INR)	4.2	8.1	7.5	11.1
EPS % Chg YoY	(84.2)	43.6	12.9	48.3
P/E (x)	37.8	26.3	23.3	15.7
EV/EBITDA (x)	12.6	9.5	9.2	7.5
RoCE (%)	2.7	5.7	5.3	6.4
RoE (%)	3.5	6.4	5.7	8.0

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Market Data

Market Cap (INR)	720bn
Market Cap (USD)	8,644mn
Bloomberg Code	SAIL IN
Reuters Code	SAIL.BO
52-week Range (INR)	175 /80
Free Float (%)	35.0
ADTV-3M (mn) (USD)	87.4

Price Performance (%)	3m	6m	12m
Absolute	33.9	92.3	112.2
Relative to Sensex	32.7	79.7	92.4

Previous Reports

14-02-2024: [Q3FY24 results review](#)

17-11-2023: [Q2FY24 results review](#)

Outlook: Steep valuations impinge the upside

Despite good control over manpower costs and other expenditure, along with an improvement in techno-economical parameters, we believe that capex of INR 1.1–1.2tn over next eight years is likely to keep the balance sheet more strained than its peers. On valuations, we find little comfort, as SAIL is trading at 7.6x FY26E EBITDA – the highest among major domestic steel companies; however, its RoE is likely to be the lowest. We maintain **SELL** on SAIL; TP unchanged at INR 110 based on 6x FY26E EBITDA.

Q4FY24 conference call: Takeaways

- FY25 volume target: Production: 20mt; sales of 19mt.
- Realisation: In Q4FY24, prices for longs and flats were at INR 55,400/t and INR 53,700/t, respectively. For May'24, longs is at INR 54,600/t while flats is at INR 53,700.
- Longs prices have seen healthy improvement. From INR 51,000/te in Apr'24, longs realisation improved to INR 54,600/te in the beginning of May'24 – currently, it stands at INR 58,000/te; flats prices have largely remained range-bound.
- Coking coal cost: Q3FY24: INR 23,700/te; Q4: INR 26,524/te. The cost of domestic coal also rose by INR 1,000/t to INR 13,000/t. In Q1FY25, management expects coking coal cost to reduce by USD 30/te QoQ.
- Finished product inventory: At end-FY24, it was 1.6mt. In Apr–May'24, inventory of 209kt has been liquidated. At present, finished products' inventory is at 1.452mt.
- Employee cost: Management mentioned that there is a constant decline of 3,000 employees p.a. Current manpower strength is at 55,989. Management expects manpower cost to range between INR 110–115bn p.a.
- Other expenditure in Q4FY24 was lower due to power & fuel cost reduction and lesser provisions. Provisions in Q4FY24 were at INR 520mn compared to INR 2.2bn last year.
- Capex: Targeting 35mtpa crude steel capacity by FY31. In FY25, capex is expected at INR 63bn, largely towards sustenance and initial part of the IISCO Steel plant expansion by 4mtpa.
- Management expects total capex of INR 1.1–1.2tn, spread out phase-wise. In case of the IISCO plant expansion, board approval is already available. Management expects to incur INR 360bn for 4mtpa expansion. Commissioning is expected in FY28.
- In case of expansion of Durgapur and Bhilai steel plants, pre-feasibility report is prepared and board approval is awaited.
- Debt: As on end-Mar'24, debt was at INR 305bn. The increase in debt level QoQ was due to higher inventory build-up. During Apr–May'24, debt has further increased to INR 350bn. However, management expects debt to come off during the year and expects it to reach INR 300bn by end-FY25.
- Structural mill and USM: Highest-ever utilisation in Q4FY24 and ramping up quickly. Utilisation of USM and MSM was at 70% and 55%, respectively, in Q4FY24.

Exhibit 1: SAIL Q4FY24 performance review

(INR mn)	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Net sales	2,79,585	2,91,307	(4.0)	2,33,486	19.7	10,53,746	10,44,474	0.9
Raw Material	1,51,302	1,48,580	1.8	1,37,649	9.9	5,76,188	6,20,911	(7.2)
Stock Adjustment	(6,151)	6,626	(192.8)	(25,524)	(75.9)	(33,529)	(51,601)	(35.0)
Gross Margin	1,34,433	1,36,101	(1.2)	1,21,362	10.8	5,11,087	4,75,164	7.6
Gross Margin (%)	48.1%	46.7%		52.0%		48.5%	45.5%	
Employee cost	28,454	34,390	(17.3)	29,422	(3.3)	1,17,479	1,20,536	(2.5)
Other expenditure	71,153	72,469	(1.8)	70,515	0.9	2,82,290	2,74,387	2.9
EBITDA	34,827	29,242	19.1	21,425	62.6	1,11,317	80,241	38.7
Margin (%)	12.5%	10.0%		9.2%		10.6%	7.7%	
EBITDA (Adj)	22,317	29,305	(23.8)	21,425	4.2			
Other Income	3,134	2,857	9.7	1,437	118.1	11,481	13,548	(15.3)
Depreciation	13,558	13,647	(0.6)	13,208	2.7	52,775	49,625	6.3
EBIT	24,403	18,452	32.2	9,654	152.8	70,023	44,164	58.6
Interest	6,422	5,170	24.2	6,139	4.6	24,738	20,375	21.4
Extraordinary Items	(5,023)	(404)		765		(8,408)	2,580	
PBT	12,957	12,878	0.6	4,280	202.8	36,877	26,369	39.8
Share of JV/Associates	1,455	2,740		1,347				
Tax expense:	3,155	4,026	(21.6)	1,397	125.8	9,546	7,338	30.1
PAT	11,257	11,592	(2.9)	4,229	166.2	27,331	19,031	43.6
Production (mnste)	5.0	5.0	1.4	4.8	5.7	19.2	17.4	10.8
Sales Volume (mnste)	4.6	4.7	(2.6)	3.8	19.6	17.0	16.2	5.1
RM Cost (INR/te)	31,832	33,150	(4.0)	29,406	8.2	31,930	35,190	(9.3)
Total Cost (INR/te)	53,675	55,997	(4.1)	55,615	(3.5)	55,354	59,547	(7.0)
B. Realisation (INR/te)	61,313	62,245	(1.5)	61,234	0.1	61,904	64,510	(4.0)
EBITDA (INR/te)	7,637	6,262	22.0	5,619	35.9	6,550	4,963	32.0

Source: I-Sec research, Company data

Exhibit 2: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	65.0	65.0	65.0
Institutional investors	18.3	19.8	19.0
MFs and others	3.9	5.2	6.2
FIs/Banks	0.0	0.0	0.0
Insurance	10.7	10.2	9.4
FIIIs	3.7	4.4	3.4
Others	16.7	15.2	16.0

Source: Bloomberg

Exhibit 3: Price chart

Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	10,44,474	10,53,746	10,32,121	10,50,208
Operating Expenses	9,64,233	9,42,429	9,17,991	9,14,017
EBITDA	80,241	1,11,317	1,14,130	1,36,191
EBITDA Margin (%)	7.7	10.6	11.1	13.0
Depreciation & Amortization	49,625	52,775	54,932	57,251
EBIT	30,616	58,543	59,198	78,940
Interest expenditure	20,375	24,738	26,781	26,781
Other Non-operating Income	13,548	11,481	6,674	8,831
Recurring PBT	23,789	45,285	39,091	60,990
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	7,338	9,546	8,240	15,247
PAT	19,031	27,331	30,851	45,742
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(1,862)	6,232	-	-
Net Income (Reported)	17,169	33,563	30,851	45,742
Net Income (Adjusted)	17,169	33,563	30,851	45,742

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	3,77,633	4,78,821	4,94,310	5,22,041
of which cash & cash eqv.	3,980	5,416	14,091	40,338
Total Current Liabilities & Provisions	2,93,818	3,17,051	3,20,018	3,23,017
Net Current Assets	83,815	1,61,770	1,74,292	1,99,024
Investments	16,727	16,941	16,941	16,941
Net Fixed Assets	7,20,027	7,09,188	7,19,256	7,12,005
ROU Assets	-	-	-	-
Capital Work-in-Progress	48,914	61,406	61,406	81,406
Total Intangible Assets	15,210	14,888	14,888	14,888
Other assets	92,088	85,308	85,308	85,308
Deferred Tax Assets	-	-	-	-
Total Assets	9,83,332	10,58,273	10,80,863	11,18,345
Liabilities				
Borrowings	3,07,734	3,63,150	3,63,150	3,63,150
Deferred Tax Liability	57,472	63,870	63,870	63,870
provisions	-	-	-	-
other Liabilities	96,735	89,948	89,948	89,948
Equity Share Capital	41,305	41,305	41,305	41,305
Reserves & Surplus	4,80,087	5,00,000	5,22,590	5,60,072
Total Net Worth	5,21,392	5,41,305	5,63,895	6,01,377
Minority Interest	-	-	-	-
Total Liabilities	9,83,332	10,58,273	10,80,863	11,18,345

Source Company data, I-Sec research

Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	2,43,591	2,97,121	2,33,486	2,79,585
% growth (YOY)	1.4	13.2	(6.8)	(4.0)
EBITDA	16,488	38,754	21,425	34,827
Margin %	6.8	13.0	9.2	12.5
Other Income	4,637	1,461	1,437	3,134
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,125	13,056	4,229	11,257

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	(54,065)	29,332	1,08,717	1,31,290
Working Capital Changes	(1,38,224)	(76,898)	(3,846)	1,514
Capital Commitments	(43,145)	(48,631)	(65,000)	(70,000)
Free Cashflow	(97,210)	(19,299)	43,717	61,290
Other investing cashflow	10,810	5,828	-	-
Cashflow from Investing Activities	(32,335)	(42,803)	(65,000)	(70,000)
Issue of Share Capital	-	-	-	-
Interest Cost	(20,800)	(21,566)	(26,781)	(26,781)
Inc (Dec) in Borrowings	1,20,091	41,305	-	-
Dividend paid	(13,424)	(6,196)	(8,261)	(8,261)
Others	-	-	-	-
Cash flow from Financing Activities	85,867	13,544	(35,042)	(35,042)
Chg. in Cash & Bank balance	(533)	73	8,675	26,247
Closing cash & balance	65	137	8,813	35,060

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	4.6	6.6	7.5	11.1
Adjusted EPS (Diluted)	4.2	8.1	7.5	11.1
Cash EPS	16.2	20.9	20.8	24.9
Dividend per share (DPS)	1.5	2.0	2.0	2.0
Book Value per share (BV)	126.2	131.1	136.5	145.6
Dividend Payout (%)	32.6	30.2	26.8	18.1
Growth (%)				
Net Sales	0.9	0.9	(2.1)	1.8
EBITDA	(62.4)	38.7	2.5	19.3
EPS (INR)	(84.2)	43.6	12.9	48.3
Valuation Ratios (x)				
P/E	37.8	26.3	23.3	15.7
P/CEPS	10.8	8.3	8.4	7.0
P/BV	1.4	1.3	1.3	1.2
EV / EBITDA	12.6	9.5	9.2	7.5
Dividend Yield (%)	0.9	1.1	1.1	1.1
Operating Ratios				
Gross Profit Margins (%)	45.5	48.5	50.5	52.3
EBITDA Margins (%)	7.7	10.6	11.1	13.0
Effective Tax Rate (%)	30.8	21.1	21.1	25.0
Net Profit Margins (%)	1.8	2.6	3.0	4.4
Net Debt / Equity (x)	0.6	0.6	0.6	0.5
Net Debt / EBITDA (x)	3.6	3.1	2.9	2.2
Fixed Asset Turnover (x)	0.9	0.8	0.8	0.8
Inventory Turnover Days	110	114	117	117
Receivables Days	21	29	29	29
Payables Days	111	106	107	108
Profitability Ratios				
RoCE (%)	2.7	5.7	5.3	6.4
RoE (%)	3.5	6.4	5.7	8.0
RoIC (%)	2.8	5.9	5.4	6.6

Source Company data, I-Sec research

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