

Rating: SELL | CMP: Rs129 | TP: Rs112

August 9, 2024

Q1FY25 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	SELL		SELL	
Target Price	112		134	
Sales (Rs. bn)	1,059	1,160	1,103	1,224
% Chng.	(4.0)	(5.3)		
EBITDA (Rs. bn)	129	140	139	154
% Chng.	(7.3)	(9.1)		
EPS (Rs.)	10.2	12.1	12.3	14.5
% Chng.	(17.0)	(16.0)		

Key Financials - Standalone

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. bn)	1,044	1,027	1,059	1,160
EBITDA (Rs. bn)	80	85	129	140
Margin (%)	7.7	8.3	12.2	12.0
PAT (Rs. bn)	17	14	42	50
EPS (Rs.)	4.2	3.4	10.2	12.1
Gr. (%)	(86.0)	(17.9)	198.6	19.2
DPS (Rs.)	1.5	2.5	2.0	2.0
Yield (%)	1.2	1.9	1.5	1.5
RoE (%)	3.3	2.7	7.6	8.4
RoCE (%)	5.6	4.9	8.8	9.7
EV/Sales (x)	0.8	0.9	0.8	0.7
EV/EBITDA (x)	10.9	10.8	7.0	6.0
PE (x)	31.1	37.9	12.7	10.6
P/BV (x)	1.0	1.0	0.9	0.9

Key Data

SAIL.BO | SAIL IN

52-W High / Low	Rs.176 / Rs.82
Sensex / Nifty	79,706 / 24,368
Market Cap	Rs.534bn / \$ 6,363m
Shares Outstanding	4,130m
3M Avg. Daily Value	Rs.5283.57m

Shareholding Pattern (%)

Promoter's	65.00
Foreign	3.00
Domestic Institution	15.72
Public & Others	16.28
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(17.1)	(3.2)	39.2
Relative	(16.4)	(13.1)	15.2

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Weak steel prices to impact Q2

Quick Pointers:

- Accumulated coking coal inventory to keep costs higher in Q2FY25
- EBITDA/t grew 31% YoY to Rs5,535 on lower RM costs

We cut FY25/26E EBITDA estimates by 7%/9% on account of weak steel pricing in the near term and high cost coking coal inventory. SAIL reported weak operating performance in Q1FY25 on account of muted 3% volume growth; costs were largely in-line. Average NSR improved 3% QoQ to Rs59,845/t due to higher long product prices in domestic markets. As steel prices are on a declining trend, we expect SAIL's Q2FY25 performance to be impacted. Mgmt. has reiterated FY25 sales guidance of ~19.2mt, which seems ambitious. We estimate 17.9/19.4mt volumes for FY25/26E as near term domestic and export market remains weak. SAIL targets to reach 35mtpa by FY32 in phases. In the first phase of this capex, Rs370bn is planned to be spent at IISCO for 4mtpa capacity addition, much higher than industry benchmark. Even 3mtpa capacity addition planned via debottlenecking is targeted over next 3-4 years. We expect SAIL to remain a play on steel prices in the long term as a) its volume growth would depend upon successful execution of planned capex by FY27E, and b) higher capex can deteriorate balance sheet unless there is timely execution. At CMP, stock is trading at an EV of 7x/6x FY25/FY26E EBITDA. Maintain 'Sell' with revised TP of Rs112 (Rs134 earlier) giving 5.5x FY26E EV/EBITDA.

Muted volume growth leads to finished goods inventory pile-up: Revenue for Q1FY25 declined 1% YoY Rs240bn (-10% QoQ; PLe Rs242bn) on 3% YoY growth in sales volume at 4.01mt (-12% QoQ; PLe 4.08mt). Average realization improved 3% QoQ to Rs59,845/t (-4.6% YoY; PLe Rs59,325/t) on account of higher long product prices during the quarter. However, muted demand in domestic and export markets has led to a fall in steel prices since end-June. India HRC prices are holding at Rs51k/t, while long product prices gave up all gains of the last 3 months and are hovering below HRC amidst a weak monsoon quarter; this is expected to impact Q2FY25 performance.

EBITDA/t to improve gradually: EBITDA grew 35% YoY to Rs22.2bn (+9% QoQ; PLe Rs23.8bn) as costs were largely in-line. RM cost per ton declined 11% YoY (-5% QoQ) on lower coking coal costs and increase in stock inventories. Staff costs declined 3% YoY to Rs5,936/t, while other expenses declined 1% YoY to Rs17,319/t. Resultant EBITDA/t grew by 31% YoY to Rs5,535/t (below PLe Rs5,839/t). Coking coal prices have declined 10% over the last 3 months to US\$215/t, which should help improve margins in H2FY25 as domestic demand is also expected to improve.

Exhibit 1: Standalone 1QFY25 Results Overview (Rs bn)

Y/e March	1QFY25	1QFY24	YoY Gr. (%)	4QFY24	QoQ Gr. (%)	FY25E	FY24	YoY Gr. (%)
Net Sales	240.0	243.6	-1.5	265.2	-9.5	1059.4	1021.9	-3.5
Raw material	120.6	130.5	-7.6	144.9	-16.8	504.3	542.7	7.6
<i>% of Net Sales</i>	<i>50.2%</i>	<i>53.6%</i>		<i>54.6%</i>		<i>47.6%</i>	<i>53.1%</i>	
Staff Cost	27.8	28.4	-2.3	28.4	-2.2	120.1	117.5	-2.1
<i>% of Net Sales</i>	<i>11.6%</i>	<i>11.7%</i>		<i>10.7%</i>		<i>11.3%</i>	<i>11.5%</i>	
Other expenses	69.4	68.1	1.9	71.5	-2.9	305.9	282.3	-7.7
<i>% of Net Sales</i>	<i>28.9%</i>	<i>28.0%</i>		<i>27.0%</i>		<i>28.9%</i>	<i>27.6%</i>	
Total expenditure	217.8	227.1	-4.1	244.8	-11.0	930.3	942.4	1.3
EBITDA	22.2	16.5	34.7	20.4	8.8	129.1	79.5	-38.4
<i>Margin (%)</i>	<i>9.2%</i>	<i>6.8%</i>		<i>7.7%</i>		<i>12.2%</i>	<i>7.8%</i>	
Depreciation	14.0	12.7	10.0	13.6	3.4	54.7	52.8	-3.4
EBIT	8.2	3.7	NA	6.8	19.6	74.4	26.7	-64.1
Other income	2.0	4.4	-54.8	3.5	NA	9.4	11.5	22.0
Interest	6.9	6.1	12.9	6.4	7.7	27.6	24.7	-10.5
PBT	3.3	2.0	NA	3.9	-17.4	56.2	13.4	-76.1
Extraordinary income/(expense)	-3.1	0.0	NA	9.3	NA	-3.1	23.4	NA
PBT (after EO)	0.1	2.0	NA	13.3	-98.9	53.1	36.9	-30.5
Tax	0.0	0.5	NA	3.2	NA	13.3	9.5	
Reported PAT	0.1	1.5	NA	10.1	-98.9	39.8	27.3	-31.3
Adjusted PAT	2.4	1.5	NA	3.0	-18.8	42.1	10.0	-76.3

Source: Company, PL

Exhibit 2: Operating matrix

(In Rs)	1QFY25	1QFY24	YoY Gr. (%)	4QFY24	QoQ Gr. (%)	FY25E	FY24	YoY Gr. (%)
Crude Steel Production volumes (mt)	4.68	4.67	0.2	5.02	-6.8	19.98	19.24	-3.7
Sales volume (mt)	4.01	3.88	3.2	4.56	-12.1	17.9	17.02	-5.0
Realization/t	59,845	62,713	-4.6	58,162	2.9	59,085	60,027	1.6
EBITDA/t	5,535	4,241	30.5	4,472	23.8	7,200	4,668	-35.2

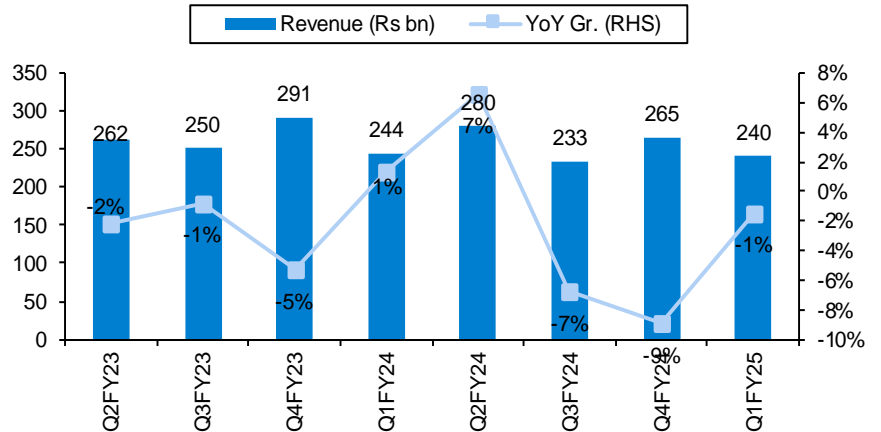
Source: Company, PL

Exhibit 3: Plant wise performance

Segment Revenue (Rs bn)	1QFY25	1QFY24	YoY Gr. (%)	4QFY24	QoQ Gr. (%)	FY24	FY23	YoY Gr. (%)
Bhilai Steel Plant	79.3	70.3	12.8	97.0	-18.2	333.0	305.2	9.1
Durgapur Steel Plant	31.5	30.9	1.8	32.5	-2.9	124.5	132.5	-6.1
Rourkela Steel Plant	65.8	62.5	5.4	69.8	-5.7	262.7	256.0	2.6
Bokaro Steel Plant	49.2	63.5	-22.4	65.3	-24.6	257.6	263.4	-2.2
IISCO Steel plant	30.7	28.1	9.3	33.8	-9.2	127.0	135.2	-6.1
Special Steel plants	13.6	13.5	0.7	13.8	-1.6	51.9	46.4	11.9
Total Revenue	270.2	268.8	0.5	312.1	-13.4	1156.6	1138.7	1.6
Segment EBIT (Rs bn)								
Bhilai Steel Plant	5.2	2.6	99.0	13.4	-61.1	35.5	9.5	271.8
Durgapur Steel Plant	1.4	0.6	149.8	1.8	-18.1	5.6	5.0	12.4
Rourkela Steel Plant	3.7	2.5	46.0	2.9	26.7	14.2	11.9	18.8
Bokaro Steel Plant	(0.3)	2.1	-115.1	2.4	-112.8	13.7	12.2	12.1
IISCO Steel plant	(0.4)	0.7	-154.8	0.7	-156.2	3.0	5.6	-47.1
Special Steel plants	0.6	(0.4)	NA	3.5	NA	(1.9)	(0.1)	NA
Total EBIT	10.2	8.1	24.9	24.7	-58.9	70.0	44.2	58.6

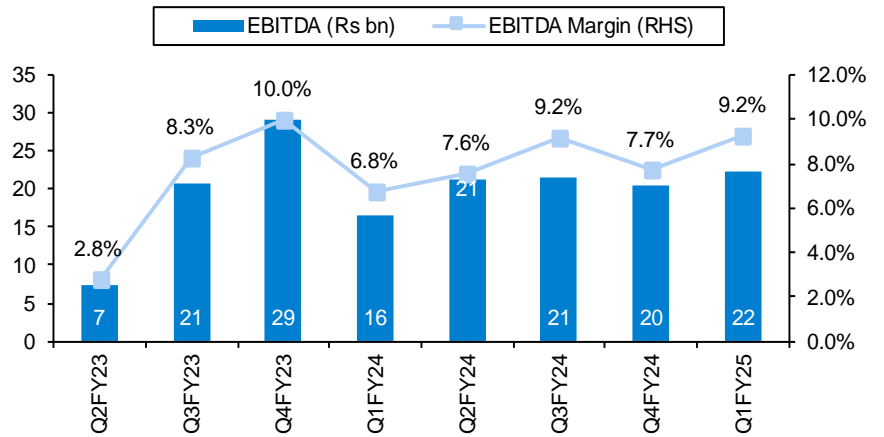
Source: Company, PL

Exhibit 4: Revenue declined 10% QoQ on weak volumes



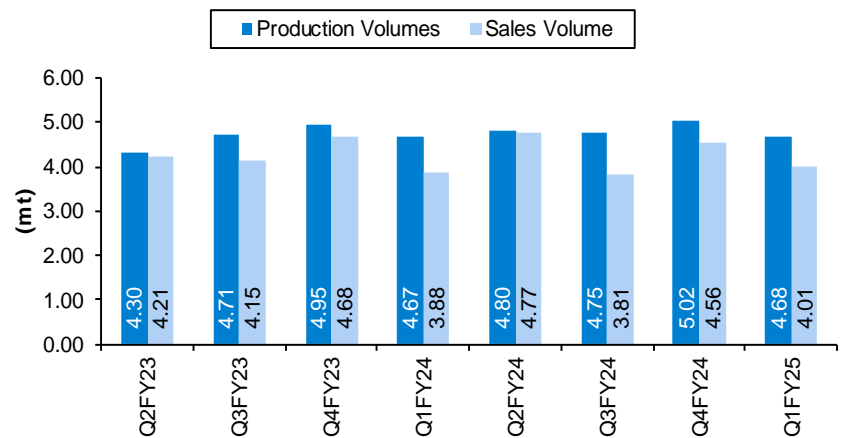
Source: Company, PL

Exhibit 5: EBITDA increased 9% QoQ on better NSR and lower RM cost



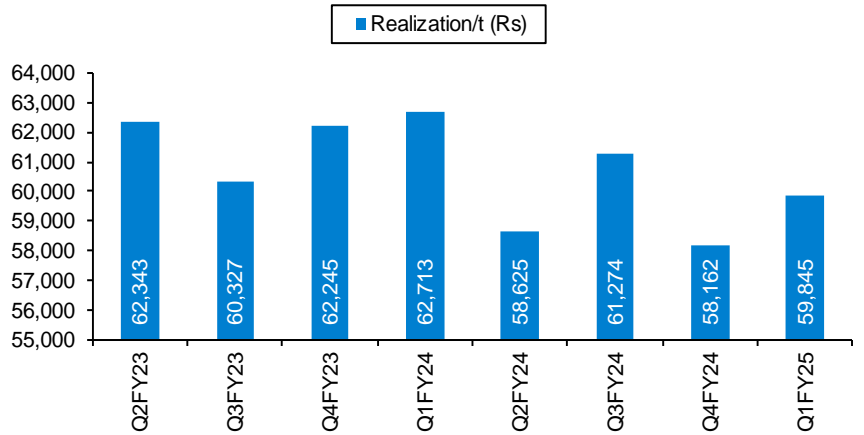
Source: Company, PL

Exhibit 6: Production/sales de-grew 7%/12% QoQ



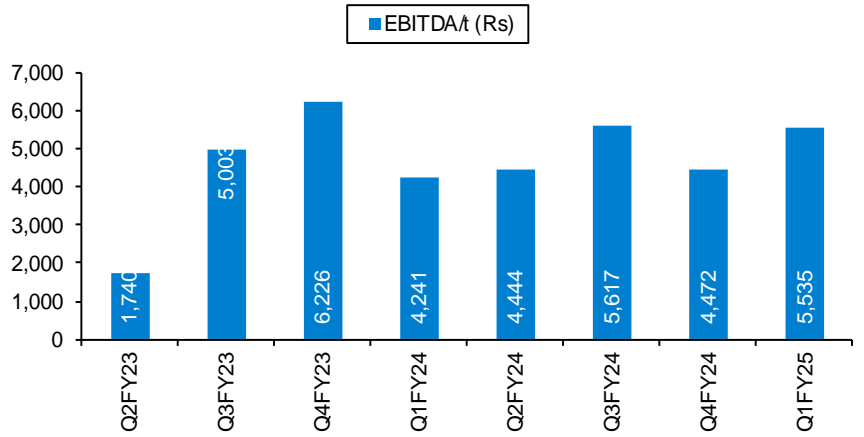
Source: Company, PL

Exhibit 7: Avg. realization increased QoQ on higher long product prices



Source: Company, PL

Exhibit 8: EBITDA/t grew by 24% QoQ led by fall in RM costs



Source: Company, PL

Conference Call Highlights:

- Q1FY25 landed cost of imported and indigenous coking coal stood at Rs24,500/t and Rs13,500/t, respectively. Q2FY25 costs are expected to remain in a similar range due to accumulated inventory.
- Net debt inched up by Rs50bn QoQ to Rs356bn mainly on account of accumulation of coking coal stock.
- Finished steel inventory increased by 0.5mt, worth Rs10bn, due to a shutdown in Bokaro HSM leading to higher slabs inventory.
- Finished steel inventory stood at ~1.84mt as of Q1FY25.
- NSR for long and flat products was Rs54,000/t and Rs53,500/t, respectively. Prices declined by Rs700-800/t in long products and Rs1,500/t in flats in July. Another Rs1,500/t correction happened in August.
- Production and sales volumes for FY25 are expected at ~20.87mt and 19.26mt, respectively.
- SAIL is expected to commission TMT mills at the Durgapur Steel Plant in the next 3-4 years, which will cut down semis proportion.
- Debottlenecking is underway at various locations to increase capacity by 3mtpa to 23mtpa at a capex of Rs100-110bn in the next 3-4 years.
- Debottlenecking includes revamping of BF #3 at Durgapur plant (yet to place the order), and addition of two casters at Bhilai (commissioned and under trial) and Rourkela (expected in 2 years), which will improve volumes.
- SAIL has received Stage 1 board approval for its IISCO steel plant, with a capex of Rs370bn for 4mtpa capacity. Tendering will start soon, selection of the vendors will take 6-8 months and majority capex will start from FY27.
- Brownfield expansion at Bokaro plant to reach 7mtpa and Durgapur to reach 3mtpa, is in the discussion stage.
- Capex for Q1FY25 stood at Rs9.86bn; the company has planned Rs63bn capex for FY25.
- Jharkhand assembly recently passed a bill to impose cess of Rs100/t for iron ore and coal; the prospective impact of this bill will be Rs1.5-2bn/year.

Financials

Income Statement (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	1,044	1,027	1,059	1,160
YoY gr. (%)	0.9	(1.6)	3.1	9.5
Cost of Goods Sold	569	543	504	546
Gross Profit	475	485	555	613
Margin (%)	45.5	47.2	52.4	52.9
Employee Cost	121	117	120	126
Other Expenses	274	282	306	348
EBITDA	80	85	129	140
YoY gr. (%)	(62.4)	6.0	51.8	8.2
Margin (%)	7.7	8.3	12.2	12.0
Depreciation and Amortization	50	53	55	56
EBIT	31	32	74	84
Margin (%)	2.9	3.1	7.0	7.2
Net Interest	20	25	28	27
Other Income	14	11	9	11
Profit Before Tax	26	37	53	67
Margin (%)	2.5	3.6	5.0	5.8
Total Tax	7	10	13	17
Effective tax rate (%)	27.8	25.9	25.1	25.1
Profit after tax	19	27	40	50
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	17	14	42	50
YoY gr. (%)	(86.0)	(17.9)	198.6	19.2
Margin (%)	1.6	1.4	4.0	4.3
Extra Ord. Income / (Exp)	2	13	(2)	-
Reported PAT	19	27	40	50
YoY gr. (%)	(84.2)	43.6	45.5	26.2
Margin (%)	1.8	2.7	3.8	4.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	19	27	40	50
Equity Shares O/s (bn)	4	4	4	4
EPS (Rs)	4.2	3.4	10.2	12.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	1,379	1,384	1,447	1,522
Tangibles	1,379	1,384	1,447	1,522
Intangibles	-	-	-	-
Acc: Dep / Amortization	561	614	668	724
Tangibles	561	614	668	724
Intangibles	-	-	-	-
Net fixed assets	818	770	779	798
Tangibles	818	770	779	798
Intangibles	-	-	-	-
Capital Work In Progress	49	61	61	61
Goodwill	-	-	-	-
Non-Current Investments	27	30	30	30
Net Deferred tax assets	(57)	(62)	(62)	(62)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	277	326	319	318
Trade receivables	54	83	87	95
Cash & Bank Balance	4	5	25	66
Other Current Assets	-	-	-	-
Total Assets	1,277	1,375	1,400	1,467
Equity				
Equity Share Capital	41	41	41	41
Other Equity	480	500	531	573
Total Networkth	521	541	573	615
Non-Current Liabilities				
Long Term borrowings	345	391	391	371
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	143	153	145	175
Other current liabilities	210	228	230	245
Total Equity & Liabilities	1,277	1,375	1,400	1,467

Source: Company Data, PL Research

Cash Flow (Rs bn)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	26	37	53	67
Add. Depreciation	50	53	55	56
Add. Interest	20	25	28	27
Less Financial Other Income	14	11	9	11
Add. Other	(8)	(7)	-	-
Op. profit before WC changes	88	107	135	150
Net Changes-WC	(138)	(77)	(3)	38
Direct tax	(4)	(1)	(13)	(17)
Net cash from Op. activities	(54)	29	119	172
Capital expenditures	(43)	(49)	(63)	(75)
Interest / Dividend Income	-	-	-	-
Others	11	6	-	-
Net Cash from Inv. activities	(32)	(43)	(63)	(75)
Issue of share cap. / premium	(3)	(8)	-	-
Debt changes	123	49	-	(20)
Dividend paid	(13)	(6)	(8)	(8)
Interest paid	(21)	(22)	(28)	(27)
Others	-	-	-	-
Net cash from Fin. activities	86	14	(36)	(56)
Net change in cash	(1)	0	20	41
Free Cash Flow	(97)	(19)	56	97

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	4.2	3.4	10.2	12.1
CEPS	16.2	16.2	23.4	25.7
BVPS	126.2	131.0	138.7	148.8
FCF	(23.5)	(4.7)	13.5	23.4
DPS	1.5	2.5	2.0	2.0
Return Ratio(%)				
RoCE	5.6	4.9	8.8	9.7
ROIC	2.8	2.7	6.0	6.9
RoE	3.3	2.7	7.6	8.4
Balance Sheet				
Net Debt : Equity (x)	0.7	0.7	0.6	0.5
Net Working Capital (Days)	65	91	90	75
Valuation(x)				
PER	31.1	37.9	12.7	10.6
P/B	1.0	1.0	0.9	0.9
P/CEPS	16.2	16.2	23.4	25.7
EV/EBITDA	10.9	10.8	7.0	6.0
EV/Sales	0.8	0.9	0.8	0.7
Dividend Yield (%)	1.2	1.9	1.5	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Revenue	280	233	265	240
YoY gr. (%)	6.5	(6.8)	(9.0)	(1.5)
Raw Material Expenses	155	112	145	121
Gross Profit	124	122	120	119
Margin (%)	44.5	52.1	45.4	49.8
EBITDA	21	21	20	22
YoY gr. (%)	189.3	3.1	(30.0)	34.7
Margin (%)	7.6	9.2	7.7	9.2
Depreciation / Depletion	13	13	14	14
EBIT	8	8	7	8
Margin (%)	2.8	3.5	2.6	3.4
Net Interest	6	6	6	7
Other Income	2	2	4	2
Profit before Tax	17	5	13	-
Margin (%)	6.1	2.0	5.0	0.1
Total Tax	5	1	3	-
Effective tax rate (%)	26.9	28.1	23.9	25.1
Profit after Tax	12	3	10	-
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	12	3	10	-
YoY gr. (%)	(421.6)	(28.5)	(3.6)	(92.9)
Margin (%)	4.4	1.4	3.8	-
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	12	3	10	-
YoY gr. (%)	(421.6)	(28.5)	(3.6)	(92.9)
Margin (%)	4.4	1.4	3.8	-
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	12	3	10	-
Avg. Shares O/s (bn)	4	4	4	4
EPS (Rs)	3.0	0.8	2.4	-

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales volume (mt)	16	17	18	19
Realisation/t (Rs)	64,510	60,027	59,085	59,742
EBITDA/t (Rs)	4,956	4,668	7,200	7,193

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-24	Sell	134	156
2	21-May-24	Sell	127	174
3	12-Apr-24	Reduce	138	153
4	14-Feb-24	Hold	108	123
5	05-Jan-24	Accumulate	95	119
6	17-Nov-23	Accumulate	95	88
7	07-Oct-23	Accumulate	95	89
8	28-Aug-23	Accumulate	95	86

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	3,707	2,591
2	Ambuja Cement	Accumulate	701	664
3	Dalmia Bharat	Accumulate	2,067	1,817
4	Hindalco Industries	BUY	796	698
5	Jindal Stainless	Accumulate	836	736
6	Jindal Steel & Power	Hold	978	972
7	JSW Steel	Accumulate	1,022	890
8	National Aluminium Co.	Sell	142	199
9	NMDC	Accumulate	276	252
10	Nuvoco Vistas Corporation	Accumulate	374	338
11	Shree Cement	Accumulate	29,225	27,417
12	Steel Authority of India	Sell	134	156
13	Tata Steel	Accumulate	175	163
14	Ultratech Cement	Accumulate	11,848	11,275

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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