

November 9, 2024

Q2FY25 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY26E	FY27E	FY26E	FY27E
Rating	REDUCE		REDUCE	
Target Price	104		131	
Sales (Rs. m)	1,066	1,167	1,119	1,224
% Chng.	(4.7)	(4.6)		
EBITDA (Rs. m)	127	134	142	150
% Chng.	(10.5)	(10.7)		
EPS (Rs.)	10.0	10.7	12.6	13.5
% Chng.	(20.6)	(21.0)		

Key Financials - Standalone

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. bn)	1,027	982	1,066	1,167
EBITDA (Rs. bn)	85	95	127	134
Margin (%)	8.3	9.6	12.0	11.5
PAT (Rs. bn)	14	16	41	44
EPS (Rs.)	3.4	3.9	10.0	10.7
Gr. (%)	(17.9)	13.7	158.7	6.1
DPS (Rs.)	2.5	2.0	2.0	2.0
Yield (%)	2.1	1.7	1.7	1.7
RoE (%)	2.7	2.9	7.2	7.2
RoCE (%)	4.9	5.4	8.7	8.8
EV/Sales (x)	0.9	0.9	0.8	0.6
EV/EBITDA (x)	10.3	9.1	6.4	5.5
PE (x)	34.6	30.5	11.8	11.1
P/BV (x)	0.9	0.9	0.8	0.8

Key Data

SAIL.BO | SAIL IN

52-W High / Low	Rs.176 / Rs.85
Sensex / Nifty	79,486 / 24,148
Market Cap	Rs.488bn/ \$ 5,786m
Shares Outstanding	4,130m
3M Avg. Daily Value	Rs.3009.61m

Shareholding Pattern (%)

Promoter's	65.00
Foreign	2.82
Domestic Institution	16.03
Public & Others	16.15
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(10.0)	(26.3)	37.5
Relative	(7.6)	(31.9)	12.4

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Sharp volume decline & weak pricing dented Q2

Quick Pointers:

- Sales volume guidance reduced to ~18mt from 19.2mt
- Aims to reduce debt by Rs45-50bn to ~Rs290bn in FY25

SAIL continued to deliver weak operating performance in a seasonally weak quarter on account of 14% YoY volume decline and lower steel pricing. Despite having ~1.9mt finished steel inventory, volume decline was disappointing. Average NSR declined 6% QoQ due to sharp fall in steel pricing since Jun'24. Long product prices have recovered since end Q2FY25; however, average NSR for Q3FY25 would be lower sequentially as HRC pricing is still weak. As expected, the management has reduced its sales guidance to 18mt from 19.2mt given in Q1FY25. Coking coal cost is expected to decline by ~Rs1,600/t in Q3FY25, and as domestic demand improves, NSR is expected to inch up. SAIL maintained lower capex guidance for FY25 at Rs60bn, which is largely sustenance and debottlenecking capex. Growth capex of Rs370bn for 4mtpa capacity addition at IISCO would start from FY26; a few technical packages have been tendered out, and by mid FY26, the management would decide on vendors. SAIL is targeting to reduce debt by Rs45-50bn by end-FY25; however, considering the planned capacity expansion projects, debt is likely to go up eventually.

We expect SAIL to remain a play on steel prices as a) inability to liquidate inventory during tough market conditions, b) its medium-term volume growth would depend upon successful execution of planned capex by FY28E, and c) higher capex can deteriorate balance sheet unless there is timely execution. We cut our FY26/27E EBITDA estimates by ~10% each on account of lower steel pricing and volumes. At CMP, the stock is trading at an EV of 6.4x/5.5x FY26/FY27E EBITDA. Maintain 'Reduce' with revised TP of Rs104 (Rs131 earlier) giving 5.5x Sep'26E EV/EBITDA.

Volume de-growth affected operating performance: Revenue declined 18% YoY to Rs230bn (~4% QoQ; adjusting for Rs16.3bn recognized during Q2FY25 towards railway price revision for FY23) on sharp decline in volume and weak steel pricing. Average realization declined 6% QoQ to Rs56,190/t (~4% YoY; vs PLe Rs56,853/t), while volume declined sharp 14% YoY to 4.1mt (+2% QoQ; PLe 4.63mt). Saleable steel production declined 1% YoY at 4.76mt (2% QoQ).

Sharp decline in EBITDA on negative operating leverage: EBITDA declined 40% YoY to Rs12.7bn (~43% QoQ) on high-price coking coal inventory and higher other expenses. Imported coking coal cost during Q2 was ~Rs21,681/t as SAIL had built up high-cost inventory of coking coal to accommodate a few long-term coal suppliers planning shutdown in 2HFY25. In Q3FY25, coking coal cost is expected to be Rs20,000/t. Staff costs in Q2FY25 declined 7% YoY to Rs6,033/t; however, other expenses remained elevated at Rs17,891/t on negative operating leverage. As a result, adjusted EBITDA declined by 30% YoY to Rs3,091/t.

Higher steel pricing warranted for EBITDA growth: Domestic steel spreads have declined to ~Rs21,000/t from last quarter's ~Rs25,000/t as input prices have surged post China's measures to revive the economy. Steel pricing has also improved subsequently, but HRC is still lagging behind long products due to recently added capacities and overall inventory in the system. Going forward, as domestic demand improves in H2FY25, expect domestic prices to improve gradually. We expect SAIL to remain a pure play on steel prices in the near-to-medium term and outperform only in rising steel pricing scenarios.

Q2FY25 Conference Call Highlights:

- Blended reference NSR was Rs50,500/t in Q2FY25. It stood at Rs48,000/t in Oct'24 and is expected to increase to Rs49,500/t in Nov'24, driven by higher prices of long products.
- Semis in saleable steel production increased to ~16% due to planned maintenance shutdown at Bokaro HSM in previous quarter.
- Finished steel inventory stood at ~1.93mt as of Q2FY25.
- SAIL sold 1.65mt in Oct'24 and can achieve ~5mt in Q3FY25 with demand expected to improve.
- Capex spending for 1HFY25 stood at Rs22.5bn. The company has reduced its FY25 capex guidance to Rs60bn from previous Rs63bn. Major growth capex projects are set to begin in FY26.
- Borrowings at Q2FY25 end remained similar to Q1FY25 at Rs356bn. SAIL targets to reduce debt by Rs45-50bn and bring net debt levels to Rs290bn the end of FY25.
- Imported coal price in Q2FY25 was ~Rs21,681/t, down from Rs24,000/t in Q1FY25. It is expected to further reduce to Rs20,000/t in Oct and Nov'24. Imported to indigenous coal ratio stood at 85:15 in Q2FY25, and indigenous coal costed ~Rs13,000/t.
- Brownfield expansion at Durgapur Steel Plant is awaiting Stage 1 approvals from the Board, and Stage 2 approvals will take 8-9 months post that.
- 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.
- Production and sales volume targets for FY25 are ~20mt and ~18mt (19.26mt earlier), respectively.


Exhibit 1: Standalone 2QFY25 Results Overview (Rs bn)

Y/e March	2QFY25	2QFY24	YoY gr. (%)	2QFY25E	% Var.	1QFY25	QoQ gr. (%)	1HFY25	1HFY24	YoY gr. (%)
Net Sales	230.4	279.6	-17.6	263.1	-12.4	240.0	-4.0	470.4	523.2	-10.1
Raw material	115.6	155.3	-25.6	126.4	-8.5	120.6	-4.1	236.2	285.9	-17.4
% of Net Sales	50.2	55.5		48.1		50.2		50.2	54.6	
Staff Cost	28.7	31.3	-8.1	32.2	-10.8	27.8	3.4	56.5	59.7	-5.4
% of Net Sales	12.5	11.2		12.2		11.6		12.0	11.4	
Other expenses	73.4	71.9	2.1	73.2	0.2	69.4	5.6	142.8	140.0	2.0
% of Net Sales	31.8	25.7		27.8		28.9		30.4	26.8	
Total expenditure	217.7	258.4	-15.8	231.8	-6.1	217.8	-0.0	435.5	485.5	-10.3
EBITDA	12.7	21.2	-40.2	31.2	-59.4	22.2	-42.9	34.9	37.7	-7.4
Margin (%)	5.5	7.6		11.9		9.2		7.4	7.2	
Depreciation	13.0	13.3	-1.7	13.8	-5.3	14.0	-7.0	27.1	26.0	4.0
EBIT	-0.4	7.9	-104.6	17.5	-102.1	8.2	-104.4	7.8	11.7	-33.0
Other income	2.7	1.7	55.2	1.9	43.7	2.0	34.6	4.7	6.2	-23.8
Interest	7.6	6.1	25.2	6.8	12.0	6.9	9.6	14.5	12.2	19.0
PBT	-5.2	3.6	-244.9	12.6	-141.6	3.3	-260.8	-2.0	5.6	-135.2
Extraordinary income/(expense)	16.4	13.3	NA	0.0	NA	-3.1	NA	13.3	13.3	-0.7
PBT (after EO)	11.1	17.0	-34.4	12.6	-11.7	0.1	7,701.9	11.3	19.0	-40.6
Tax	2.8	4.6	-38.7	3.2	-11.8	0.0	NA	2.8	5.1	-44.4
Reported PAT	8.3	12.4	-32.8	9.4	-11.7	0.1	7,704.5	8.4	13.9	-39.3
Adjusted PAT	-3.9	2.6	-248.4	9.4	-141.6	2.4	-260.9	-1.5	4.1	-136.0

Source: Company, PL

Exhibit 2: Operating matrix

Y/e March	2QFY25	2QFY24	YoY gr. (%)	2QFY25E	% Var.	1QFY25	QoQ gr. (%)	1HFY25	1HFY24	YoY gr. (%)
Crude Steel Production volumes (mt)	4.76	4.80	-0.8	5.04	-5.6	4.68	1.7	9.44	9.47	-0.3
Sales volume (mt)	4.10	4.77	-14.0	4.63	-11.4	4.01	2.2	8.11	8.7	-6.3
Realization/t	56,190	58,625	-4.2	56,853	-1.2	59,845	-6.1	57,997	60,460	-4.1
EBITDA/t	3,091	4,444	-30.4	6,753	-54.2	5,535	-44.2	4,299	4,353	-1.2

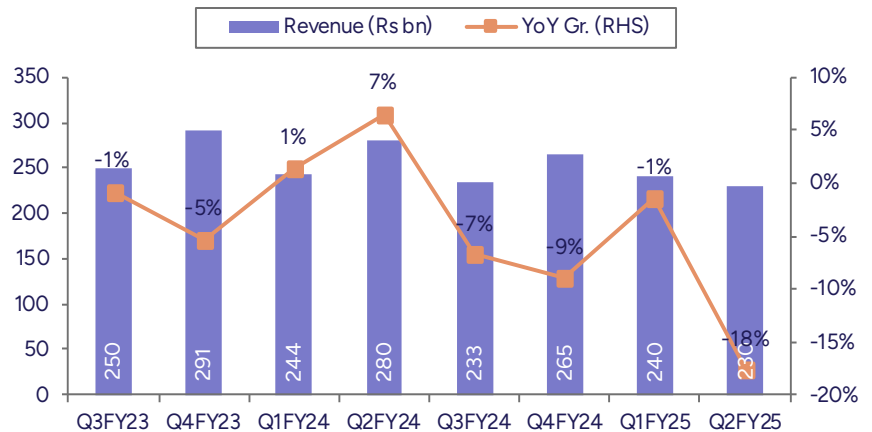
Source: Company, PL

Exhibit 3: Plant wise performance

Y/e March (Rs bn)	2QFY25	2QFY24	YoY gr. (%)	1QFY25	QoQ gr. (%)	1HFY25	1HFY24	YoY gr. (%)
Revenue								
Bhilai Steel Plant	85.8	100.6	-14.8	79.3	8.1	165.1	171.0	-3.4
Durgapur Steel Plant	29.6	32.0	-7.5	31.5	-5.9	61.1	63.0	-2.9
Rourkela Steel Plant	55.4	71.8	-22.8	65.8	-15.9	121.2	134.3	-9.7
Bokaro Steel Plant	53.7	68.8	-21.9	49.2	9.2	103.0	132.2	-22.1
IISCO Steel plant	32.8	36.0	-9.0	30.7	6.9	63.5	64.1	-1.0
Special Steel plants	11.7	12.6	-6.7	13.6	-13.6	25.3	26.1	-2.9
Total Revenue	269.0	321.8	-16.4	270.2	-0.4	539.2	590.6	-8.7
Segment EBIT								
Bhilai Steel Plant	16.9	18.9	-10.5	5.2	225.2	22.1	21.5	2.8
Durgapur Steel Plant	1.4	1.3	1.8	1.4	-5.3	2.8	1.9	46.3
Rourkela Steel Plant	(1.0)	4.7	-122.4	3.7	-128.4	2.7	7.2	-63.3
Bokaro Steel Plant	0.4	4.6	-91.3	-0.3	-228.0	0.1	6.6	-98.7
IISCO Steel plant	1.9	0.9	98.6	-0.4	-557.6	1.5	1.7	-13.4
Special Steel plants	(0.8)	(3.3)	NA	0.6	NA	(0.2)	(3.7)	-93.7
Total EBIT	18.7	27.2	-31.2	10.2	83.8	28.9	35.3	-18.2

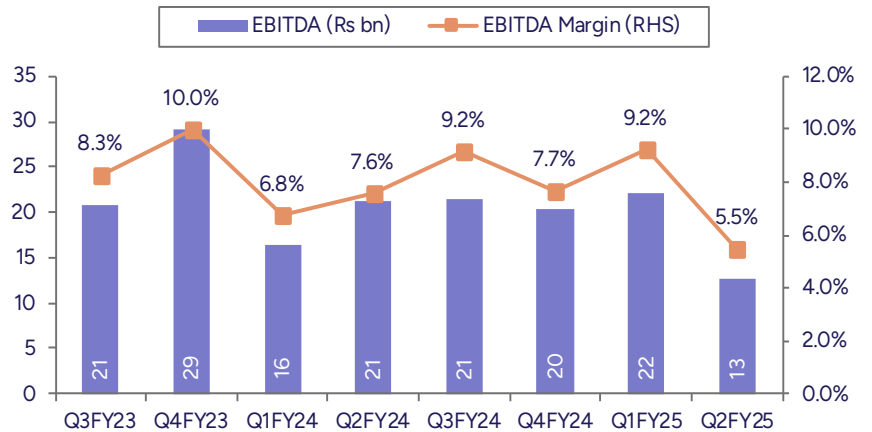
Source: Company, PL

Exhibit 4: Revenue declined 18% YoY on weak volumes & NSR



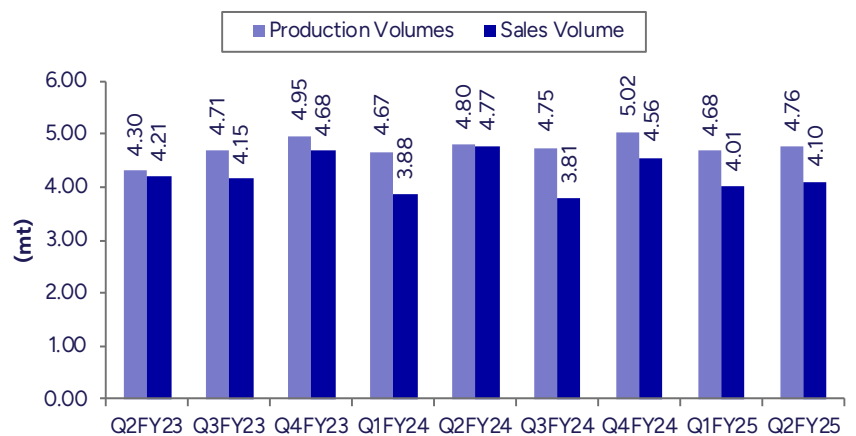
Source: Company, PL

Exhibit 5: EBITDA declined sharp 43% QoQ on negative operating leverage



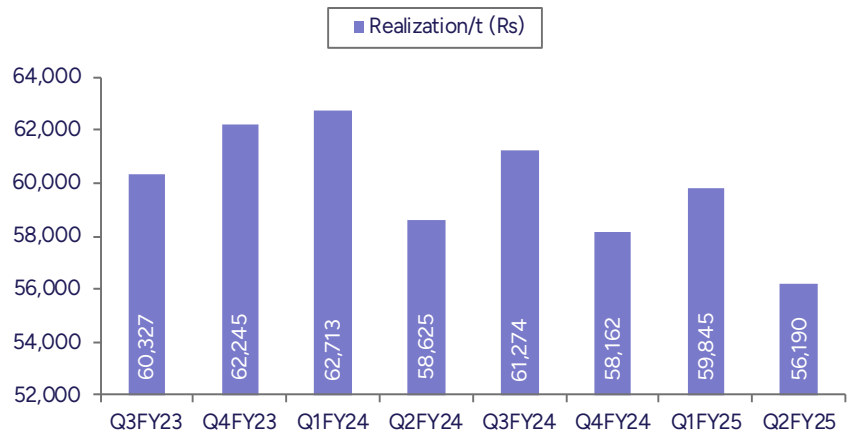
Source: Company, PL

Exhibit 6: Production/sales de-grew 1/14% YoY on weak steel demand



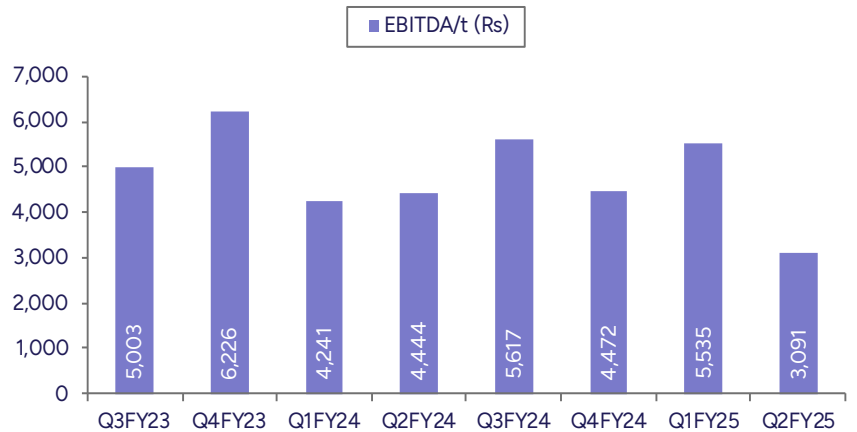
Source: Company, PL

Exhibit 7: Avg realization declined 6% QoQ on weak steel pricing



Source: Company, PL

Exhibit 8: EBITDA/t declined sharp 44% QoQ due to weak pricing



Source: Company, PL

Financials

Income Statement (Rs bn)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	1,027	982	1,066	1,167
YoY gr. (%)	(1.6)	(4.4)	8.6	9.5
Cost of Goods Sold	543	474	489	541
Gross Profit	485	508	577	626
Margin (%)	47.2	51.7	54.1	53.6
Employee Cost	117	117	122	129
Other Expenses	282	297	327	363
EBITDA	85	95	127	134
YoY gr. (%)	6.0	11.4	34.5	5.5
Margin (%)	8.3	9.6	12.0	11.5
Depreciation and Amortization	53	54	55	60
EBIT	32	41	72	74
Margin (%)	3.1	4.2	6.7	6.3
Net Interest	25	30	28	27
Other Income	11	10	12	12
Profit Before Tax	37	35	55	59
Margin (%)	3.6	3.5	5.2	5.0
Total Tax	10	9	14	15
Effective tax rate (%)	25.9	25.1	25.1	25.1
Profit after tax	27	26	41	44
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	14	16	41	44
YoY gr. (%)	(17.9)	13.7	158.7	6.1
Margin (%)	1.4	1.6	3.9	3.8
Extra Ord. Income / (Exp)	13	10	-	-
Reported PAT	27	26	41	44
YoY gr. (%)	43.6	(5.0)	59.7	6.1
Margin (%)	2.7	2.6	3.9	3.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	27	26	41	44
Equity Shares O/s (bn)	4	4	4	4
EPS (Rs)	3.4	3.9	10.0	10.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs bn)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	1,384	1,444	1,519	1,594
Tangibles	1,384	1,444	1,519	1,594
Intangibles	-	-	-	-
Acc: Dep / Amortization	614	667	723	783
Tangibles	614	667	723	783
Intangibles	-	-	-	-
Net fixed assets	770	777	796	811
Tangibles	770	777	796	811
Intangibles	-	-	-	-
Capital Work In Progress	61	61	61	61
Goodwill	-	-	-	-
Non-Current Investments	30	30	30	30
Net Deferred tax assets	(62)	(61)	(61)	(61)
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	326	296	292	320
Trade receivables	83	81	88	96
Cash & Bank Balance	5	21	50	94
Other Current Assets	-	-	-	-
Total Assets	1,375	1,364	1,416	1,510
Equity				
Equity Share Capital	41	41	41	41
Other Equity	500	518	551	587
Total Networth	541	559	592	628
Non-Current Liabilities				
Long Term borrowings	391	391	371	351
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	153	135	161	176
Other current liabilities	228	218	231	294
Total Equity & Liabilities	1,375	1,364	1,416	1,510

Source: Company Data, PL Research

Cash Flow (Rs bn)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	37	35	55	59
Add. Depreciation	53	54	55	60
Add. Interest	25	30	28	27
Less Financial Other Income	11	10	12	12
Add. Other	(7)	-	-	-
Op. profit before WC changes	107	118	139	146
Net Changes-WC	(77)	4	36	42
Direct tax	(1)	(9)	(14)	(15)
Net cash from Op. activities	29	113	161	174
Capital expenditures	(49)	(60)	(75)	(75)
Interest / Dividend Income	-	-	-	-
Others	6	-	-	-
Net Cash from Invst. activities	(43)	(60)	(75)	(75)
Issue of share cap. / premium	(8)	-	-	-
Debt changes	49	-	(20)	(20)
Dividend paid	(6)	(8)	(8)	(8)
Interest paid	(22)	(30)	(28)	(27)
Others	-	-	-	-
Net cash from Fin. activities	14	(38)	(56)	(55)
Net change in cash	0	15	29	44
Free Cash Flow	(19)	53	86	99

Source: Company Data, PL Research

Quarterly Financials (Rs bn)

Y/e Mar	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Net Revenue	233	265	240	230
YoY gr. (%)	(6.8)	(9.0)	(1.5)	(17.6)
Raw Material Expenses	112	145	121	116
Gross Profit	122	120	119	115
Margin (%)	52.1	45.4	49.8	49.8
EBITDA	21	20	22	13
YoY gr. (%)	3.1	(30.0)	34.7	(40.2)
Margin (%)	9.2	7.7	9.2	5.5
Depreciation / Depletion	13	14	14	13
EBIT	8	7	8	-
Margin (%)	3.5	2.6	3.4	(0.2)
Net Interest	6	6	7	8
Other Income	2	4	2	3
Profit before Tax	5	13	-	11
Margin (%)	2.0	5.0	0.1	4.8
Total Tax	1	3	-	3
Effective tax rate (%)	28.1	23.9	25.1	25.1
Profit after Tax	3	10	-	8
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3	10	-	8
YoY gr. (%)	(28.5)	(3.6)	(92.9)	(32.8)
Margin (%)	1.4	3.8	-	3.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3	10	-	8
YoY gr. (%)	(28.5)	(3.6)	(92.9)	(32.8)
Margin (%)	1.4	3.8	-	3.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3	10	-	8
Avg. Shares O/s (m)	4	4	4	-
EPS (Rs)	0.8	2.4	-	-

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	3.4	3.9	10.0	10.7
CEPS	16.2	16.9	23.5	25.3
BVPS	131.0	135.3	143.4	152.0
FCF	(4.7)	12.9	20.8	24.0
DPS	2.5	2.0	2.0	2.0
Return Ratio(%)				
RoCE	4.9	5.4	8.7	8.8
ROIC	2.7	3.3	5.9	6.3
RoE	2.7	2.9	7.2	7.2
Balance Sheet				
Net Debt : Equity (x)	0.7	0.7	0.5	0.4
Net Working Capital (Days)	91	90	75	75
Valuation(x)				
PER	34.6	30.5	11.8	11.1
P/B	0.9	0.9	0.8	0.8
P/CEPS	16.2	16.9	23.5	25.3
EV/EBITDA	10.3	9.1	6.4	5.5
EV/Sales	0.9	0.9	0.8	0.6
Dividend Yield (%)	2.1	1.7	1.7	1.7

Source: Company Data, PL Research

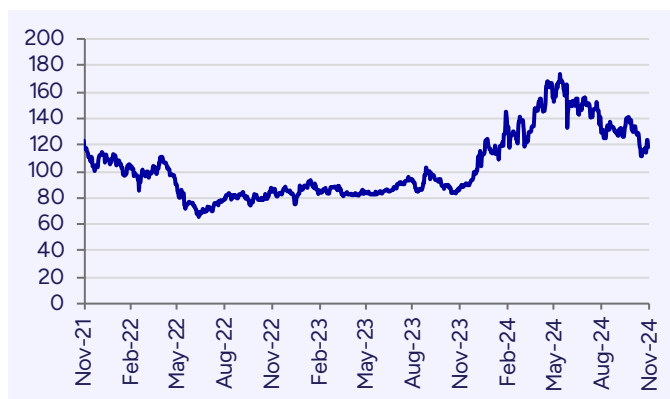
Key Operating Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales volume (mt)	17	17	18	20
Realisation/t (Rs)	60,027	57,231	58,039	58,938
EBITDA/t (Rs)	4,668	5,522	6,937	6,786

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-24	Reduce	131	139
2	09-Aug-24	Sell	112	129
3	07-Jul-24	Sell	134	156
4	21-May-24	Sell	127	174
5	12-Apr-24	Reduce	138	153
6	14-Feb-24	Hold	108	123
7	05-Jan-24	Accumulate	95	119
8	17-Nov-23	Accumulate	95	88

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	3,262	2,238
2	Ambuja Cement	BUY	708	569
3	Dalmia Bharat	Accumulate	2,073	1,831
4	Hindalco Industries	BUY	847	748
5	Jindal Stainless	Accumulate	814	740
6	Jindal Steel & Power	Accumulate	1,017	948
7	JSW Steel	Accumulate	1,014	944
8	National Aluminium Co.	Sell	186	220
9	NMDC	Accumulate	266	237
10	Nuvoco Vistas Corporation	Accumulate	372	342
11	Shree Cement	Accumulate	27,481	26,034
12	Steel Authority of India	Reduce	131	139
13	Tata Steel	Accumulate	161	151
14	Ultratech Cement	Accumulate	12,401	10,869

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

ANALYST CERTIFICATION

(Indian Clients)

We/I, Mr. Tushar Chaudhari- MMS-Finance Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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