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India | Equity Research | Q2FY25 results review

Steel Authority of India

Metals & Mining

Performance below expectations; debt creep-up is the larger concern

Steel Authority of India's (SAIL) Q2FY25 performance undershot our estimates. Key points: 1) EBITDA (adj.) was down 40% YoY at INR 12.8bn. 2) A benefit of INR 16.4bn, pertaining to rail price revision for prior periods, was recorded in Q2FY25. 3) Net debt rose to INR 400bn (end-Jun'24 at INR 357bn) and net debt/EBITDA was at 3.73x. 4) Reduction of payables led to working capital build-up of INR 56bn in H1FY25. Ahead, we believe that despite relief on coking coal prices and an expected uptick in realisation, valuations seem stretched. At CMP, SAIL is trading at 6.5x FY26E EBITDA (premium to peers), despite a lower RoE profile. We keep the earnings broadly unchanged; however, higher-than-expected debt has led to a revised TP of INR 100 (earlier INR 105) on an unchanged 6x FY26E EBITDA. Maintain **SELL**.

Realisation dip pulls EBITDA down

SAIL's Q2FY25 performance was marred by a sharp drop in realisation and almost static volume QoQ. Key points: 1) Sales volume was up 2.2% QoQ (down 14% YoY) at 4.1mt; 2.5% lower compared to our estimate. 2) Reported EBITDA of INR 29.1bn was aided by a benefit of INR 16.4bn pertaining to rail price revision for prior periods. 3) EBITDA/te (adj.) was at INR 3,112 (down 30% YoY; 44% QoQ) – lower than our estimate of INR 3,932. Compared to peers, SAIL's EBITDA/te has shown the most precipitous decline QoQ. 4) Decline in realisation more than offset the benefit from product mix and lower coking coal cost. 5) Net debt rose to INR 400bn and net debt/EBITDA is at 3.73x – highest among peers. We expect EBITDA/te to improve to INR 7,000-7,500/te by FY26E as benefits of lower coking coal cost and realisation uptick (particularly for longs) flow in.

Upcoming capex with limited volume growth

In the conference call, management mentioned that capex is likely to pick up from next year as 8 out of 14 technical packages for IISCO expansion have been tendered. Also, SAIL's board has considered brownfield expansion at its Durgapur Steel Plant as well. Stage 1 approval has been received and Stage 2 approval would take another eight months. Besides, management is planning 3.8mtpa further expansion at Durgapur, subject to land availability. On volume front, capacity utilisation is likely to hit 95% by end-FY25 and another 2.5–3mt can be added through the next 2–3 years.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	10,44,474	10,53,746	10,09,375	10,22,375
EBITDA	80,241	1,11,317	1,11,145	1,32,257
EBITDA Margin (%)	7.7	10.6	11.0	12.9
Net Profit	17,169	33,563	24,135	37,387
EPS (INR)	4.2	8.1	5.8	9.1
EPS % Chg YoY	(84.2)	43.6	(11.7)	54.9
P/E (x)	25.7	17.9	20.2	13.1
EV/EBITDA (x)	9.7	7.4	7.7	6.3
RoCE (%)	2.7	5.7	4.8	6.1
RoE (%)	3.5	6.4	4.5	6.7

Amit Dixit

amit.dixit@icicisecurities.com
+91 22 6807 7289

Mohit Lohia

mohit.lohia@icicisecurities.com

Prithish Urumkar

Prithish.urumkar@icicisecurities.com

Market Data

Market Cap (INR)	488bn
Market Cap (USD)	5,786mn
Bloomberg Code	SAIL IN
Reuters Code	SAIL.BO
52-week Range (INR)	176 /85
Free Float (%)	35.0
ADTV-3M (mn) (USD)	35.7

Price Performance (%)	3m	6m	12m
Absolute	(14.0)	(26.3)	37.5
Relative to Sensex	(14.8)	(34.5)	15.2

ESG Score	2022	2023	Change
ESG score	63.5	65.5	2.0
Environment	46.2	47.1	0.9
Social	65.8	68.1	2.3
Governance	73.1	77.2	4.1

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

10-08-2024: [Q1FY25 results review](#)

22-05-2024: [Q4FY24 results review](#)

Outlook: Leverage meets capex

Contrary to its peers, whose capacity is coming on stream through to FY26, SAIL's capex is expected to commence in a weak price environment and when debt has already breached INR 400bn. While realisation uptick and lower coking coal cost comes as a welcome relief, we believe that the stock's upside is restricted in the near-term. Although our estimates remain broadly unchanged, we revise our TP lower to INR 100 (earlier INR 105) at 6x FY26E EBITDA as debt level has gone up and is unlikely to come down owing to upcoming capex. Maintain **SELL** rating on the SAIL stock.

Key Risks

- Sharper than expected uptick in steel prices
- Coking coal prices correcting more than expected
- Lower than expected capex for expansion projects

Q2FY25 conference call: Takeaways

- **Volume:** Targeting 18mt of volume in FY25. Likely to reach annualized crude steel production of 19.2mt in FY25, implying more than 95% utilization. Management mentioned that SAIL's volume in Q2FY25 suffered due to less avenues for exports, which resulted in higher supply in the domestic market.
- De-bottlenecking would lead to volume rise. Another 2.5–3mt is expected to be added in next 2–3 years.
- **Realisation:** Average sales realisation declined by 5% YoY for H1FY25. Compared to INR 50,500/t in Q2FY25, the average sales realisation is currently at INR 48,000–49,500/t with longs faring better.
- **Coking coal cost:** Cost of imported coking coal reduced by almost INR 2,000/te to INR 22,000/te in Q2FY25. Management expects the current cost at INR 20,000/te. However, management is cautious of the possible trend in Dec'24. On the basis of current trend, management expects a relief of INR 1,600–1,700/te QoQ in Q3FY25.
- **Borrowing:** Management believes that debt has peaked out at end-Sep'24. Borrowings have reduced in Oct'24 and by end-FY25, management expects to reduce debt by INR 45–50bn.
- **Rail price revision:** For FY23, the provisional cost of supply was INR 75,000/te while the revised cost was at INR 89,000/te. Management expects to submit the proposal of revised cost for FY24 by Q3FY25-end.
- **Inventory:** As at end-Sep'24, the finished goods inventory was at 1.93mt. In Oct'24, management has reduced inventory by 100kt. Sales volume of 1.64mt was achieved in Oct'24 due to improvement in demand.
- **Annual capex:** Management is targeting INR 60bn of capex in FY25. Next year onwards, capex is expected to be higher as most of the contracts are likely to get frozen. Besides, in FY26, management will be ramping up the BF and bar mill at Durgapur.
- Management is targeting debt/Equity of 1:1 even at the peak of capex spend.
- Structural steel volumes are higher two major mills, particularly HSM and USM at IISCO have stabilised.
- Semis volume was higher in Q2FY25 as HSM at Bokaro was in maintenance in Q1FY25. It has now resumed production.
- Brownfield expansion projects:

- Durgapur Steel Plant: Board has considered the proposal for brownfield expansion. Stage 1. Stage 2 should get another 8 months
- In case of IISCO, out of major 14 technical packages, tenders are out for 8.
- Durgapur 3.8mtpa expansion is also planned subject to availability of land.

Exhibit 1: SAIL Q2FY25 performance review

(INR mn)	Q2FY25	Q2FY24	% Chg YoY	Q1FY25	% Chg QoQ	FY24	FY23	% Chg YoY
Net sales	2,46,752	2,97,121	(17.0)	2,39,978	2.8	10,53,746	10,44,474	0.9
Raw Material Consumed	1,22,673	1,35,365	(9.4)	1,37,012	(10.5)	5,76,188	6,20,911	(7.2)
Stock Adjustment	(6,763)	20,192	(133.5)	(16,198)	(58.2)	(33,529)	(51,601)	(35.0)
Gross Margin	1,30,842	1,41,563	(7.6)	1,19,165	9.8	5,11,087	4,75,164	7.6
Gross Margin (%)	53.0%	47.6%		49.7%		48.5%	45.5%	
Employee cost	28,766	31,291	(8.1)	27,826	3.4	1,17,479	1,20,536	(2.5)
Other expenditure	72,949	71,519	2.0	69,139	5.5	2,82,290	2,74,387	2.9
EBITDA	29,127	38,754	(24.8)	22,200	31.2	1,11,317	80,241	38.7
Margin (%)	11.8%	13.0%		9.3%		10.6%	7.7%	
EBITDA (Adj)	12,758	21,324	(40.2)	22,199	(42.5)			
Other Income	1,670	1,461	14.3	1,770	(5.7)	11,481	13,548	(15.3)
Depreciation	13,039	13,266	(1.7)	14,023	(7.0)	52,775	49,625	6.3
EBIT	17,758	26,949	(34.1)	9,946	78.5	70,023	44,164	58.6
Interest	7,577	6,052	25.2	6,915	9.6	24,738	20,375	21.4
Extraordinary Items	-	(4,150)		(3,118)		(8,408)	2,580	
PBT	10,181	16,747	(39.2)	(86)	(11,993.8)	36,877	26,369	39.8
Share of JV/Associates	1,552	951		1,067				
Tax expense:	2,762	4,642	(40.5)	163	1,593.4	9,546	7,338	30.1
PAT	8,971	13,056	(31.3)	818	997.0	27,331	19,031	43.6
Production (mnste)	4.8	4.8	(0.8)	4.7	1.7	19.2	17.4	10.8
Sales Volume (mnste)	4.1	4.8	(14.0)	4.0	2.2	17.0	16.2	5.1
RM Cost (INR/te)	28,271	32,598	(13.3)	30,128	(6.2)	31,878	35,162	(9.3)
Total Cost (INR/te)	53,079	54,165	(2.0)	54,309	(2.3)	55,362	59,554	(7.0)
Blended Realisation (INR/te)	56,191	58,622	(4.1)	59,845	(6.1)	61,901	64,510	(4.0)
EBITDA (INR/te)	3,112	4,470	(30.4)	5,536	(43.8)	6,539	4,956	31.9

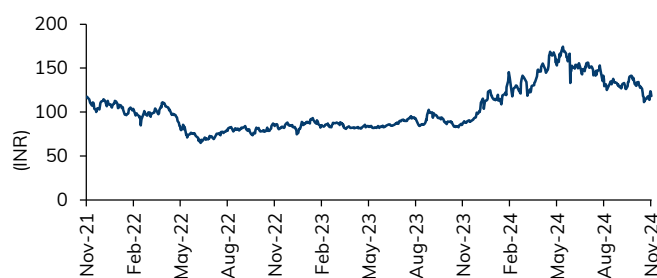
Source: Company data, I-Sec research

Exhibit 2: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	65.0	65.0	65.0
Institutional investors	19.0	18.8	18.8
MFs and others	6.2	6.5	5.9
FIs/Banks	0.0	0.0	0.0
Insurance	9.4	9.2	10.1
FIIIs	3.4	3.1	2.8
Others	16.0	16.2	16.2

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	10,09,375	10,22,375
Operating Expenses	9,64,233	9,42,429	8,98,230	8,90,118
EBITDA	80,241	1,11,317	1,11,145	1,32,257
EBITDA Margin (%)	7.7	10.6	11.0	12.9
Depreciation & Amortization	49,625	52,775	54,932	57,251
EBIT	30,616	58,543	56,214	75,006
Interest expenditure	20,375	24,738	26,781	26,781
Other Non-operating Income	13,548	11,481	2,748	1,624
Recurring PBT	23,789	45,285	32,180	49,849
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	7,338	9,546	8,045	12,462
PAT	19,031	27,331	24,135	37,387
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(1,862)	6,232	-	-
Net Income (Reported)	17,169	33,563	24,135	37,387
Net Income (Adjusted)	17,169	33,563	24,135	37,387

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	4,31,701	4,52,072
of which cash & cash eqv.	3,980	5,416	(17,316)	(321)
Total Current Liabilities & Provisions	2,93,818	3,17,051	2,64,125	2,68,119
Net Current Assets	83,815	1,61,770	1,67,576	1,83,953
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	10,74,147	11,03,273
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	5,15,874	5,45,000
Total Net Worth	5,21,392	5,41,305	5,57,180	5,86,305
Minority Interest	-	-	-	-
Total Liabilities	9,83,332	10,58,273	10,74,147	11,03,273

Source Company data, I-Sec research

Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	2,33,486	2,79,585	2,39,978	2,46,752
% growth (YOY)	(6.8)	(4.0)	(1.5)	(17.0)
EBITDA	21,425	34,827	22,200	29,127
Margin %	9.2	12.5	9.3	11.8
Other Income	1,437	3,134	1,770	1,670
Extraordinaries	-	-	-	-
Adjusted Net Profit	4,229	11,257	818	8,971

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	77,310	1,22,037
Working Capital Changes	(1,38,224)	(76,898)	(28,538)	618
Capital Commitments	(43,145)	(48,631)	(65,000)	(70,000)
Free Cashflow	(97,210)	(19,299)	12,310	52,037
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	(22,732)	16,995
Closing cash & balance	65	137	(22,594)	(5,599)

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	5.8	9.1
Adjusted EPS (Diluted)	4.2	8.1	5.8	9.1
Cash EPS	16.2	20.9	19.1	22.9
Dividend per share (DPS)	1.5	2.0	2.0	2.0
Book Value per share (BV)	126.2	131.1	134.9	141.9
Dividend Payout (%)	32.6	30.2	34.2	22.1
Growth (%)				
Net Sales	0.9	0.9	(4.2)	1.3
EBITDA	(62.4)	38.7	(0.2)	19.0
EPS (INR)	(84.2)	43.6	(11.7)	54.9
Valuation Ratios (x)				
P/E	25.7	17.9	20.2	13.1
P/CEPS	7.3	5.7	6.2	5.2
P/BV	0.9	0.9	0.9	0.8
EV / EBITDA	9.7	7.4	7.7	6.3
P / Sales	0.5	0.5	0.5	0.5
Dividend Yield (%)	1.3	1.7	1.7	1.7
Operating Ratios				
Gross Profit Margins (%)	45.5	48.5	52.1	54.9
EBITDA Margins (%)	7.7	10.6	11.0	12.9
Effective Tax Rate (%)	30.8	21.1	25.0	25.0
Net Profit Margins (%)	1.8	2.6	2.4	3.7
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.6	0.6	0.7	0.6
Net Debt / EBITDA (x)	3.6	3.1	3.3	2.6
Profitability Ratios				
RoCE (%)	2.7	5.7	4.8	6.1
RoE (%)	3.5	6.4	4.5	6.7
RoC (%)	2.8	5.9	4.8	6.2
Fixed Asset Turnover (x)	0.9	0.8	0.8	0.7
Inventory Turnover Days	110	114	112	113
Receivables Days	21	29	24	25
Payables Days	111	106	89	91

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
