

**Weak Q2, Rising Leverage Raises Concern; Maintain HOLD**
**Est. Vs. Actual for Q2FY25:** Adj Revenue – **INLINE**; Adj. EBITDA – **MISS**; Adj PAT – **MISS**
**Change in Estimates YoY post Q2FY25:**
**FY25E/FY26E:** Revenue: -6%/-6%; EBITDA: -12%/-6%, PAT: -27%/-14%

**Recommendation Rationale**

- **Spreads likely to remain muted in Q3FY25:** Imported Coking coal prices may decline by ~Rs 1,600-1,700/t QoQ in Q3FY25. However, the average blended NSR in Q3FY25 is likely to come down QoQ by Rs 1,750/t as it averaged Rs 48,750/t so far in Oct-Nov'24 which is lower than the blended average of Rs 50,500/t realized in Q2FY25. This is likely to keep the spreads muted QoQ in Q3FY25.
- **Rising Debt:** Net debt excluding lease liabilities stood at ~Rs 34,900 Cr. This is almost 2x of the Net Debt of FY22 when it de-levered its balance sheet during the strong steel upcycle of FY21-22. Management expects Net Debt to come down to Rs 30,000 Cr by FY25 end as it expects to pick up sales volume in H2FY25 post the weak H1FY25 performance. Sales volume declined in H1FY25 by 7% YoY to 8.1 MT. Q3FY25 sales volume is guided at 5 MT, up from 4.1 MT in Q2FY25.
- **Higher Capex intensity ahead for both debottlenecking and expansion projects:** SAIL targets to add 3 MTPA capacity by debottlenecking existing assets with a Capex of Rs 10-11,000 Cr before embarking on the major expansion projects of i) Phase I of IISCO greenfield steel plant of 4 MTPA by FY28 at ~Rs 35,000 Cr Capex (board approval in place), ii) Bokaro expansion of 2.4 MT (4.2 to ~7 MTPA), iii) Durgapur expansion of 0.9 MTPA from (2.1 to 3 MTPA), and iv) Raurkela expansion of 3.8 MT. Rising debt even before entering the peak Capex phase raises concerns.

**Sector Outlook: Cautious**

**Company Outlook & Guidance:** SAIL's Capex execution will be a key monitorable and also a key risk once its expansion Capex starts from H2FY26/FY27 and peaks in FY28/29. FY25 Capex guidance is at Rs 6,000 Cr (Revised down from Rs 6,300 Cr). SAIL is currently operating at a 95% utilisation rate and for FY25, crude steel production guidance is 19.2 MT (revised down from 20.87 MT earlier). Sales volume will be at ~18 MT (revised down from earlier guidance of 19.26 MT).

**Current Valuation:** 6.0x EV/EBITDA on Sep'26E EBITDA (From Mar'26E earlier).

**Current TP:** Rs 130/share (Unchanged)

**Recommendation:** We maintain our HOLD rating.

**Financial Performance:** SAIL reported a weak set of underlying numbers. Adj. Revenue (excluding provisional revenue adjustment from railways) declined by 18%/4% YoY/QoQ. Adjusted realization at Rs 56,190/t fell 6% QoQ due to lower steel prices but was mostly in line with our estimate. Adj. EBITDA fell by 40%/43% YoY/QoQ to Rs 1,276 Cr due to weak realization and was ~30% below our and Bloomberg consensus estimates. The miss was driven by higher-than-expected RM costs and other expenses. Reported PAT was higher at Rs 897 Cr due to the recognition of Rs 1,637 Cr gain in Q2FY25 on account of price revision/finalization of rails sold to the Indian railways in FY23.

**Key Financials (Consolidated)**

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Adj Net Sales	23,038	-4%	-18%	22,888	1%
Adj EBITDA	1,276	-43%	-40%	1,903	-33%
Adj EBITDA/t	3,112	-44%	-30%	4,738	-34%
Underlying Net Profit	-354	NA	NA	10	NA
EPS (Rs) Underlying	-0.86	NA	NA	0.02	NA

Source: Company, Axis Securities. Note: Adjusted numbers excluding railway provisional revenue benefits

 (CMP as of 8<sup>th</sup> November 2024)

CMP (Rs)	118.4
Upside /Downside (%)	9.4%
High/Low (Rs)	176/85
Market cap (Cr)	48,884
Avg. daily vol. (6m) Shrs.	2,90,91,998
No. of shares (Cr)	413

**Shareholding (%)**

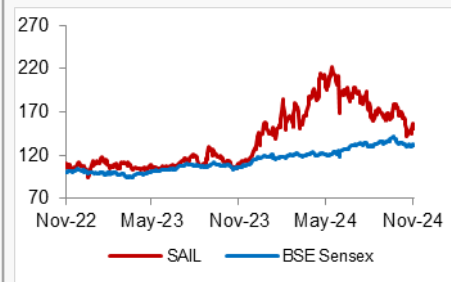
	Mar-24	Jun-24	Sep-24
Promoter	65.00	65.00	65.00
FII	3.18	3.01	2.82
Mutual Funds / UTI	6.20	6.37	5.92
Financial Institutions	0.01	0.02	0.01
Others	25.61	25.60	26.25

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	1,00,063	1,06,007	1,13,330
EBITDA	10,795	12,225	13,458
Net Profit	2,521	3,724	4,612
EPS (Rs.)	6.1	9.0	10.3
PER (x)	19.4	13.1	11.5
P/BV (x)	0.8	0.8	0.7
EV/EBITDA (x)	7.4	6.5	6.1
ROE (%)	4.4	6.2	7.2

**Change in Estimates (%)**

Y/E Mar	FY25E	FY26E	FY27E
Sales	-6%	-6%	NA
EBITDA	-12%	-6%	NA
PAT	-27%	-14%	NA

**Relative Performance**


Source: ACE Equity, Axis Securities

**Aditya Welekar**  
 Sr. Research Analyst  
 Email: aditya.welekar@axissecurities.in

## Outlook

- SAIL's next phase of the Capex wave raises concerns as it completed its earlier hot metal expansion plan from 14.6 MT to 25 MT after significant delays and Capex overruns. As Capex for the next phase of the expansion plan will start from H2FY26/FY27 onwards, leverage will be the key factor to monitor in the future. We factor in lower NSRs and cut our EBITDA estimates for FY25/26E. This is partially offset by revised lower coking coal cost assumptions. However, our TP is unchanged as we roll forward our valuation to Sep'26 from Mar'26.

## Valuation & Recommendation

- We value the company at 6.0x Sep'26E EBITDA (from Mar'26E) to arrive at a target price of Rs 130/share (Unchanged). The TP implies an upside of 9% from the CMP. **We maintain our HOLD rating on the stock.**

## Key Concall Highlights

- **Quantum of remaining rail price revision for FY23 and FY24:** The company recognized Rs 1,637 Cr in Q2FY25 towards the revision of provisional rail prices for the rail it supplied in FY23. Against the Adhoc price of Rs 75,000/t given by railways, the CA (Chief Adviser) cost is Rs 89,000/t, leading to the total quantum of benefit of Rs 14,000/t for FY23. Out of it, Rs 1,637 Cr is recognized in Q2FY25 (Cash inflow in H2FY25), the balance will be submitted for discussion with railways. In this quarter, the company will be submitting the rail cost for FY24 to the CA office, and by the end of FY25, the final price of rail will be assessed.
- **Coking coal cost:** In Q2FY25, the imported Coking coal (Mix is 85%/15% imported/domestic) price was at ~Rs 21,681/t and in Q1FY25, it was Rs 24,000/t leading to an average of Rs 23,000/t in H1FY25. In Oct-Nov'24, prices have come down and averaged Rs 20,000/t, but a slight uptick is expected in Dec'24. Domestic coal is also linked to the imported coal prices and its prices are in the range of Rs 13,000-13,500/t.
- **NSR:** In Q2FY25, blended NSR (Net sales realisation) was at Rs 50,500/t and in H1FY25 it was Rs 52,000/t. NSR on a blended basis in Oct'24 was lower at Rs 48,000/t and in Nov'24, it was Rs 49,500/t, up MoM, mainly due to the uptick in long prices, while flat prices remained subdued.
- **Lower sales volume YoY in Q2FY25:** Higher steel imports in the country and the company's inability to export higher steel impacted the sales volume of the company in Q2FY25, which fell by 15% YoY to 4.1 MTPA (up 2% QoQ). However, management cited that, in Oct'24, sales have improved, leading to the stock reduction of 1 Lc tonne and it now expects the Q3FY25 sales could reach 5 MTPA (which if materializes indicates a 31% jump YoY). Finished steel inventory stood at 1.93 MT in Q2FY25 vs. 1.8 MT in Q1FY25.
- **Capex:** Capex expected in FY25 stands at ~Rs 6,000 Cr (Capex spent in H1FY25 stood at Rs 2,250 Cr). From H2FY26, Capex will start rising, as the company embarks on its expansion projects. It will freeze most of the contracts for IISCO modernization and will start the revamping of the blast furnace and bar mill at Durgapur. Major Capex will begin in FY27 and onwards. The entire expansion project of 35 MTPA by FY31 will incur a tentative Capex of Rs 1 Lc Cr and the debt will maximise in FY29. The company will target the Debt to Equity ratio of 1:1 during the expansion phase.
- **Expansion projects:** Durgapur steel plant brownfield expansion is approved by the board – stage 1 approval will be achieved and it will take 8 months for stage II approval. Stage 1 approval for IISCO is already in place.
- **Iron ore inventory:** The company holds an iron ore fines inventory of ~40 MTPA, worth ~Rs 4,000 Cr, and it sold only 2.0-2.5 MTPA out of it over the last two years. It has plans to liquidate this stock as it has a pellet and beneficiation plant in the pipeline at Gua (At Gua mine it has the majority of iron ore stock). Once those get operational, it plans to dispatch ~3.0-3.5 MTPA of stock from Gua to the nearby steel plants in the near future.
- **Increase in share of structural steel in the product mix:** Two major new mills one at Durgapur and IISCO, led to an increase in sales of structural steel which stood at 16% of total sales volume in Q3FY25 as against the historical trend of 8-9%. Despite the increase in the value-added structural steel products, EBITDA/t remained impacted mainly due to subdued flat products.

### Key Risks to Our Estimates and TP

- The key risk to our **HOLD** rating is the increase/decrease in HRC prices and the increase/decrease in coking coal prices as compared to our assumptions.
- Higher/Lower than expected sales volume.

### Change in Estimates

	New			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	1,00,063	1,06,007	1,13,330	1,06,666	1,13,205	NA	-6%	-6%	NA
EBITDA	10,795	12,225	13,458	12,302	13,045	NA	-12%	-6%	NA
PAT	2,521	3,724	4,612	3,455	4,307	NA	-27%	-14%	NA
Sales volume (mt)	17.30	18.27	19.05	18.24	18.96	NA	-5%	-4%	NA

Source: Company, Axis Securities

## Result Review

Consolidated Rs Cr	Q2FY24 Actual	Q1FY25 Actual	Q2FY25 Axis Sec Est	Q2FY25 Consensus	Q2FY25 Actual	YoY %	QoQ %	Vs Axis %	Vs Cons %
HRC Ex-Mumbai (Rs/t)	56,162	54,972	51,802		51,802	-8%	-6%	0%	NA
Crude steel Production (Mn t)	4.80	4.68	4.61		4.80	0%	3%	4%	NA
<b>Saleable steel Sales (Mn t)</b>	<b>4.80</b>	<b>4.01</b>	<b>4.02</b>		<b>4.10</b>	<b>-15%</b>	<b>2%</b>	<b>2%</b>	<b>NA</b>
Revenues	29,712	23,998	22,888	25,488	24,675	-17%	3%	8%	-3%
<b>Revenue Exl Railway Provision</b>	<b>27,963</b>	<b>23,998</b>	<b>22,888</b>	<b>25,488</b>	<b>23,038</b>	<b>-18%</b>	<b>-4%</b>	<b>1%</b>	<b>-10%</b>
Adjusted Realisation (Rs/t) Exl Rail	58,256	59,815	56,996		56,191	-4%	-6%	-1%	NA
Consumption of Raw Materials	13,537	13,701	11,249		12,267	-9%	-10%	9%	NA
Increase/Decrease in Stocks	2,019	-1,620	-410		-676	NA	NA	NA	NA
Employees Cost	3,129	2,783	3,067		2,877	-8%	3%	-6%	NA
Other Expenses	7,152	6,914	7,080		7,295	2%	6%	3%	NA
<b>Total Expenditure</b>	<b>25,837</b>	<b>21,778</b>	<b>20,986</b>		<b>21,762</b>	<b>-16%</b>	<b>0%</b>	<b>4%</b>	<b>NA</b>
EBITDA	3,875	2,220	1,903	1,764	2,913	-25%	31%	53%	65%
<b>EBITDA Exl Railway Provision</b>	<b>2,126</b>	<b>2,220</b>	<b>1,903</b>	<b>1,764</b>	<b>1,276</b>	<b>-40%</b>	<b>-43%</b>	<b>-33%</b>	<b>-28%</b>
EBITDA margin (%)	13.0%	9.3%	8.3%	6.9%	11.8%				
EBITDA per tonne (Rs/tonne)	8,074	5,533	4,738		7,104	-12%	28%	50%	NA
<b>EBITDA Exl Railway Provision (Rs/tonne)</b>	<b>4,429</b>	<b>5,533</b>	<b>4,738</b>		<b>3,112</b>	<b>-30%</b>	<b>-44%</b>	<b>-34%</b>	<b>NA</b>
Depreciation	1,327	1,402	1,369		1,304	-2%	-7%	-5%	NA
Other Income	146	177	160		167	14%	-6%	4%	NA
Interest Expense	605	691	817		758	25%	10%	-7%	NA
Exceptional Items	-415	-312	-		-	NA	NA	NA	NA
Share of P/L of Associates	95	107	102		155	63%	46%	53%	NA
PBT Reported	1,770	98	-21		1,173	-34%	1096%	NA	NA
<b>PBT Exl Railway Provision</b>	<b>20</b>	<b>98</b>	<b>-21</b>		<b>-464</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Tax	464	16	-31		276	-41%	1593%	NA	NA
Tax Rate %	26%	17%	145%		24%				
PAT excl. Exceptional	1,612	342	10	168	897	-44%	163%	9306%	433%
<b>PAT excl. Exceptional &amp; Railway Provision</b>	<b>321</b>	<b>342</b>	<b>10</b>		<b>-354</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Reported PAT	1,306	82	10	168	897	-31%	997%	9306%	433%
<b>Underlying EPS (Rs/sh)</b>	<b>3.90</b>	<b>0.83</b>	<b>0.02</b>		<b>2.17</b>	<b>-44%</b>	<b>163%</b>	<b>9306%</b>	<b>NA</b>
<b>Underlying EPS (Rs/sh) Exl Railway Provisions</b>	<b>0.78</b>	<b>0.83</b>	<b>0.02</b>		<b>-0.86</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Reported EPS (Rs/sh)	3.16	0.20	0.02		2.17	-31%	997%	9306%	NA

Source: Company, Axis Securities, Bloomberg Consensus

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Total Operating income	1,05,378	1,00,063	1,06,007	1,13,330
Consumption of Raw Materials	57,709	50,658	51,533	56,283
Increase/Decrease in Stocks	(3,355)	(2,296)	(713)	(1,548)
Employees Cost	11,766	11,680	11,914	12,152
Other Expenses	28,109	29,226	31,048	32,985
Total Expenditure	94,229	89,268	93,782	99,871
<b>EBITDA</b>	<b>11,149</b>	<b>10,795</b>	<b>12,225</b>	<b>13,458</b>
Depreciation and Amortization	5,278	5,417	5,606	5,851
<b>EBIT</b>	<b>5,871</b>	<b>5,378</b>	<b>6,619</b>	<b>7,607</b>
Other Income	1,067	652	636	680
Share Of P/L Of Associates (Net of Tax)	439	585	667	713
Less: Interest & Fin Chg.	2,474	3,084	3,179	3,089
Less: Exceptional Items	841	312	-	-
<b>Profit before tax</b>	<b>4,062</b>	<b>3,220</b>	<b>4,743</b>	<b>5,911</b>
Provision for Tax	995	699	1,019	1,300
<b>Reported PAT</b>	<b>3,067</b>	<b>2,521</b>	<b>3,724</b>	<b>4,612</b>
<b>EPS (Rs/sh)</b>	<b>7.4</b>	<b>6.1</b>	<b>9.0</b>	<b>10.3</b>
<b>DPS (Rs/sh)</b>	<b>2.0</b>	<b>1.6</b>	<b>2.4</b>	<b>2.8</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Net Block	65,415	64,198	64,192	66,041
Other Tangible assets	5,522	5,522	5,522	5,522
CWIP	6,141	7,941	10,341	13,641
Intangible assets	1,489	1,489	1,489	1,489
Investments	4,589	4,589	4,589	4,589
Inventories	37,347	32,897	34,852	37,259
Trade Receivables	8,355	7,950	8,422	9,004
Cash / Bank balance	673	6,084	5,223	2,096
Misc. Assets	11,178	11,178	11,178	11,178
<b>Total assets</b>	<b>1,40,709</b>	<b>1,41,848</b>	<b>1,45,808</b>	<b>1,50,819</b>
Equity capital	4,131	4,131	4,131	4,131
Reserves	52,971	54,666	57,711	61,319
Minority Interests	0	0	0	0
Borrowings	36,323	35,323	34,323	33,323
Def tax Liabilities	6,286	6,984	8,004	9,303
Other Liabilities and Provision	18,635	18,635	18,635	18,635
Provisions	7,032	7,032	7,032	7,032
Trade Payables	15,332	15,078	15,974	17,077
<b>Capital employed</b>	<b>1,40,709</b>	<b>1,41,848</b>	<b>1,45,808</b>	<b>1,50,819</b>

Source: Company, Axis Securities

**Cash Flow**
**(Rs Cr)**

Y/E March	FY24A	FY25E	FY26E	FY27E
Profit before tax	4,062	2,635	4,076	5,198
Depreciation	5,278	5,417	5,606	5,851
Interest Expenses	2,474	3,084	3,179	3,089
Non-operating / EO item	(1,150)	585	667	713
Change in W/C	(7,650)	4,600	(1,531)	(1,886)
Income Tax	(104)	-	-	-
<b>Operating Cash Flow</b>	<b>2,911</b>	<b>16,321</b>	<b>11,997</b>	<b>12,965</b>
Capital Expenditure	(4,711)	(6,000)	(8,000)	(11,000)
<b>Free cash Flow</b>	<b>(1,800)</b>	<b>10,321</b>	<b>3,997</b>	<b>1,965</b>
Other Investments	450	-	-	-
<b>Investing Cash Flow</b>	<b>(4,261)</b>	<b>(6,000)</b>	<b>(8,000)</b>	<b>(11,000)</b>
Proceeds / (Repayment) of Borrowings	4,138	(1,000)	(1,000)	(1,000)
Finance cost paid	(2,157)	(3,084)	(3,179)	(3,089)
Dividend paid	(620)	(826)	(679)	(1,003)
<b>Financing Cash Flow</b>	<b>1,362</b>	<b>(4,910)</b>	<b>(4,858)</b>	<b>(5,092)</b>
Change in Cash	12	5,411	(861)	(3,127)
Opening Cash	57	673	6,084	5,223
<b>Closing Cash</b>	<b>69</b>	<b>6,084</b>	<b>5,223</b>	<b>2,096</b>

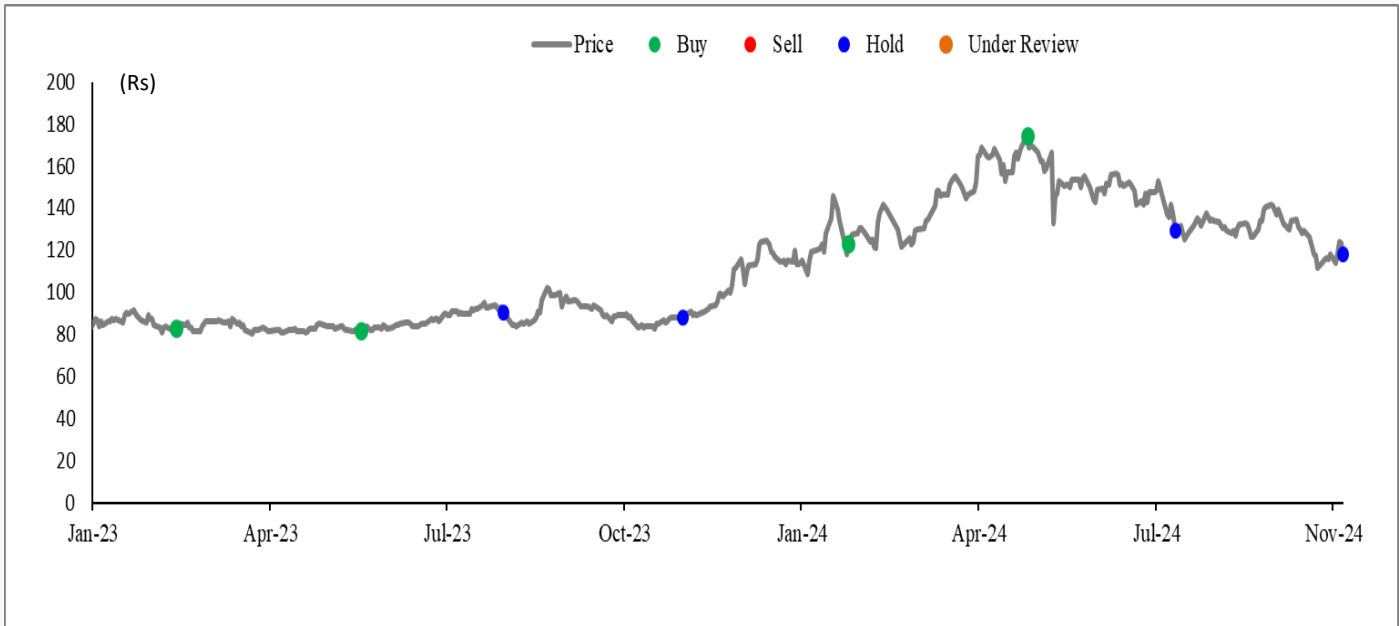
Source: Company, Axis Securities

**Ratio Analysis**
**(%)**

Y/E March	FY24A	FY25E	FY26E	FY27E
<b>Operational Ratios</b>				
Sales growth (% YoY)	1%	-5%	6%	7%
EBITDA growth (% YoY)	39%	-3%	13%	10%
Op. profit growth (% YoY)	91%	-8%	23%	15%
Net Profit growth (% YoY)	41%	-18%	48%	24%
EBITDA Margin %	11%	11%	12%	12%
Net profit Margin %	3%	3%	4%	4%
EBITDA/t (Rs/tonne)	6,047	6,008	6,590	6,850
Tax Rate %	27%	27%	25%	25%
<b>Efficiency Ratios</b>				
Total Asset turnover (x)	0.8	0.7	0.7	0.8
Sales/Gross block (x)	0.9	0.8	0.8	0.8
Sales/Net block(x)	1.6	1.5	1.7	1.7
Working capital/Sales (x)	0.3	0.3	0.3	0.3
<b>Valuation Ratios</b>				
PER (x)	15.9	19.4	13.1	11.5
P/BV (x)	0.9	0.8	0.8	0.7
EV/Ebitda (x)	7.7	7.4	6.5	6.1
EV/Sales (x)	0.8	0.8	0.7	0.7
Dividend Yield (%)	2%	1%	2%	2%
<b>Return Ratios</b>				
ROE	5.5%	4.4%	6.2%	7.2%
ROCE	7.0%	6.1%	7.2%	7.9%
ROIC	4.5%	4.4%	5.4%	5.8%
<b>Leverage Ratios</b>				
Debt/equity (x)	0.7	0.6	0.6	0.5
Net debt/ Equity (x)	0.6	0.5	0.5	0.5
Net Debt/EBITDA (x)	3.3	2.8	2.5	2.4
Interest Coverage ratio (x)	4.5	3.5	3.8	4.4

Source: Company, Axis Securities

### SAIL Price Chart and Recommendation History



Source: Axis Securities

Date	Reco	TP	Research
16-Feb-23	BUY	95	Result Update
29-May-23	BUY	93	Result Update
14-Aug-23	HOLD	95	Result Update
17-Nov-23	HOLD	95	Result Update
15-Feb-24	BUY	135	Result Update
22-May-24	BUY	195	Result Update
12-Aug-24	HOLD	130	Result Update
11-Nov-24	HOLD	130	Result Update

Source: Axis Securities

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Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – [compliance.officer@axisdirect.in](mailto:compliance.officer@axisdirect.in);

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

In case of any grievances please call us at 022-40508080 or write to us [helpdesk@axisdirect.in](mailto:helpdesk@axisdirect.in).

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HOLD	Between 10% and -10%
SELL	Less than -10%
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