

## Muted sales volumes...

**About the stock:** Steel Authority of India (SAIL) is one of the leading steel producers in India, which has five large integrated steel plants (Bhilai steel plant, Rourkela steel plant, Durgapur steel plant, Bokaro steel plant and IISCO). In addition, SAIL also has three special steel plants.

- SAIL has iron ore mines in Chhattisgarh, Jharkhand and Odisha, which aids in meeting 100% of its iron ore requirements captively
- In FY22, SAIL reported crude steel production of 17.36 million tonnes (MT) and steel sales volume of 16.15 MT

**Q1FY23 Results:** SAIL reported a mixed performance in Q1FY23 wherein topline came in line with our estimate while EBITDA, PAT were higher than our estimate.

- For Q1FY23, SAIL's sales volume came in muted at 3.15 MT, down 5% YoY and 33% QoQ, lower than our estimate of 3.65 MT. For the quarter, SAIL reported EBITDA/tonne at ₹ 7304/tonne compared to our estimate of ₹ 5250/tonne (Q1FY22 EBITDA/tonne was at ₹ 19728/tonne and Q4FY22 EBITDA/tonne of ₹ 9196/tonne)
- For Q1FY23, for standalone operations SAIL reported topline of ₹ 24029 crore (up 16% YoY but down 22% QoQ), broadly in line with our estimate of ₹ 24638 crore. Standalone EBITDA for the quarter was at ₹ 2301 crore, down 65% YoY and 47% QoQ (our estimate of ₹ 1916 crore). EBITDA margin for the quarter was at ₹ 9.6% as compared to our estimate of 7.8%
- Ensuing standalone net profit for the quarter was at ₹ 776 crore, down 21% QoQ (our estimate of ₹ 592 crore)

**What should investors do?** SAIL's share price has given a return of ~108% over the last two years (from ~₹ 39 in August 2020 to ~₹ 81 levels in August 2022).

- We maintain our **HOLD** rating on the stock.

**Target Price and Valuation:** We value SAIL at ₹ 85, 5x FY24E EV/EBITDA.

### Key triggers for future price performance:

- Going forward, we expect SAIL to report EBITDA/tonne of ₹ 6000/tonne for FY23E and ₹ 7000/tonne for FY24E
- Going forward, we expect SAIL to report sales volume of 15 MT for FY23E (downward revised from 17 MT earlier) and 16.5 MT for FY24E (downward revised from 18 MT earlier)

**Alternate Stock Idea:** In our metal coverage, we like Ratnamani Metals and Tubes

- Ratnamani Metals and Tubes (RMTL) is a niche player with superior capabilities in the industrial pipes and tubes segment
- BUY with a target price of ₹ 2000



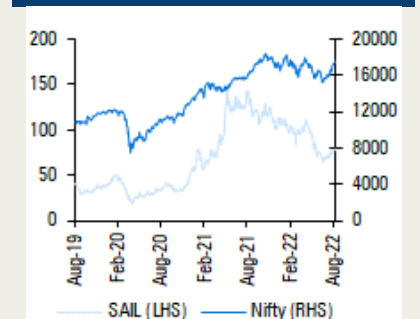
### Particulars

Particulars	Amount
Market Capitalization	33457
Total Debt (FY22)	13386
Cash & Inv (FY22)	648
EV (₹ crore)	46194
52 week H/L (₹)	₹138/64
Equity Capital (₹ crore)	₹4131
Face Value (₹)	10

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	65.0	65.0	65.0	65.0
FIs	5.4	4.4	4.6	4.2
DIs	12.5	10.5	10.2	8.8
Public	17.2	20.1	20.2	22.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Price Chart



### Key Risks

- Steel prices staying elevated for a longer period
- Higher-than expected increase in operating costs

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	CAGR in % (FY18-FY22)	FY23E	FY24E	CAGR in % (FY22-FY24E)
Net Sales	66,967	61,661	69,110	1,03,473	18%	96,864	1,04,076	0%
EBITDA	9,734	10,199	12,728	21,322	NA	9,001	11,551	-26%
EBITDA Margin (%)	14.5	16.5	18.4	20.6		9.3	11.1	
Net Profit	2,179	2,022	3,850	12,015	NA	2,429	4,259	-40%
Adj EPS (₹)	6.2	6.8	9.2	29.9		5.9	10.3	
P/E (x)	13.0	12.0	8.8	2.7		13.8	7.9	
EV/EBITDA (x)	8.0	8.3	5.4	2.2		6.0	4.8	
RoCE (%)	7.6	7.1	10.9	26.1		5.6	8.5	
RoE (%)	5.7	5.1	8.9	23.1		4.5	7.4	

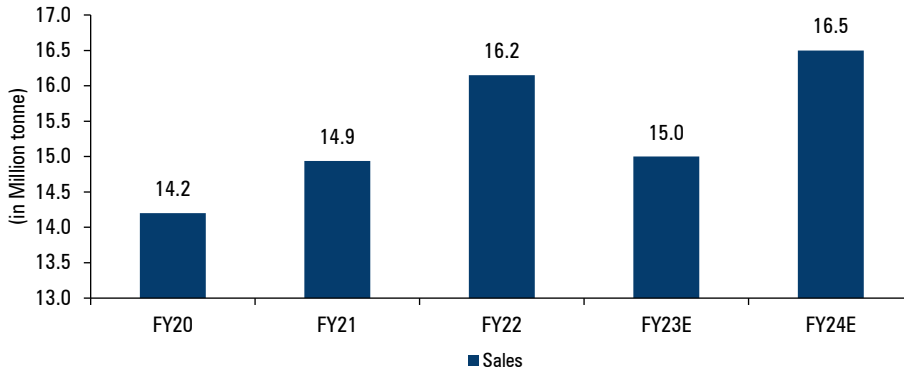
**Exhibit 1: Variance Analysis (Standalone)**

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
<b>Total Operating Incon</b>	24,029	24,638	20,642	16%	30,758	-22%	Topline came in broadly in line with our estimate
Other Income	305	425	110	177%	452	-32%	
Total Operating Expense	21,728	22,722	14,079	54%	26,427	-18%	
<b>EBITDA</b>	<b>2,301</b>	<b>1,916</b>	<b>6,564</b>	<b>-65%</b>	<b>4,331</b>	<b>-47%</b>	EBITDA came in higher than our estimate
EBITDA Margin (%)	9.6	7.8	31.8	-2222 bps	14.1	-451 bps	EBITDA margin came in higher than our estimate
Depreciation	1,194	1,175	1,026	16%	1,144	4%	
Interest	374	375	503	-26%	440	-15%	
Exceptional Items	0	0	0	NA	11	PL	
PBT	<b>1,038</b>	<b>791</b>	<b>5,145</b>	<b>-80%</b>	<b>3,210</b>	<b>-68%</b>	
Tax Outgo	262	199	1,295	-80%	792	-67%	
<b>Reported PAT</b>	<b>776</b>	<b>592</b>	<b>3,850</b>	<b>-80%</b>	<b>2,418</b>	<b>-68%</b>	PAT came in higher than our estimate
<b>Key Metrics</b>							
Sales Volume (in MT)	3.2	3.7	3.3	-5%	4.7	-33%	Sales volume came in notably lower than our estimate
EBITDA/Tonne (in ₹/tonne)	7,304	5,250	19,728	-63%	9,196	-21%	EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

## Financial story in charts

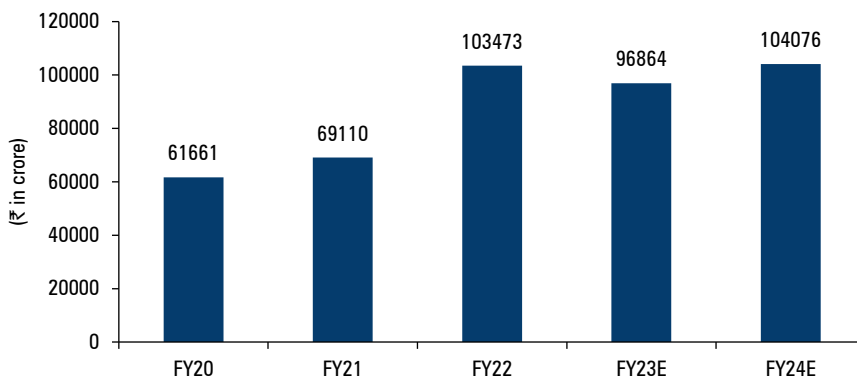
Exhibit 2: Trend in sales volume (in MT)



We model sales volume of 15 MT for FY23E and 16.5 MT for FY24E

Source: Company, ICICI Direct Research

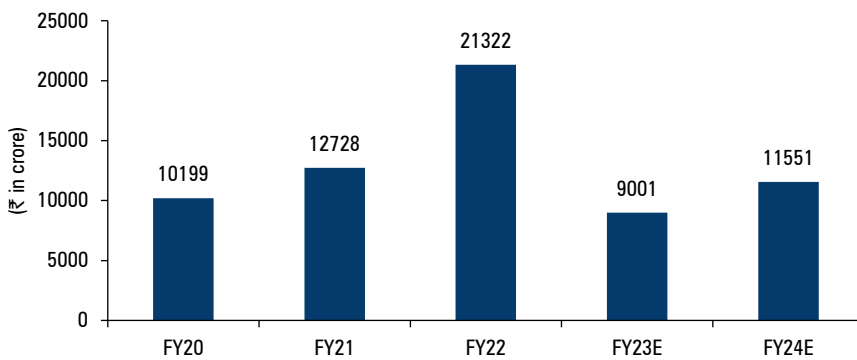
Exhibit 3: Trend in revenue (in ₹ crore)



We expect SAIL to report topline of ₹ 96864 crore for FY23E and ₹ 104076 for FY24E

Source: Company, ICICI Direct Research

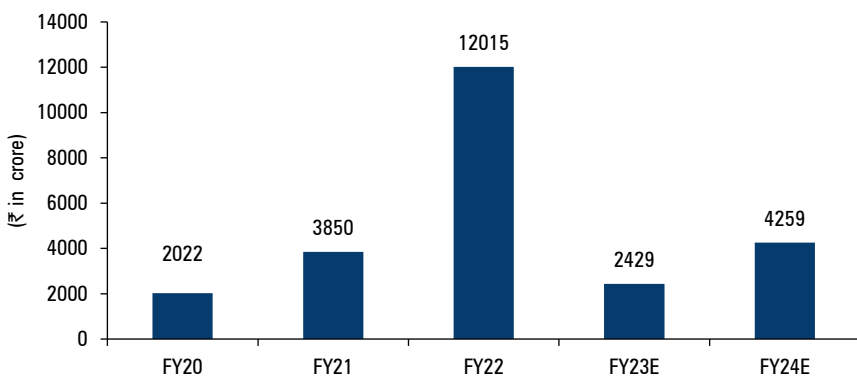
Exhibit 4: Trend in EBITDA (in ₹ crore)



We expect SAIL to report EBITDA of ₹ 9001 crore for FY23E and ₹ 11551 crore for FY24E

Source: Company, ICICI Direct Research

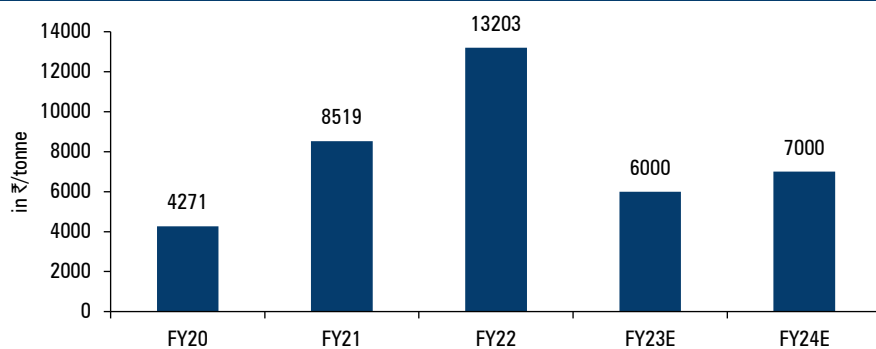
Exhibit 5: Trend in PAT (in ₹ crore)



We expect SAIL to report PAT of ₹ 2429 crore for FY23E and ₹ 4259 crore for FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Trend in EBITDA/tonne (in ₹/tonne)



We model EBITDA/tonne of ₹ 6000/tonne for FY23E and ₹7000/tonne in FY24E

Source: Company, ICICI Direct Research

Exhibit 7: Valuation Matrix

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	61661	-8%	6.8	-7%	12.0	8.3	5.1	7.1
FY21	69110	12%	9.2	36%	8.8	5.4	8.9	10.9
FY22	103473	50%	29.9	226%	2.7	2.2	23.1	26.1
FY23E	96864	-6%	5.9	-80%	13.8	6.0	4.5	5.6
FY24E	104076	7%	10.3	75%	7.9	4.8	7.4	8.5

Source: ICICI Direct Research, Company

## Financial Summary (Standalone)

Exhibit 8: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Total Operating Income</b>	<b>69110</b>	<b>103473</b>	<b>96864</b>	<b>104076</b>	
Growth (%)	12%	50%	-6%	7%	
Total Operating Expenditure	56382	82151	87864	92525	
<b>EBITDA</b>	<b>12728</b>	<b>21322</b>	<b>9001</b>	<b>11551</b>	
Growth (%)	25%	68%	-58%	28%	
Interest & Finance Cost	2817	1698	1931	2082	
Depreciation	4102	4274	4787	4669	
Other Income	1012	1042	964	892	
<b>PBT before Exceptional Items</b>	<b>6821</b>	<b>16392</b>	<b>3247</b>	<b>5691</b>	
Add/less: Exceptional Items	58	-353	0	0	
<b>PBT</b>	<b>6879</b>	<b>16039</b>	<b>3247</b>	<b>5691</b>	
Total Tax	3029	4024	817	1433	
<b>PAT</b>	<b>3850</b>	<b>12015</b>	<b>2429</b>	<b>4259</b>	
Growth (%)	90%	212%	-80%	75%	
<b>Adjusted PAT</b>	<b>3792</b>	<b>12368</b>	<b>2429</b>	<b>4259</b>	
Growth (%)	36%	226%	-80%	75%	
<b>EPS</b>	<b>9.2</b>	<b>29.9</b>	<b>5.9</b>	<b>10.3</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	3850	12015	2429	4259	
Add: Dep. & Amortization	4102	4274	4787	4669	
Net (Inc) / dec.in Current Asse	6947	3067	-5216	-3007	
Net Inc / (dec) in Current Liab.	3018	4235	3015	589	
<b>CF from Operating Actv.</b>	<b>17917</b>	<b>23591</b>	<b>5015</b>	<b>6509</b>	
(Inc)/dec in Investments	-10	-29	-25	-65	
(Inc)/dec in Fixed Assets	-2810	-3852	-8000	-8000	
Others	0	0	0	0	
<b>CF from Investing Actv.</b>	<b>-2820</b>	<b>-3882</b>	<b>-8025</b>	<b>-8065</b>	
Inc / (Dec) in Equity Capital	0	0	0	0	
Inc / (Dec) in Loans	-15905	-22191	8075	1675	
Dividend & Dividend Tax	-743	-3614	-413	-826	
Others	1869	6064	-4717	802	
<b>CF from Financing Actv.</b>	<b>-14780</b>	<b>-19741</b>	<b>2945</b>	<b>1651</b>	
Net Cash flow	317	-32	-65	95	
Opening Cash	363	680	648	583	
<b>Closing Cash</b>	<b>680</b>	<b>648</b>	<b>583</b>	<b>678</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	4131	4131	4131	4131	
Reserve and Surplus	39364	47887	49903	53336	
<b>Total Shareholders funds</b>	<b>43495</b>	<b>52017</b>	<b>54033</b>	<b>57466</b>	
Total Debt	35576	13386	21461	23136	
Other Non-Current Liabilities	1671	7680	2712	2914	
Deferred Tax Liability (net)	1253	5260	5510	6110	
<b>Source of Funds</b>	<b>81995</b>	<b>78342</b>	<b>83716</b>	<b>89626</b>	
Gross Block - Fixed Assets	115394	125726	127641	133391	
Accumulated Depreciation	47794	52069	56855	61524	
<b>Net Block</b>	<b>67600</b>	<b>73657</b>	<b>70786</b>	<b>71867</b>	
Capital WIP	8878	4017	10102	12352	
<b>Net Fixed Assets</b>	<b>76478</b>	<b>77674</b>	<b>80888</b>	<b>84219</b>	
Investments	1595	1624	1649	1714	
Inventory	19508	24128	23884	25662	
Cash	680	648	583	678	
Debtors	7124	4737	6635	7128	
Loans & Advances & Other CA	9873	4573	8135	8869	
<b>Total Current Assets</b>	<b>37185</b>	<b>34086</b>	<b>39237</b>	<b>42338</b>	
Creditors	7014	16918	15923	15683	
Provisions & Other CL	28150	22481	26491	27320	
Total Current Liabilities	35164	39399	42414	43002	
Net Current Assets	2021	-5313	-3177	-664	
Other Non-current assets	1901	4356	4356	4356	
<b>Application of Funds</b>	<b>81995</b>	<b>78342</b>	<b>83716</b>	<b>89626</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	9.2	29.9	5.9	10.3	
BV	105	126	131	139	
DPS	1.8	8.8	1.0	2.0	
<b>Operating Ratios (%)</b>					
EBITDA margins	18.4	20.6	9.3	11.1	
PBT margins	10.0	15.5	3.4	5.5	
Net Profit margins	5.6	11.6	2.5	4.1	
Inventory days	103	85	90	90	
Debtor days	38	17	25	25	
Creditor days	37	60	60	55	
<b>Return Ratios (%)</b>					
RoE	8.9	23.1	4.5	7.4	
RoCE	10.9	26.1	5.6	8.5	
RoIC	11.0	26.3	5.6	8.6	
<b>Valuation Ratios (x)</b>					
P/E	8.8	2.7	13.8	7.9	
EV / EBITDA	5.4	2.2	6.0	4.8	
EV / Revenues	1.0	0.4	0.6	0.5	
Market Cap / Revenues	0.5	0.3	0.3	0.3	
Price to Book Value	0.8	0.6	0.6	0.6	
<b>Solvency Ratios</b>					
Debt / Equity	0.8	0.3	0.4	0.4	
Debt/EBITDA	2.8	0.6	2.4	2.0	
Current Ratio	1.1	0.9	0.9	1.0	
Quick Ratio	0.5	0.3	0.4	0.4	

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Metals and Mining)

	CMP		TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			ROCE(%)			ROE(%)		
	(₹)	(₹)				FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Coal India	222	275	Buy	136504	28.2	42.6	37.0	7.9	5.2	6.0	4.3	2.8	3.3	52.0	58.8	44.2	40.3	45.0	33.2	
NMDC	118	135	Buy	34493	32.1	15.2	16.9	3.7	7.8	7.0	2.4	5.3	4.7	32.1	14.2	15.1	27.0	12.2	12.9	
JSW Steel	679	565	Hold	164033	87.3	37.3	55.6	7.8	18.2	12.2	5.6	9.2	6.9	23.2	9.9	13.7	31.6	11.8	15.3	
Ratnamani	1721	2000	Buy	12065	46.0	57.6	80.0	37.4	29.9	21.5	16.3	19.5	14.7	17.3	18.6	21.5	14.3	15.6	18.2	
Graphite Ind.	398	390	Reduce	7785	25.8	25.0	32.6	15.4	15.9	12.2	11.1	9.1	6.2	7.8	8.6	11.1	10.2	9.2	10.9	
Tata Steel	112	130	Buy	137382	34.3	20.5	20.8	3.3	5.5	5.4	3.2	4.5	4.2	28.5	15.9	15.1	36.4	18.3	16.0	
Sail	81	85	Hold	33660	29.9	5.9	10.3	2.7	13.8	7.9	2.2	6.0	4.8	26.1	5.6	8.5	23.1	4.5	7.4	
Jindal Stainless Jindal	118	135	Buy	6222	36.3	18.0	21.6	3.2	6.6	5.5	3.0	5.3	4.4	31.3	14.4	15.8	36.5	16.0	16.7	
Stainless Hisar	231	263	Buy	5445	82.5	42.3	44.8	2.8	5.5	5.2	3.4	5.9	5.2	28.1	12.1	12.2	39.4	17.5	16.2	
Vardhman Special Steel	243	250	Hold	984	24.8	22.6	27.8	9.8	10.8	8.7	6.4	7.6	6.3	24.5	16.6	18.1	18.2	14.5	15.4	
Tata Metaliks	730	690	Hold	2307	75.4	62.9	72.1	9.7	11.6	10.1	5.2	6.2	5.3	20.7	15.4	15.8	15.6	11.7	12.0	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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