

## Steady operational performance...

**About the stock:** Steel Authority of India (SAIL) is one of the leading steel producers in India, with 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 aid in meeting 100% of its iron ore requirements captive
- In FY22, SAIL reported crude steel production of 17.36 million tonnes (MT) and steel sales volume of 16.15 MT

**Q3FY23 Results:** SAIL reported a steady operational performance for Q3FY23 wherein standalone EBITDA/tonne came in higher than our estimate.

- For Q3FY23, SAIL reported sales volume of 4.2 million tonnes (MT), up 9% YoY but down 1% QoQ, broadly in line with our estimate of 4.2 MT. Standalone topline for the quarter was at ₹ 25042 crore, down 1% YoY and 5% QoQ (our estimate of ₹ 26031 crore)
- Standalone EBITDA for the quarter was at ₹ 2077 crore, down 39% YoY, but up 183% QoQ, higher than our estimate of ₹ 1806 crore. Standalone EBITDA/tonne for the quarter was at ₹ 5003/tonne, higher than our estimate of ₹ 4250/tonne
- Ensuing standalone PAT for the quarter was at ₹ 464 crore, higher than our estimate of ₹ 304 crore. Consolidated PAT was at ₹ 542 crore

**What should investors do?** SAIL's share price has given a return of ~47% over the last two years (from ~₹ 58 in February 2021 to ~₹ 85 levels in February 2023).

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

**Target Price and Valuation:** We value SAIL at ₹ 90, 5x FY24E EV/EBITDA.

### Key triggers for future price performance:

- Going forward, we expect SAIL to report EBITDA/tonne of ₹ 5000/tonne (upward revised from ₹ 4500/tonne earlier) for FY23E and ₹ 7250/tonne for FY24E (maintained)
- Going forward, we expect SAIL to report sales volume of 16.2 MT for FY23E (upward revised from 16 MT earlier) and 17.2 MT for FY24E (upward revised from 17 MT earlier)

**Alternate Stock Idea:** In our metal sector coverage, we also like Jindal Stainless.

- Jindal Stainless (JSL) operates an integrated stainless steel plant at Jajpur, Odisha
- BUY with a target price of ₹ 300



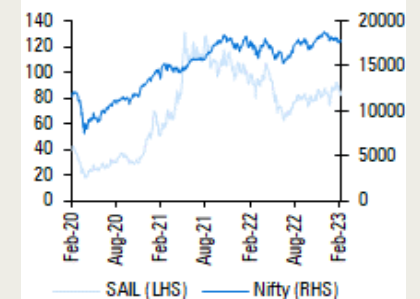
### Particulars

Particulars	Amount
Market Capitalization	35109
Total Debt (FY22)	13386
Cash & Inv (FY22)	648
EV (₹ crore)	47846
52 week H/L (₹)	₹112/64
Equity Capital (₹ crore)	₹4131
Face Value (₹)	10

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	65.0	65.0	65.0	65.0
FIs	4.6	4.2	4.3	4.3
DIs	10.2	8.8	9.4	10.7
Public	20.2	22.0	21.3	19.9
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Price Chart



### Key Risks

- Higher-than expected increase in steel prices
- 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%	1,02,974	1,06,750	2%
EBITDA	9,734	10,199	12,728	21,322	NA	8,100	12,470	-24%
EBITDA Margin (%)	14.5	16.5	18.4	20.6		7.9	11.7	
Net Profit	2,179	2,022	3,850	12,015	NA	1,469	4,772	-37%
Adj EPS (₹)	6.2	6.8	9.2	29.9		3.6	11.6	
P/E (x)	13.7	12.6	9.3	2.8		23.9	7.4	
EV/EBITDA (x)	8.2	8.5	5.5	2.2		7.4	4.8	
RoCE (%)	7.6	7.1	10.9	26.1		4.2	9.5	
RoE (%)	5.7	5.1	8.9	23.1		2.8	8.5	

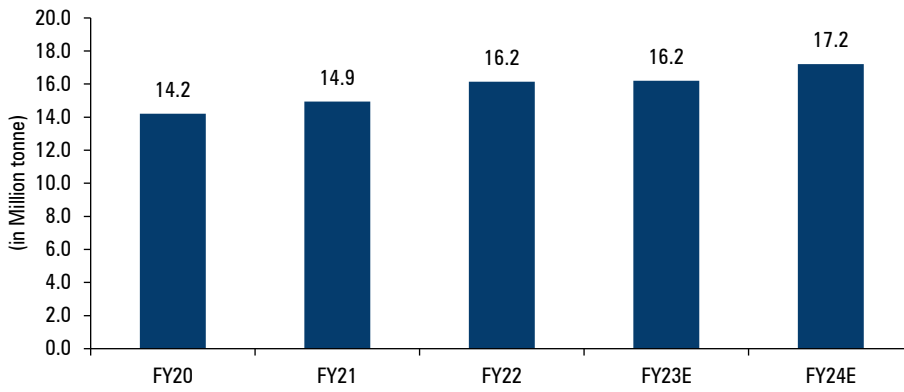
**Exhibit 1: Variance Analysis (Standalone)**

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
<b>Total Operating Incon</b>	25,042	26,031	25,246	-1%	26,246	-5%	Standalone topline came in broadly in line with our estimate
Other Income	121	375	249	-52%	441	-73%	Standalone other income came in lower than our estimate
Total Operating Expense	22,965	24,225	21,835	5%	25,514	-10%	
<b>EBITDA</b>	<b>2,077</b>	<b>1,806</b>	<b>3,410</b>	<b>-39%</b>	<b>733</b>	<b>183%</b>	Standalone EBITDA came in marginally higher than our estimate
EBITDA Margin (%)	8.3	6.9	13.5	-521 bps	2.8	550 bps	Standalone EBITDA margin came in higher than our estimate
Depreciation	1,221	1,225	1,049	16%	1,183	3%	
Interest	640	550	316	103%	506	26%	
Exceptional Items	298	0	-364	LP	0	NA	
PBT	<b>635</b>	<b>406</b>	<b>1,931</b>	<b>-67%</b>	<b>-516</b>	<b>-223%</b>	
Tax Outgo	171	102	488	-65%	-130	-232%	
<b>Reported PAT</b>	<b>464</b>	<b>304</b>	<b>1,443</b>	<b>-68%</b>	<b>-386</b>	<b>-220%</b>	Standalone PAT came in higher than our estimate
<b>Key Metrics</b>							
Sales Volume (in MT)	4.2	4.3	3.8	9%	4.2	-1%	Standalone sales volume came in broadly in line with our estimate
EBITDA/Tonne (in ₹/tonne)	5,003	4,250	8,881	-44%	1,740	187%	Standalone EBITDA/tonne came in higher than our estimate

Source: Company, ICICI Direct Research

## Financial story in charts

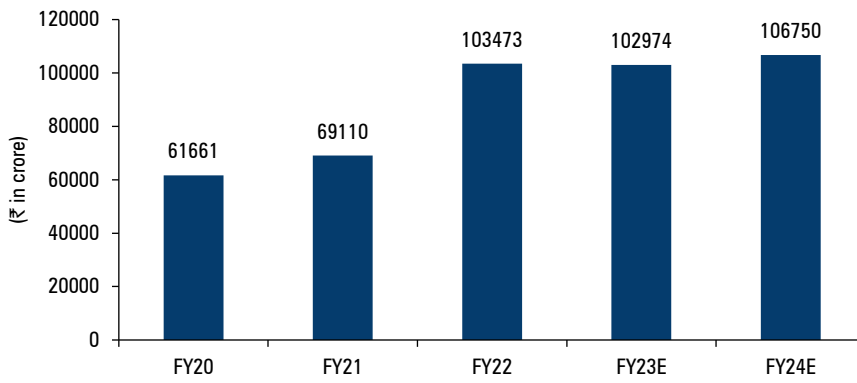
Exhibit 2: Trend in sales volume (in MT)



We model sales volume of 16.2 MT for FY23E and 17.2 MT for FY24E

Source: Company, ICICI Direct Research

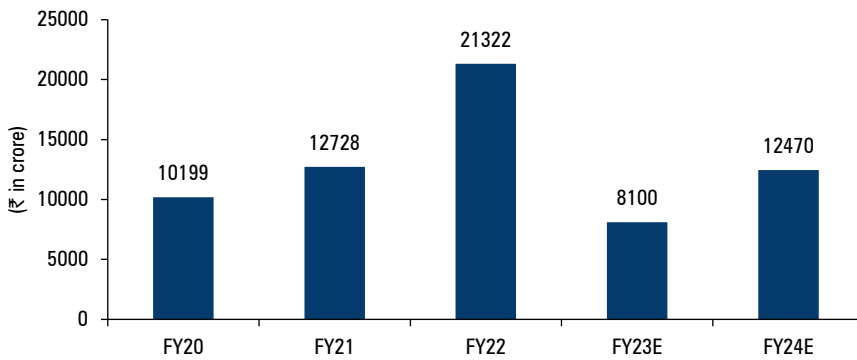
Exhibit 3: Trend in revenue (in ₹ crore)



We expect SAIL to report topline of ₹ 102974 crore for FY23E and ₹ 106750 crore for FY24E

Source: Company, ICICI Direct Research

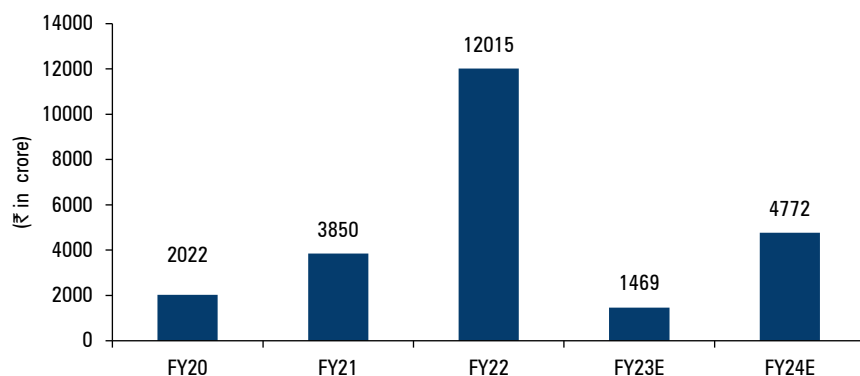
Exhibit 4: Trend in EBITDA (in ₹ crore)



We expect SAIL to report EBITDA of ₹ 8100 crore for FY23E and ₹ 12470 crore for FY24E

Source: Company, ICICI Direct Research

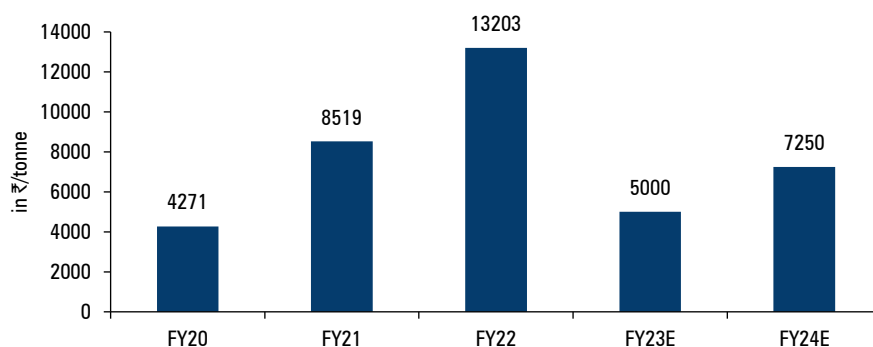
Exhibit 5: Trend in PAT (in ₹ crore)



We expect SAIL to report PAT of ₹ 1469 crore for FY23E and ₹ 4772 crore for FY24E

Source: Company, ICICI Direct Research

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



We model EBITDA/tonne of ₹ 5000/tonne for FY23E and ₹ 7250/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%	12.6	8.5	5.1	7.1
FY21	69110	12%	9.2	36%	9.3	5.5	8.9	10.9
FY22	103473	50%	29.9	226%	2.8	2.2	23.1	26.1
FY23E	102974	0%	3.6	-88%	23.9	7.4	2.8	4.2
FY24E	106750	4%	11.6	225%	7.4	4.8	8.5	9.5

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>102974</b>	<b>106750</b>	
Growth (%)	12%	50%	0%	4%	
Total Operating Expenditure	56382	82151	94874	94280	
<b>EBITDA</b>	<b>12728</b>	<b>21322</b>	<b>8100</b>	<b>12470</b>	
Growth (%)	25%	68%	-62%	54%	
Interest & Finance Cost	2817	1698	2314	2316	
Depreciation	4102	4274	4787	4669	
Other Income	1012	1042	964	892	
<b>PBT before Exceptional Items</b>	<b>6821</b>	<b>16392</b>	<b>1963</b>	<b>6377</b>	
Add/less: Exceptional Items	58	-353	0	0	
Share of profit from Associates	0	0	0	0	
<b>PBT</b>	<b>6879</b>	<b>16039</b>	<b>1963</b>	<b>6377</b>	
Total Tax	3029	4024	494	1605	
<b>PAT</b>	<b>3850</b>	<b>12015</b>	<b>1469</b>	<b>4772</b>	
Growth (%)	90%	212%	-88%	225%	
<b>Adjusted PAT</b>	<b>3792</b>	<b>12368</b>	<b>1469</b>	<b>4772</b>	
Growth (%)	36%	226%	-88%	225%	
<b>EPS</b>	<b>9.2</b>	<b>29.9</b>	<b>3.6</b>	<b>11.6</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	1469	4772	
Add: Dep. & Amortization	4102	4274	4787	4669	
Net (Inc) / dec.in Current Asse	6947	3067	-10182	-2304	
Net Inc / (dec) in Current Liab.	3018	4235	3268	1027	
<b>CF from Operating Actv.</b>	<b>17917</b>	<b>23591</b>	<b>-658</b>	<b>8163</b>	
(Inc)/dec in Investments	-10	-29	-25	-65	
(Inc)/dec in Fixed Assets	-2810	-3852	-6000	-8000	
Others	0	0	0	0	
<b>CF from Investing Actv.</b>	<b>-2820</b>	<b>-3882</b>	<b>-6025</b>	<b>-8065</b>	
Inc / (Dec) in Equity Capital	0	0	0	0	
Inc / (Dec) in Loans	-15905	-22191	12325	25	
Dividend & Dividend Tax	-743	-3614	-826	-1239	
Others	1869	6064	-4546	706	
<b>CF from Financing Actv.</b>	<b>-14780</b>	<b>-19741</b>	<b>6953</b>	<b>-508</b>	
Net Cash flow	317	-32	270	-410	
Opening Cash	363	680	648	918	
<b>Closing Cash</b>	<b>680</b>	<b>648</b>	<b>918</b>	<b>508</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	48530	52062	
Total Shareholders funds	43495	52017	52660	56193	
Total Debt	35576	13386	25711	25736	
Other Non-Current Liabilities	1671	7680	2883	2989	
Deferred Tax Liability (net)	1253	5260	5510	6110	
<b>Source of Funds</b>	<b>81995</b>	<b>78342</b>	<b>86764</b>	<b>91027</b>	
Gross Block - Fixed Assets	115394	125726	127641	133391	
Accumulated Depreciation	47794	52069	56855	61524	
Net Block	67600	73657	70786	71867	
Capital WIP	8878	4017	8102	10352	
Net Fixed Assets	76478	77674	78888	82219	
Investments	1595	1624	1649	1714	
Inventory	19508	24128	28212	29247	
Cash	680	648	918	508	
Debtors	7124	4737	7053	7312	
Loans & Advances & Other CA	9873	4573	8355	9366	
Total Current Assets	37185	34086	44538	46432	
Creditors	7014	16918	15517	16086	
Provisions & Other CL	28150	22481	27151	27608	
Total Current Liabilities	35164	39399	42667	43694	
Net Current Assets	2021	-5313	1871	2738	
Other Non-current assets	1901	4356	4356	4356	
<b>Application of Funds</b>	<b>81995</b>	<b>78342</b>	<b>86764</b>	<b>91027</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	3.6	11.6	
BV	105	126	127	136	
DPS	1.8	8.8	2.0	3.0	
<b>Operating Ratios (%)</b>					
EBITDA margins	18.4	20.6	7.9	11.7	
PBT margins	10.0	15.5	1.9	6.0	
Net Profit margins	5.6	11.6	1.4	4.5	
Inventory days	103	85	100	100	
Debtor days	38	17	25	25	
Creditor days	37	60	55	55	
<b>Return Ratios (%)</b>					
RoE	8.9	23.1	2.8	8.5	
RoCE	10.9	26.1	4.2	9.5	
RoIC	11.0	26.3	4.3	9.6	
<b>Valuation Ratios (x)</b>					
P/E	9.3	2.8	23.9	7.4	
EV / EBITDA	5.5	2.2	7.4	4.8	
EV / Revenues	1.0	0.5	0.6	0.6	
Market Cap / Revenues	0.5	0.3	0.3	0.3	
Price to Book Value	0.8	0.7	0.7	0.6	
<b>Solvency Ratios</b>					
Debt / Equity	0.8	0.3	0.5	0.5	
Debt/EBITDA	2.8	0.6	3.2	2.1	
Current Ratio	1.1	0.9	1.0	1.1	
Quick Ratio	0.5	0.3	0.4	0.4	

Source: Company, ICICI Direct Research

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Sell: < -15%



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