

Steel Authority of India

Performance Highlights

Particulars (₹ cr)	1QFY12	1QFY11	% chg (yoy)	4QFY11	% chg (qoq)
Net sales	10,811	9,029	19.7	11,945	(9.5)
EBITDA	1,312	1,843	(28.8)	2,211	(40.6)
EBITDA margin (%)	12.1	20.4	(827)bp	16.1	(398)bp
Net profit	839	1,177	(28.7)	1,507	(44.3)

Source: Company, Angel Research

SAIL reported net sales of ₹10,811cr, above our estimate of ₹9,405cr for 1QFY2011. However, net profit at ₹839cr was significantly below our estimate of ₹1,029cr. Higher-than-expected coking coal costs led to deviation in profitability.

We maintain our Buy rating on the stock.

Higher-than-expected input costs – A negative surprise: During the quarter, SAIL's sales volume increased by 14.6% yoy and decreased by 12.3% qoq to 2.8mn tonnes. However, average realisation for the quarter increased by only 4.5% yoy and 3.2% qoq to ₹39,313/tonne. Consequently, net revenue grew by 19.7% yoy but declined by 9.5% sequentially to ₹10,811cr. Despite increased volumes, EBITDA/tonne declined by 37.0% yoy and 32.0% qoq to US\$106 mainly due to higher raw-material costs and staff costs. Raw-material cost grew by 44.3% yoy and 2.4% qoq to ₹17,038/tonne. Consequently, EBITDA margin contracted by massive 827bp yoy and 398bp qoq to 12.1%, well below our estimate of 17.1%. As a result, EBITDA declined by 28.8% yoy and 40.6% qoq to ₹1,312cr. Net profit fell by 28.7% yoy and 44.3% qoq to ₹839cr, in-line with the decline in EBITDA.

Outlook and valuation: SAIL is expected to increase its saleable steel production capacity from 12.5mn tonnes to 23.1mn tonnes by FY2015. With captive iron ore backing the upcoming steel expansion, we expect robust profitability from these plants. Although there could be unexpected delays in the company's capacity expansion plans, we believe these projects have a greater possibility of sailing through compared to greenfield projects, which have multiple bottlenecks. We maintain our Buy rating on the stock with a revised target price of ₹139.

Key financials

Y/E March (₹ cr)	FY2010	FY2011E	FY2012E	FY2013E
Net sales	40,551	42,720	47,903	56,016
% chg	(7.2)	5.3	12.1	16.9
Net profit	6,754	4,881	4,367	5,536
% chg	9.4	(27.7)	(10.5)	26.8
EPS (₹)	16.4	11.8	10.6	13.4
EBITDA margin (%)	24.5	17.7	15.7	18.6
P/E (x)	7.3	10.1	11.3	8.9
P/BV (x)	1.5	1.3	1.2	1.1
RoE (%)	22.0	13.9	11.2	12.8
RoCE (%)	19.5	11.0	9.2	10.9
EV/Sales (x)	1.1	1.2	1.3	1.1
EV/EBITDA (x)	4.4	6.6	8.0	6.1

Source: Company, Angel Research

BUY

CMP	₹120
Target Price	₹139

Investment Period	12 months
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Stock Info

Sector	Steel
Market Cap (₹ cr)	49,544
Beta	1.1
52 Week High / Low	234/119
Avg. Daily Volume	355866
Face Value (₹)	10
BSE Sensex	18,314
Nifty	5,517
Reuters Code	SAIL.BO
Bloomberg Code	SAIL@IN

Shareholding Pattern (%)

Promoters	85.8
MF / Banks / Indian Fls	7.5
FII / NRIs / OCBs	4.1
Indian Public / Others	2.6

Abs. (%)	3m	1yr	3yr
Sensex	(4.3)	2.5	25.0
SAIL	(25.0)	(41.1)	(17.0)

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Exhibit 1: 1QFY2012 performance

(₹ cr)	1QFY12	1QFY11	yoy (%)	FY2011	FY2010	yoy (%)
Net sales	10,811	9,029	19.7	42,720	40,551	5.3
Raw material	4,949	3,025	63.6	18,909	17,166	10.2
% of net sales	45.8	33.5		44.3	42.3	
Consumption of stores & spares	618	573	7.7	2,393	2,621	(8.7)
% of net sales	5.7	6.3		5.6	6.5	
Power & fuel	1,017	878	15.8	3,590	3,359	6.9
% of net sales	9.4	9.7		8.4	8.3	
Staff cost	2,251	2,012	11.9	7,627	5,408	41.0
% of net sales	20.8	22.3		17.9	13.3	
Other expenditure	779	802	(3.0)	3,319	2,809	18.2
% of net sales	7.2	8.9		7.8	6.9	
Total expenditure	9,614	7,290	31.9	35,839	31,362	14.3
Operating profit	1,197	2,823	(57.6)	6,882	9,189	(25.1)
Operating margin (%)	11.1	31.3		16.1	22.7	
Other operating income	115	104	10.7	663	756	(12.3)
EBITDA	1,312	1,843	(28.8)	7,544	9,945	(24.1)
EBITDA margin (%)	12.1	20.4		17.7	24.5	
Net Interest income/(exp.)	279	245	14.0	908	1,459	(37.8)
Depreciation	374	351	6.7	1,484	1,337	11.0
Other income	13	12	10.5	60	65	(8.5)
Exceptional items	0	0		130	0.0	
Profit before tax	1,230	1,749	(29.7)	7,157	10,132	(29.4)
% of net sales	11.4	19.4		16.8	25.0	
Current tax	391	572	(31.6)	2,276	3,378	(32.6)
% Tax rate	31.8	32.7		31.8	33.3	
Profit after tax	839	1,177	(28.7)	4,881	6,754	(27.7)

Source: Company, Angel Research

Exhibit 2: 1QFY2012 – Actual vs. Angel estimates

(₹ cr)	Actual	Estimates	Variation (%)
Net sales	10,811	9,405	14.9
EBITDA	1,312	1,606	(18.3)
EBITDA margin (%)	12.1	17.1	(494)bp
PAT	839	1,029	(18.5)

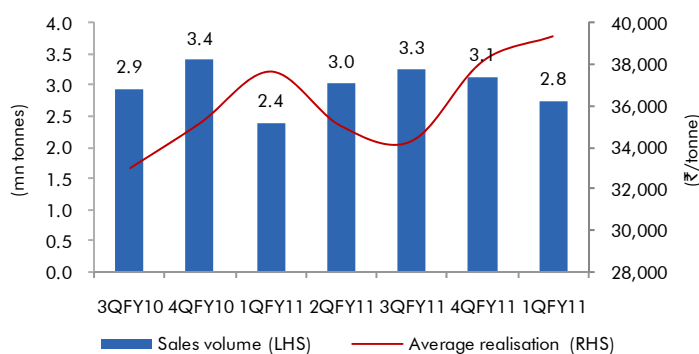
Source: Company, Angel Research

Result highlights

Net revenue was below estimates

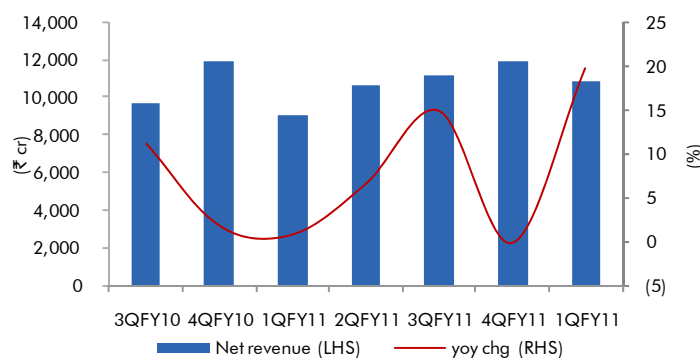
During the quarter, sales volume increased by 14.6% yoy and decreased by 12.3% qoq to 2.8mn tonnes. However, average realisation for the quarter increased by only 4.5% yoy and 3.2% qoq to ₹39,313/tonne. Consequently, net revenue grew by 19.7% yoy but declined by 9.5% sequentially to ₹10,811cr.

Exhibit 3: Sales volume growth of 14.6% yoy...



Source: Company, Angel Research

Exhibit 4: ...led to 19.7% top-line growth yoy



Source: Company, Angel Research

EBITDA margin contracted due to higher coking coal cost

Despite increased volumes, EBITDA/tonne declined by 37.0% yoy and 32.0% qoq to US\$106. This was due to higher raw-material costs and staff costs. Raw-material cost during 1QFY2012 grew by 44.3% yoy and 2.4% qoq to ₹17,038/tonne mainly on account of higher coking coal cost. Similarly, staff cost stood at ₹8,186/tonne (-2.3% yoy and +25.1% qoq) and power and fuel costs stood at ₹3,698/tonne (+1.1% yoy and +22.3% qoq). Consequently, EBITDA margin contracted by massive 827bp yoy and 398bp qoq to 12.1%, well below our estimate of 17.1%. As a result, EBITDA declined by 28.8% yoy and 40.6% qoq to ₹1,312cr.

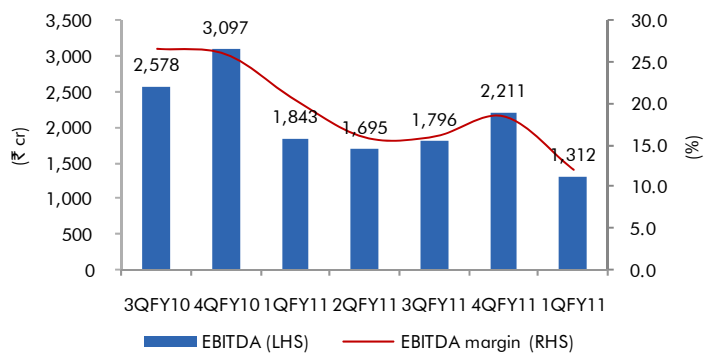
Exhibit 5: Quarterly performance

(₹/tonne of saleable steel)	1QFY12	1QFY11	yoy (%)	4QFY11	qoq (%)
Revenue	39,313	37,622	4.5	38,101	3.2
Cost	34,959	30,377	15.1	31,642	10.5
Raw-material cost	17,038	11,809	44.3	16,642	2.4
Consumption of stores	2,246	2,389	(6.0)	2,012	11.7
Power and fuel	3,698	3,660	1.1	3,023	22.3
Staff cost	8,186	8,382	(2.3)	6,545	25.1
Other expenditure	3,790	4,137	(8.4)	3,419	10.8
EBITDA	4,772	7,679	(37.9)	7,052	(32.3)
EBITDA (US\$/tonne)	106	168	(37.0)	156	(32.0)

Source: Company, Angel Research

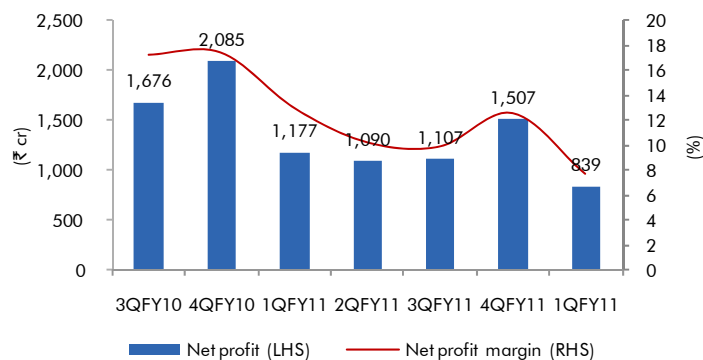
Further, net interest income increased by 14.0% yoy to ₹279cr, while depreciation increased by 6.7% yoy to ₹374cr, which resulted in a 28.7% yoy decline in net profit to ₹839cr.

Exhibit 6: EBITDA margin down yoy...



Source: Company, Angel Research

Exhibit 7: ...leading to lower net profit margin at 7.8%



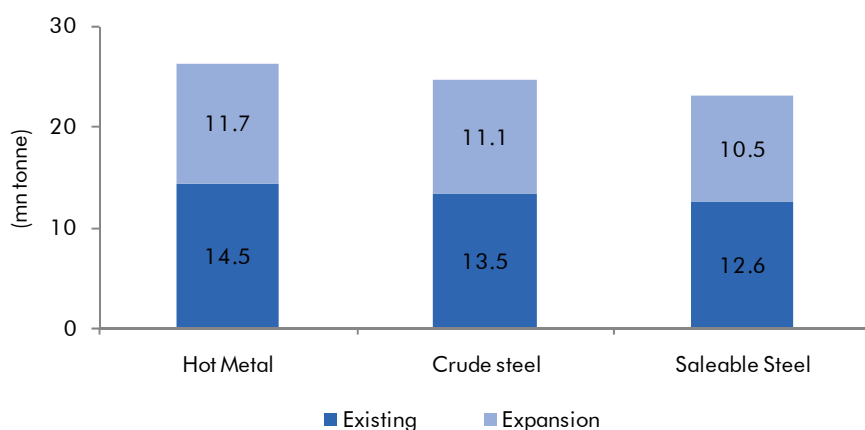
Source: Company, Angel Research

Investment rationale

Volume growth to double, albeit in 2–3 years

SAIL is expected to increase its saleable steel production capacity from 12.5mn tonnes to 23.1mn tonnes by FY2015 at a capex of ₹70,000cr. With captive iron ore backing the upcoming steel expansion, we expect strong profitability from these plants. Also, we expect SAIL's older loss-making plants to be modernised as a part of its modernisation programme. Although there could be unexpected delays in the company's capacity expansion plans, we believe these projects have a greater possibility of sailing through compared to greenfield projects, which have multiple bottlenecks.

Exhibit 8: Capacity to double by FY2013–14

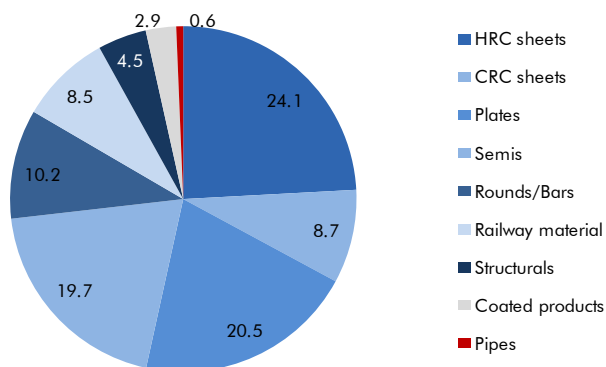


Source: Company, Angel Research

Product mix to improve

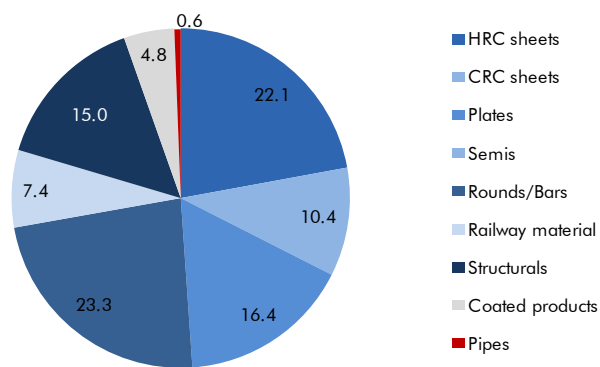
Post the expansion and modernisation of the steel plants, SAIL will benefit from the improvement in its product mix. Management plans to reduce sale of semis to nil post the expansion of its steel capacity. Semis constituted 19.7% of the company's product mix in FY2010 (11.0% of the product mix in FY2011). Moreover, contribution of structural steel is expected to improve to 15% from 4.5% currently.

Exhibit 9: Product mix (% , FY2010)



Source: Company, Angel Research

Exhibit 10: Product mix post expansion (%)



Source: Company, Angel Research

Outlook and valuation

SAIL is expected to increase its saleable steel production capacity from 12.5mn tonnes to 23.1mn tonnes by FY2015. With captive iron ore backing the upcoming steel expansion, we expect robust profitability from these plants. Also, we expect SAIL's older loss-making plants to be modernised as a part of its modernisation programme. Although there could be unexpected delays in its capacity expansion plans, we believe these projects have a greater possibility of sailing through compared to greenfield projects, which have multiple bottlenecks. **We maintain our Buy rating on the stock with a revised target price of ₹139.**

We have lowered our profitability estimates for FY2012 and FY2013 to factor in lower-than-expected 1QFY2012 profitability performance.

Exhibit 11: Key assumptions

	FY2012E	FY2013E
Saleable steel volume (mn tonnes)	12.6	14.6
Average realisation (₹/tonne)	38,027	38,407

Source: Angel Research

Exhibit 12: Change in estimates

(₹ cr)	Earlier estimates		Revised estimates		Upgrade/(Downgrade) (%)	
	FY12	FY13	FY12	FY13	FY12	FY13
Net sales	47,903	56,016	47,903	56,016	0.0	0.0
EBITDA	9,187	12,368	7,524	10,418	(18.1)	(15.8)
EBITDA margin (%)	19.2	22.1	15.7	18.6	(347)bp	(348)bp
PBT	7,936	10,199	6,518	8,823	(17.9)	(13.5)
Net income	5,317	6,834	4,367	5,912	(17.9)	(13.5)
Net margin (%)	11.1	12.2	9.1	10.6	(198)bp	(165)bp

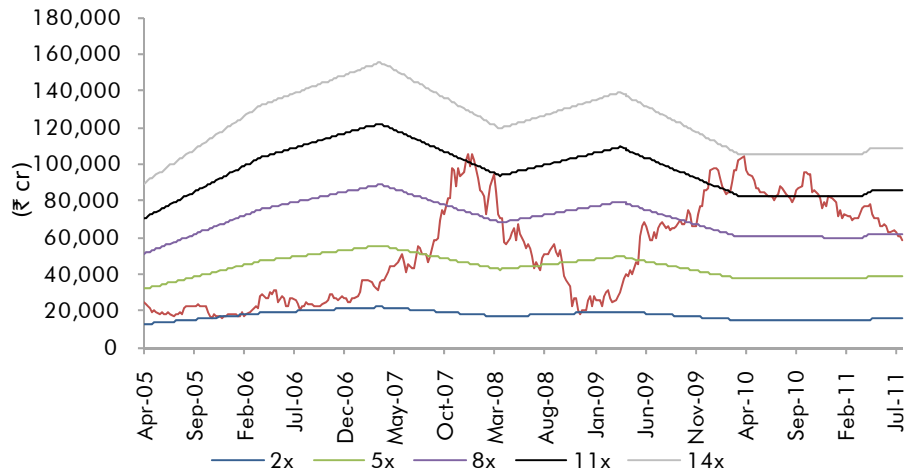
Source: Company, Angel Research

Exhibit 13: EPS – Angel forecast vs. consensus

Year (%)	Angel forecast	Bloomberg consensus	Variation (%)
FY2012E	10.6	13.5	(21.7)
FY2013E	13.4	17.2	(22.1)

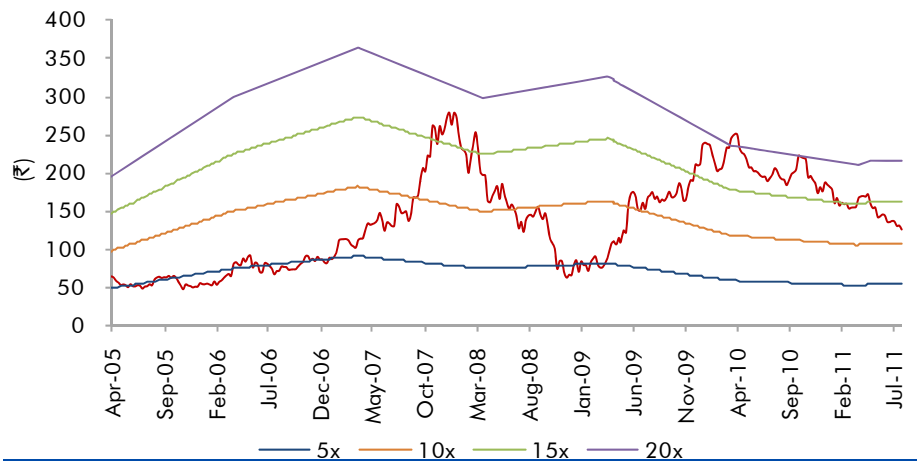
Source: Bloomberg, Angel Research

Exhibit 14: EV/EBITDA



Source: Bloomberg, Angel Research

Exhibit 15: P/E band



Source: Bloomberg, Angel Research

Exhibit 16: P/BV band



Source: Bloomberg, Angel Research

Exhibit 17: Recommendation summary

Company	CMP (₹)	Target Price (₹)	Reco.	Mcap (₹ cr)	Upside (%)	P/E (x)		P/BV (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
						FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
SAIL	120	139	Buy	49,544	16	11.3	8.9	1.2	1.1	8.0	6.1	11.2	12.8	9.2	10.9
Tata Steel	573	799	Buy	54,924	39	8.4	6.65	1.4	1.2	6.7	6.0	17.2	18.6	11.8	13.1
JSW Steel	695	947	Buy	15,502	36	7.9	6.1	0.9	0.8	5.1	4.3	12.7	14.7	10.9	13.0

Source: Company, Angel Research

Profit & loss statement

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Gross sales	46,046	49,250	43,935	47,042	53,226	62,240
Less: Excise duty	6,047	5,531	3,383	4,321	5,323	6,224
Net sales	39,999	43,719	40,551	42,720	47,903	56,016
Other operating income			756	663	522	533
Total operating income	39,999	43,719	41,307	43,383	48,425	56,549
% chg	16.5	9.3	(5.5)	5.0	11.6	16.8
Total expenditure	28,875	35,185	31,362	35,839	40,901	46,132
Net raw materials	13,624	18,149	17,198	18,909	21,569	23,488
Other mfg costs	6,119	6,656	5,938	5,983	6,706	8,010
Personnel	7,919	8,402	5,417	7,627	8,314	9,311
Other	1,212	1,978	2,809	3,319	4,311	5,322
EBITDA	11,124	8,534	9,945	7,544	7,524	10,418
% chg	17.9	(23.3)	16.5	(24.1)	(0.3)	38.5
(% of net sales)	27.8	19.5	24.5	17.7	15.7	18.6
Depreciation	1,235	1,285	1,337	1,484	1,677	2,521
EBIT	9,889	7,249	8,608	6,060	5,847	7,897
% chg	20.3	(26.7)	18.8	(29.6)	(3.5)	35.1
(% of net sales)	24.7	16.6	21.2	14.2	12.2	14.1
Interest charges	251	253	402	472	599	1,120
Other income	1,831	2,408	1,926	1,440	1,269	1,486
(% of PBT)	16.0	25.6	19.0	20.5	19.5	18.0
Share in profit of asso.	-	-	-	-	-	-
Recurring PBT	11,469	9,403	10,132	7,027	6,518	8,263
% chg	21.7	(18.0)	7.7	(30.6)	(7.3)	26.8
Extra. Inc/(Expense)	-	-	-	130	-	-
PBT (reported)	11,469	9,403	10,132	7,157	6,518	8,263
Tax	3,932	3,229	3,378	2,276	2,151	2,727
(% of PBT)	34.3	34.3	33.3	31.8	33.0	33.0
PAT (reported)	7,537	6,175	6,754	4,881	4,367	5,536
Add: Earnings of asso.	-	-	-	-	-	-
Less: Minority interest	-	-	-	-	-	-
Extra. Expense/(Inc.)	-	-	-	-	-	-
Net income (reported)	7,537	6,175	6,754	4,881	4,367	5,536
Adj. net income	7,537	6,175	6,754	4,881	4,367	5,536
% chg	21.5	(18.1)	9.4	(27.7)	(10.5)	26.8
(% of net sales)	18.8	14.1	16.7	11.4	9.1	9.9
Basic EPS (₹)	18.2	14.9	16.4	11.8	10.6	13.4
Fully diluted EPS (₹)	18.2	14.9	16.4	11.8	10.6	13.4
% chg	21.5	(18.1)	9.4	(27.7)	(10.5)	26.8

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity share capital	4,130	4,130	4,130	4,130	4,130	4,130
Reserves & surplus	18,933	23,854	29,186	32,812	36,697	41,750
Shareholders' funds	23,064	27,984	33,317	36,943	40,827	45,880
Share warrants	-	-	-	-	-	-
Minority interest	-	-	-	-	-	-
Total loans	3,045	7,539	16,511	20,511	25,511	30,511
Deferred tax liability	1,569	1,332	1,415	1,415	1,415	1,415
Total liabilities	27,677	36,855	51,243	58,869	67,753	77,807
APPLICATION OF FUNDS						
Gross block	30,923	32,729	35,396	36,396	58,196	73,696
Less: Acc. depreciation	19,351	20,460	21,781	23,265	24,942	27,463
Net Block	11,571	12,269	13,615	13,131	33,254	46,234
Capital work-in-progress	2,390	6,544	15,026	24,026	16,526	11,026
Goodwill	-	-	-	-	-	-
Investments	538	653	669	669	669	669
Current assets	26,318	34,511	39,081	38,435	35,607	38,838
Cash	13,759	18,229	22,439	20,307	14,943	16,228
Loans & advances	2,380	2,122	3,343	3,343	3,343	3,343
Other	10,178	14,160	13,299	14,785	17,320	19,267
Current liabilities	13,199	17,122	17,149	17,392	18,303	18,960
Net current assets	13,119	17,389	21,933	21,043	17,304	19,878
Mis. exp. not w/off	59	-	-	0	0	0
Total assets	27,677	36,855	51,243	58,869	67,753	77,807

Cash flow statement

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Profit before tax	11,469	9,403	10,132	7,157	6,518	8,263
Depreciation	1,234	1,287	1,334	1,484	1,677	2,521
Change in working capital	(743)	(2,418)	1,492	(1,242)	(1,625)	(1,289)
Less: Other income	201	990	(4,499)	-	-	-
Direct taxes paid	3,783	3,139	3,659	2,276	2,151	2,727
Cash flow from operations	8,378	6,124	4,800	5,123	4,419	6,767
(Inc.)/ Dec. in fixed assets	(2,199)	(5,403)	(10,125)	(10,000)	(14,300)	(10,000)
(Inc.)/ Dec. in investments	(20)	(105)	(10)	-	-	-
(Inc.)/ Dec. in loans and adv.	-	-	-	-	-	-
Other income	(1,079)	(1,101)	(2,114)	-	-	-
Cash flow from investing	(1,140)	(4,406)	(8,021)	(10,000)	(14,300)	(10,000)
Issue of equity	1	1	5	-	-	-
Inc./ (Dec.) in loans	(1,112)	4,520	8,887	4,000	5,000	5,000
Dividend paid	1,643	1,496	1,400	1,255	483	483
Others	334	273	96.5	-	-	-
Cash flow from financing	(3,089)	2,751	7,395	2,745	4,517	4,517
Inc./ (Dec.) in cash	4,150	4,469	4,174	(2,132)	(5,364)	1,285
Opening cash bal.	9,610	13,759	18,265	22,439	20,307	14,943
Closing cash bal.	13,759	18,229	22,439	20,307	14,943	16,228

Key ratios

Y/E March	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
Valuation ratio (x)						
P/E (on FDEPS)	6.6	8.0	7.3	10.1	11.3	8.9
P/CEPS	5.6	6.6	6.1	7.8	8.2	6.1
P/BV	2.1	1.8	1.5	1.3	1.2	1.1
Dividend yield (%)	3.1	-	2.8	2.2	0.8	0.8
EV/Sales	1.0	0.9	1.1	1.2	1.3	1.1
EV/EBITDA	3.5	4.6	4.4	6.6	8.0	6.1
EV/Total assets	1.4	1.1	0.9	0.8	0.9	0.8
Per share data (₹)						
EPS (Basic)	18.2	14.9	16.4	11.8	10.6	13.4
EPS (fully diluted)	18.2	14.9	16.4	11.8	10.6	13.4
Cash EPS	21.2	18.1	19.6	15.4	14.6	19.5
DPS	3.7	-	3.3	2.6	1.0	1.0
Book value	55.8	67.8	80.7	89.4	98.8	111.1
DuPont analysis						
EBIT margin	24.7	16.6	21.2	14.2	12.2	14.1
Tax retention ratio (%)	65.7	65.7	66.7	68.2	67.0	67.0
Asset turnover (x)	2.9	2.7	1.7	1.3	1.1	1.0
RoC (Post-tax)	47.8	29.3	24.6	12.5	8.7	9.3
Cost of debt (post tax)	-	-	-	1.6	1.6	2.5
Leverage (x)	-	-	-	0.0	0.3	0.3
Operating RoE	47.8	29.3	24.6	12.5	10.5	11.5
Returns (%)						
RoCE (Pre-tax)	39.1	22.5	19.5	11.0	9.2	10.9
Angel RoC (pre-tax)	83.8	61.4	66.6	42.8	23.0	18.2
RoE	37.3	24.2	22.0	13.9	11.2	12.8
Turnover ratios (x)						
Asset turnover (gross block)	1.3	1.4	1.2	1.2	1.0	0.9
Inventory (days)	184	204	192	180	180	180
Receivables (days)	28	25	31	40	45	45
Payables (days)	80	84	132	125	125	125
WC cycle (days)	61	66	69	59	64	64
Solvency ratios (x)						
Net debt to equity	(0.5)	(0.4)	(0.2)	0.0	0.3	0.3
Net debt to EBITDA	(1.0)	(1.3)	(0.6)	0.0	1.4	1.4
Interest coverage	39.4	28.6	21.4	12.8	9.8	7.0

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Disclosure of Interest Statement	SAIL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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