

**Steel Authority of India Ltd**

Iron Ore &amp; Steel Products

**STOCK IDEA**

Rating: BUY

Date	Jan 08, 2021
CMP (Rs)	78.0
Target Price	92.0
Potential Upside	18%

BSE Sensex	48093
NSE Nifty	14137

**Scrip Code**

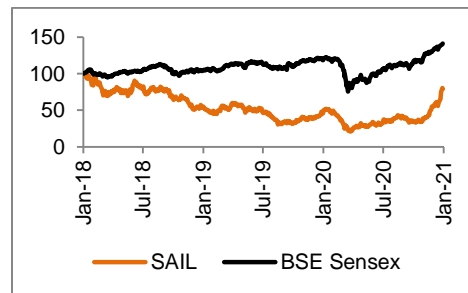
Bloomberg	SAIL IN
Reuters	SAIL BO
BSE Group	A
BSE Code	500113
NSE Symbol	SAIL

**Market Data**

Mar. cap(Rs Cr)	32,218
Eq. Cap.( Rs Cr)	4,131
52 Wk High/Low	80/20
Avg.Qtly Volume	40248802
Face Value (Rs)	10

**Shareholding Pattern (%)**

Particulars (%)	Sep-20	Jun-20	Mar-20
Promoters	75.0	75.0	75.0
FII	3.2	2.8	2.9
DII	13.7	14.2	14.6
Others	8.1	8.0	7.5

**Comparative Price Chart**

**Liza Fernandes**  
Research Analyst - Equities  
lizafernandes@systematixgroup.in

**Arun Gopalan**  
Head – Research  
arungopalan@systematixgroup.in

Steel Authority of India Limited (SAIL) is an Indian state-owned steel making company based in New Delhi, India. It is a public sector undertaking, owned and operated by Government of India which holds around 75% stake in the company. The company caters to numerous segments of steel like Finished Long, Finished Flats, Semi Finished products. SAIL is the one of the largest steel producer of India with its own captive iron ore mines, power, coal, and coking coal. It has five integrated steel plants and almost half its steel production going towards manufacturing Value Added Products. As on 30 September, 20 SAIL had total crude steel and saleable steel capacity of 19.6 MTPA and 18.5 MTPA, respectively. The capacity ramping up which is currently in progress is expected to take up the capacity upto 21 MTPA by FY22-23. The recent developments have created favourable conditions for SAIL such as permission being received from the government to sell 25% of iron ore production of previous fiscal and old inventory of iron ore fines ~70MT accumulated in the captive mines which is expected to add directly to EBITDA. Furthermore, strong steel volumes, better prices and continued lower coking coal costs creates the perfect atmosphere for the company to sail through better performance in the coming quarters.

**INVESTMENT RATIONALE****Additional stream of Income expected from fresh iron ore sales and old inventory of iron ore**

In September 2019, the government of India allowed SAIL to sell 25% of its total annual iron ore production in the open market. Hence, SAIL will be able to sell ~5 mtpa (The company produced about 29mmt of iron ore in FY20) and current market value of the fresh iron ore sales expected to be approx. ~INR 2,500 Cr. SAIL also has unused 70 MT of subgrade iron ore fines lying in its captive mines. The government has granted permission to sell these sub-grade minerals and recently SAIL has already started selling iron ore from these mines through auction route. The sub-grade fines inventory of Iron ore is being monetized by SAIL currently at very high rate due to current high iron ore prices. Considering the subgrade fines inventory accumulated over years expected to be sold over 3-4 years, we expect quarterly sale of 6-6.5 MT. This would be resulting in pure cash profit of INR 1,800-2000 Cr per quarter, thus translating into INR 7000-8000 Cr p.a. The mining licenses which expired by 31 March 2020, has resulted in shortage of iron ore against domestic iron ore demand in India. Additionally, overseas import of iron ore in domestic market also expected to remain subdued due to high logistics/freight rates of cargo ships. Hence, the iron ore prices are not expected to normalize in the near term.

**Strong recovery from steel segment expected to continue**

SAIL's sales volumes would continue to recover strongly over H2FY21E after recovering swiftly to 4.2 MT in Q2FY21 (Q2FY20: 3.3mmt), supported by pent-up demand. In FY20, SAIL earned an EBITDA of ~INR 7000 per tonne which translates into an overall EBITDA of ~INR 10,000 Cr p.a. The demand for long products has increased sharply indicating a pickup in construction and infra activities. Furthermore, as per world steel association's projections, the global steel demand is expected to increase by 4.1% in CY2021. In India, the monthly steel production started growing positively only after Sept 2020 with the level of increase lower than global production increase. Taking into account these factors, we expect steel sales volume to be ~16 MT in FY22.

**Deleveraging of balance sheet through higher operational cash flows and inventory liquidation**

Steel Authority of India is on a path to deleverage its balance sheet and is planning to bring down the debt levels to INR 40,000 crore end of FY21 from its current level of ~INR 51,000 crore. Management also indicated that the company is also in the process to dispose and monetize many of the idle assets like mills and blast furnace which will further support in debt reduction.

**Key Risks**

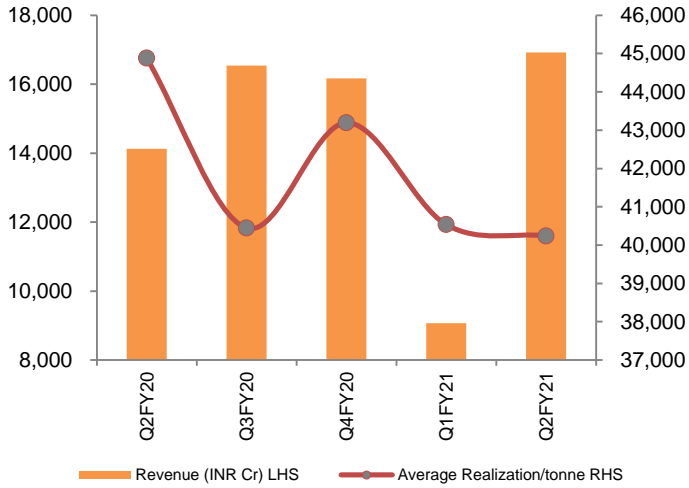
SAIL imports its coking coal requirement. Any negative fluctuation in coking coal prices which has remained largely subdued will be a key monitorable. SAIL has benefited through government policies, however any unfavorable changes in government policies may be a risk.

**Valuation and Outlook:**

SAIL is on a strong trajectory of growth on the back of a surge in demand across the infrastructure space supported by government spending and initiatives. Steel realizations are expected to improve from Q3FY21 driven by the price hikes aided by strong international prices, primarily in the flat products segment. For FY22, the revenue from steel business is expected to grow at a CAGR of 7.1% over FY20/22E on increased of pent-up demand of steel. We expect EBITDA to grow at a CAGR of 19% over FY20/22E on account of government approval received to sell 25% of Iron ore production and iron ore fines accumulated over the years. **Based on FY22E EBITDA, we apply EV/EBITDA multiple of 5.6x and arrive at a target price of INR 92/per share with an upside of ~18% from CMP and hence recommend a BUY on the shares of SAIL**

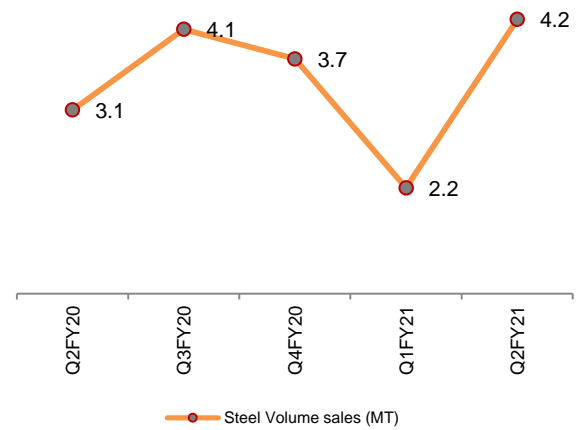
Particulars	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	EBITDAM (%)	PAT (Rs. Cr)	PATM (%)	EPS (Rs.Cr.)	P/E (x)	EV/EBITDA (x)
FY18	58,966	4,636	7.9%	-281	NA	-0.7	NA	15.3
FY19	66,974	9,762	14.6%	2,349	3.5%	5.7	13.7	6.5
FY20	61,664	10,216	16.6%	2,121	3.4%	5.1	15.2	6.0
FY21E	67,107	10,006	15.0%	2,494	3.7%	6.0	12.9	7.9
FY22E	78,133	14,521	18.6%	5,132	6.6%	12.4	6.3	5.6

Revenue improvement supported by volume growth



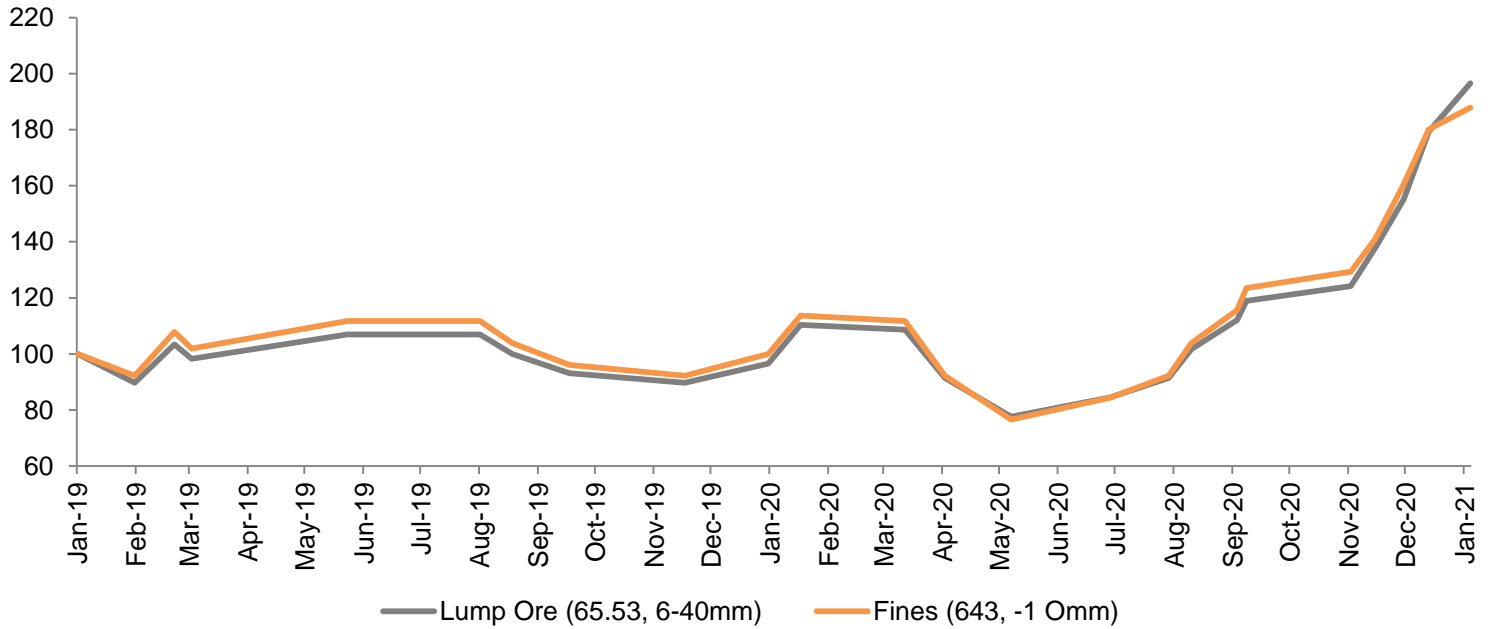
Source: Company filings, SystematixResearch

SAIL's steel volume recovered higher than Pre-COVID level



Source: Company filings, Systematix Research

Domestic Iron ore prices surge high owing to supply constraints and demand revival



Source: NMDC, SystematixResearch

## Exhibit 1: Income Statement

INR Cr	FY 18	FY 19	FY 20	FY 21E	FY 22E
<b>Revenues</b>	<b>58,966</b>	<b>66,974</b>	<b>61,664</b>	<b>67,107</b>	<b>78,133</b>
COGS	29,283	29,687	23,794	28,856	34,553
<b>Gross profit</b>	<b>29,683</b>	<b>37,287</b>	<b>37,870</b>	<b>38,251</b>	<b>43,580</b>
Employee cost	8,866	8,849	8,797	9,059	9,453
Other expenses	16,182	18,676	18,857	19,125	19,606
<b>EBITDA</b>	<b>4,636</b>	<b>9,762</b>	<b>10,216</b>	<b>10,066</b>	<b>14,521</b>
<b>EBITDA Margin</b>	<b>7.9%</b>	<b>14.6%</b>	<b>16.6%</b>	<b>15.0%</b>	<b>18.6%</b>
Depreciation & amortization	3,066	3,385	3,756	4,026	4,688
<b>EBIT</b>	<b>1,570</b>	<b>6,376</b>	<b>6,460</b>	<b>6,040</b>	<b>9,833</b>
Interest expense	2,823	3,155	3,487	3,317	3,010
Other income	415	495	906	863	947
<b>PBT</b>	<b>-811</b>	<b>3,326</b>	<b>3,107</b>	<b>3,586</b>	<b>7,770</b>
Tax	-245	1,201	1,181	1,363	2,953
Minority interest	0	0	0	0	0
<b>PAT</b>	<b>-281</b>	<b>2,349</b>	<b>2,121</b>	<b>2,494</b>	<b>5,132</b>
<b>Adj. PAT</b>	<b>-308</b>	<b>1,959</b>	<b>1,349</b>	<b>2,494</b>	<b>5,132</b>
<b>EPS (INR)</b>	<b>0.7</b>	<b>5.7</b>	<b>5.1</b>	<b>6.0</b>	<b>12.4</b>
<b>Adj. EPS</b>	<b>-0.7</b>	<b>4.7</b>	<b>3.3</b>	<b>6.0</b>	<b>12.4</b>

Source: Company filings, SystematixResearch

## Exhibit 2- Cash Flow Statement

INR Cr	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	6,164	7,215	(618)	12,995	9,500
Net Cash Flow from/(used in) Investing Activities	(6,480)	(3,694)	(4,261)	(3,641)	(4,486)
Net Cash Flow from Financing Activities	269	(3,549)	5,003	(8,450)	(4,585)
Net Inc/Dec in cash equivalents	(47)	(28)	125	904	429
Opening Balance	141	94	66	191	1,094
Closing Balance Cash and Cash Equivalents	94	66	191	1,094	1,523

Source: Company filings, SystematixResearch

## Exhibit 3- Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	7.9%	14.6%	16.6%	15.0%	18.6%
Net Profit Margin (%)	-0.5%	2.9%	2.2%	3.7%	6.6%
RoE (%)	-0.8%	4.9%	3.2%	5.7%	10.8%
RoCE (%)	2.5%	8.5%	7.9%	7.7%	11.6%
EPS (INR)	0.7	5.7	5.1	6.0	12.4

Source: Company filings, Systematix Research

## Exhibit 4- Balance Sheet

INR Cr	FY18	FY19	FY20	FY21E	FY22E
<b>Non-current assets</b>					
Property, plant and equipment	57,170	59,922	65,384	64,713	63,932
Capital work-in-progress	18,395	16,014	8,753	8,753	8,753
Investment Property/Intangibles	1	1	1	1	1
Other intangible assets	1,455	1,451	1,444	1,444	1,444
Right of use of assets	0	0	2,205	2,205	2,205
Financial assets					
Investments	2,629	2,975	3,240	3,526	4,106
Loans	448	564	665	724	843
Other financial assets	163	255	449	449	449
Deferred tax assets (Net)	4,162	2,867	2,022	2,022	2,022
Current tax assets (Net)	190	154	153	153	153
Other non-current assets	1,079	1,357	1,485	1,485	1,485
<b>Total non-current assets</b>	<b>85,692</b>	<b>85,559</b>	<b>85,802</b>	<b>85,476</b>	<b>85,393</b>
<b>Current assets</b>					
Inventories	17,024	19,510	23,836	22,062	25,688
Financial assets					
Trade receivables	3,871	4,497	8,845	9,193	9,633
Cash and cash equivalents	94	66	191	1,094	1,523
Bank balances other than (iii) above	252	222	254	254	254
Loans	64	54	50	50	50
Other financial assets	2,772	2,161	2,189	2,189	2,189
Other current assets	5,640	5,871	5,733	5,733	5,733
<b>Total current assets</b>	<b>29,749</b>	<b>32,393</b>	<b>41,125</b>	<b>40,603</b>	<b>45,097</b>
<b>TOTAL ASSETS</b>	<b>115,441</b>	<b>117,952</b>	<b>126,928</b>	<b>126,079</b>	<b>130,490</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	4,131	4,131	4,131	4,131	4,131
Other equity	32,816	35,516	37,380	39,309	43,520
Equity attributable to the equity shareholders	36,947	39,646	41,510	43,439	47,650
<b>Total equity</b>	<b>36,947</b>	<b>39,646</b>	<b>41,510</b>	<b>43,439</b>	<b>47,650</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Borrowings	29,777	30,803	34,560	34,560	27,560
Other financial liabilities	1,186	1,337	1,379	1,379	1,379
Provisions	3,974	4,296	4,116	4,116	4,116
Other non-current liabilities	138	253	398	398	398
<b>Total non-current liabilities</b>	<b>35,076</b>	<b>36,689</b>	<b>40,453</b>	<b>40,453</b>	<b>33,453</b>
<b>Current liabilities</b>					
Financial liabilities					
Borrowings	12,244	10,631	16,641	11,802	17,834
Trade payables	7,527	7,225	6,322	8,384	9,552
Other financial liabilities	14,190	14,738	13,741	13,741	13,741
Other current liabilities	7,145	6,707	5,724	5,724	5,724
Provisions	2,313	2,315	2,357	2,357	2,357
Current tax liabilities (Net)	0	0	180	180	180
<b>Total current liabilities</b>	<b>43,419</b>	<b>41,617</b>	<b>44,965</b>	<b>42,188</b>	<b>49,387</b>
<b>Total liabilities</b>	<b>78,494</b>	<b>78,306</b>	<b>85,417</b>	<b>82,640</b>	<b>82,840</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>115,441</b>	<b>117,952</b>	<b>126,928</b>	<b>126,079</b>	<b>130,490</b>

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**Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051**

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