

09th April 2024

Steel Authority of India – BUY

CMP : Rs. 151.0
Target Price : Rs. 184.0
Upside : 21%+
Stop Loss : Rs. 131.0 (Closing basis)

Investment Thesis

- Steel Authority of India Limited (SAIL) has demonstrated strong performance in FY24, achieving record production and sales volumes. Despite challenges in the market, the company has shown resilience, with improvements in EBITDA and profitability compared to the previous year. Operational efficiencies and strategic initiatives have contributed to cost optimization and enhanced productivity. SAIL also have reached to capacity utilization 95% in Q3FY24.
- The global steel industry experienced a slow start in CY2023, especially with negative growth in China which is biggest user of metal in world. China's National Bureau of Statistics released survey data on 31st March 2024 which showed the country's official manufacturing PMI coming in at 50.8, its strongest reading since March 2023 that was also stronger than expectations for 49.9 in a Reuters poll. The macro parameters have also shown some improvement in a spin-off effect of the stimulus measures, which will further support the Metal price rebound. Although challenges faced by the economy is still severe, but the economic fundamentals are expected to improve, which will support the metal prices. Last year GDP growth of China was 4.3%, this year as per Asean Macroeconomic Research Office (AMRO) China GDP growth will be of 5.3% in CY24.
- The Indian economy continues to outperform global counterparts, maintaining relative stability and robust growth projections. With GDP growth expected at 7.6% in FY24 and continued momentum in subsequent years, India remains one of the fastest-growing major economies. The Indian steel industry has shown consistent growth post-COVID, with significant increases in both production and consumption of steel. Projections suggest continued growth in steel demand, supported by infrastructure spending and favorable cost dynamics.
- SAIL's long-term vision includes capacity expansion, SAIL planned capex of Rs 6,000 crores for the next year indicates a focus on strategic investments to support future growth and maintain competitiveness. SAIL outlined its expansion plans, aiming for a capacity increase to around 35 million tons (MT) by 2030-31 which is currently at 19.50MT.

Financials

- In 9MFY24 SAIL reported 2.7% YoY growth in revenue and 102% YoY growth in net profitability. Improved operating efficiency and sales volume growth (sales volume up 9% YoY to 12.5MT) led SAIL to deliver profitability.

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Rs. Crs)	1,03,476.8	1,04,447.7	1,07,790.0	1,11,023.7	1,13,799.3
EBITDA (Rs. Crs)	21,363.2	8,037.9	10,779.0	12,212.6	12,517.9
Net profit (Rs. Crs)	12,243.5	2,176.5	3,288.4	4,476.9	4,528.7
EPS (Rs.)	29.6	5.3	8.0	10.7	10.8
PE (x)	5.1	28.8	19.1	14.2	14.1

Stock Data

Market Cap (Rs. Crs)	62,412
Market Cap (\$ Mn)	7,572
Shares O/S (in Cr)	413
Avg. Volume (3 month)	17,124,270
52-Week Range (Rs.)	153/80.40

Shareholding Pattern

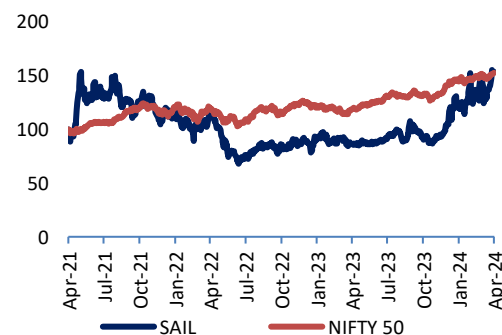
Promoter	65.00%
FII's	4.34%
Institutions	15.46%
Public	15.20%

Key Ratios

Div Yield (%)	1.05
TTM PE (x)	20.0
ROE (%)	3.57
TTM EPS (Rs.)	7.5/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	5.3%	64.8%	77.4%
NIFTY50	4.5%	49.6%	48.8%



- SAIL reported improved EBITDA margin on YoY Basis by 90bps in Q3FY24 because of lower raw material prices.
- During the quarter, the flat products realization was at Rs56,600/t and long products was at Rs54,000/t. During the month of January flat product prices are at Rs53,000/t and long product prices are at Rs51,900/t. If price will decrease, as per management SAIL will increase its volume to maintain profitability.

Key Business Highlights

- SAIL is one of the largest steel-making companies in India and Central Public Sector Enterprise. SAIL produces iron and steel at five integrated plants and three special steel plants, located principally in the eastern and central regions of India and situated close to domestic sources of raw materials.
- SAIL is actively seeking ways to optimize costs, particularly in terms of reducing reliance on imported coal. Initiatives such as the Tasra mine project, which aims to extract 1.5MT of coal, can contribute to lowering production costs by reducing reliance on imported coal.
- SAIL planned to add capacity beyond FY26E in Bhilai Steel Plant by 0.80 MT, Durgapur Steel Plant by 2.5MT, Rourkela Steel Plant by 5.9MT, Bokaro Steel Plant BY 2.40MT, IISCO Steel Plant by 4.5MT overall capacity will reach to 35.7MT.

Valuation

SAIL emphasizes sustainable performance, including decarbonization efforts, improving capacity utilization, value addition, and achieving cost competitiveness. These factors indicate a long-term strategic focus on environmental responsibility and operational efficiency.

We recommend SAIL with a BUY rating which is currently trading at reasonable PE of 20x and connoting a Target Price of Rs. 184 (17x PE multiple on FY26E EPS) and a potential upside of 21%.

Risk & Concern

- If metal price decline aggressively that can impact revenue growth and net profitability.
- Any international crises or domestic crises which can impact overall demand of metal can impact SAIL adversely.

Graphs & Charts

Figure 1: Net Sales & EBITDA Margin

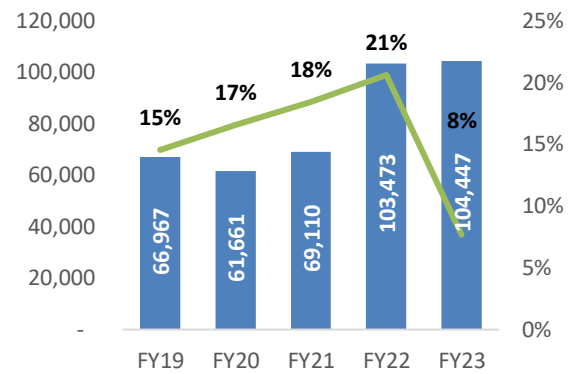


Figure 2: Total Capacity

Steel Plants	Crude Steel Capacity (MT)
Bhilai Steel Plant	6.00
Durgapur Steel Plant	2.20
Rourkela Steel Plant	3.80
Bokaro Steel Plant	4.60
IISCO Steel Plant	2.50
Alloy Steels Plant	0.20
Salem Steel Plant	0.20
Total Capacity	19.50

Figure 3: Crude Steel Production (MT)

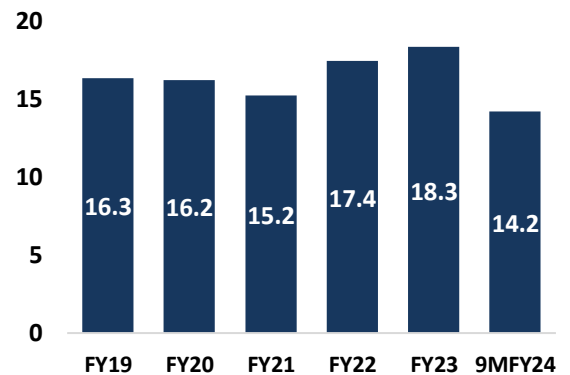
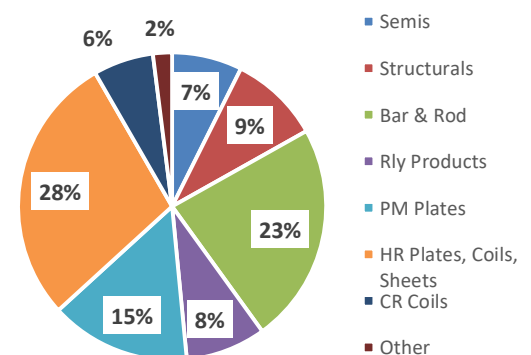


Figure 4: Product Mix



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