

Business Overview

SAIL is a holding company. The company manufactures flat products such as hot rolled (HR) coils, HR plates, cold rolled (CR) coils, pipes and electric sheets, and long products such as thermo mechanically treated (TMT) bars and wire rods. Its segments include Bhilai Steel Plant (BSP), Durgapur Steel Plant (DSP), Rourkela Steel Plant (RSP), Bokaro Steel Plant (BSL), IISCO Steel Plant (ISP), Alloy Steels Plant (ASP), Salem Steel Plant (SSP), VISL, power companies and others. SAIL also offers rails, structurals, merchant products, electric resistance welded pipes, spiral welded pipes and silicon steel sheets. It operates and owns over five integrated steel plants at Bhilai, Durgapur, Bokaro, Rourkela and Burnpur, and approximately three special steel plants at Salem, Durgapur and Bhadravati. SAIL's Chandrapur Ferro-Alloy Plant (CFP) produces ferro-alloys. It also has SAIL Refractory Unit (SRU) at Bokaro.

Key highlights

- We expect SAIL's EBITDA to increase to INR 5,000/t through to rest of FY21 as volume and realisations improve. In our view, volume uptick is the biggest mover for SAIL as the operating leverage benefit is higher compared to peers.
- Furthermore, being integrated on iron ore front, the company is insulated from further cost pressure. On leverage front as well, we expect respite as cash accretion is expected to reduce the debt level from the current level of INR 544bn.
- SAIL's Q2FY21 performance was in line with consensus. Key highlights: 1) Sales volume jumped 31% YoY (82% QoQ) to 4.1mt. 2) Realisation uptick was muted QoQ compared to peers owing to higher proportion of longs and lower proportion of rail sales. 3) Debt reduction and working capital unlocking visible.
- We expect performance to improve further mirroring the realisation uptick in the domestic market and progressively lower proportion of exports.
- We are also positive on the company's endeavour to reduce debt by another INR30bn in H2FY21.
- Going ahead, we expect SAIL's performance to improve further driven by realisation uptick, volume growth and iron ore sales providing additional revenue stream.

Risks

- Higher-than-anticipated increase in staff, raw material and other operating costs.
- Lower-than-expected volumes.
- Lower-than-expected price recovery.

QUICK DATA

Face Value (Rs.)	10.0
Div. Yield (%)	-
No of shares ('cr)	413
52-week High/Low (Rs.)	52 / 20
NSE Symbol	SAIL
BSE Code	500113
Bloomberg Code	SAIL
Market cap (Rs. bn)	164

SHAREHOLDING PATTERN (%)

Promoters	75.0
Free Float	8.0
FIs	14.2

EDELWEISS CLASSIFICATION

Market Cap	Mid Cap
Relative Risk	Medium
Relative Reco	Outperform
Sector Rating	Overweight

Edelweiss Ratios

Company	SAIL
1 Wk Price performance (%)	3.1
3 M Price performance (%)	-2.9
PE (x)	7.7
EV/EBITDA (x)	6.5
Return on Equity (%)	4.1

Financial Snapshot

Year to March	FY20	FY21E	FY22E	FY23E
Net Revenue (INR cr.)	61,661	65,436	69,824	72,433
EBITDA (INR cr.)	10,199	7,785	8,552	9,856
EBITDA Margin (%)	16.5	11.9	12.2	13.6
Adjusted PAT (INR cr.)	1,599	616	1,992	2,960
Adjusted diluted EPS (INR)	5	1	5	7
PAT Growth (%)	-4.9	-69.9	223.4	48.6
ROAE (%)	4.1	1.5	4.5	6.4

Technical View

	S1	S2	R1	R2
SAIL	39.3	38.7	39.9	40.5

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