

India

Underweight (no change)

Highlighted Companies

Jindal Steel and Power

ADD, TP Rs380, Rs310 close

JSPL will get the benefit of falling iron ore prices, although its EPS will be in no way near to consensus estimates. JSPL has done well to deleverage in the steel bull cycle and hence it remains our top pick.

JSW Steel

REDUCE, TP Rs330, Rs559 close

Rising coking coal cost and a fall in realization along with volume are major headwinds in coming quarters for JSW Steel. We have changed our estimates for FY23F and FY24F and introduced FY25F numbers. Maintain REDUCE rating with an unchanged target price of Rs330

Steel Authority of India

REDUCE, TP Rs58, Rs67 close

Higher fixed cost makes it the most loved stock in a steel bull market as EPS growth is stupendous. However, it bites the P&L hard during a downcycle. We expect SAIL to make losses in FY23F. Retain Reduce with a TP of Rs 58.

Summary Valuation Metrics

P/BV (x)	Mar22-F	Mar23-F	Mar24-F
Jindal Steel and Power	0.88	0.83	0.80
JSW Steel	0.53	0.55	0.53
Steel Authority of India	2.51	2.35	2.26

Dividend Yield

	Mar22-F	Mar23-F	Mar24-F
Jindal Steel and Power	0.49%	0.49%	0.77%
JSW Steel	6.10%	6.10%	9.67%
Steel Authority of India	1.16%	1.16%	1.16%

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Steel

Supply shock is over and so is bull cycle

- While the positive feedback loop took HRC prices to US\$1,200/t in 2021, similarly the negative feedback loop will take its prices down to US\$600-625/t.
- All signs indicate that the inventory destocking cycle is starting. Don't buy now. Even adjusting for deleveraging, steel stocks are way above historical mean.
- JSPL remains our top stock pick. Retain Reduce rating on Tata Steel, JSW Steel and SAIL.

Inventory correction underway in global supply chains

During the bull phase last year, we had pointed out that steel spreads are rising because of inventory accumulation in supply chains. (IN: Steel - Recent market exuberance close to its end, IN: Commodities - Overall - Last leg of steel rally; Underweight and IN: Steel - Irrational enthusiasm). The sentiment is turning upside down in commodities market and supply chain destocking is starting the reverse "Bull whip effect." Users across the supply chain will go to minimum inventory level which will lead to lower than long-term average spreads. Indian steel companies did artificial deleveraging in many cases (most notably Tata Steel and SAIL) as they had huge current liabilities on their balance sheet. It has been unprecedented in Steel company's history to have working capital easing for three consecutive years and as the cycle worsens it's time for working capital requirement to increase. Most likely, we have seen the lowest debt in balance sheet of all steel companies, and, in our view, it will increase going ahead. We still believe that it's not the time for bottom-fishing. Buy when some signs of a change are visible. Normally, there is plenty of money to be made even after that. Market is not that efficient as it made out to be

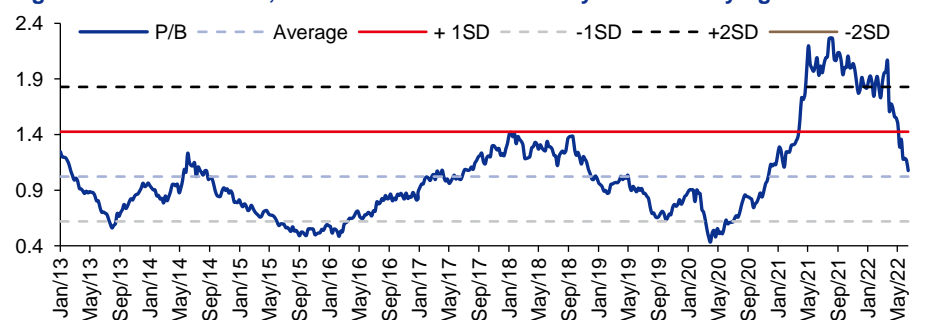
Buy steel stocks when SAIL begins to make losses

The signpost event for buying steel stocks is when Steel Authority of India or SAIL starts making losses. With a fixed cost of ~Rs100bn per quarter, SAIL needs at least 5mt sales in 1Q and 2QFY23F to achieve breakeven at profit before tax or PBT level. While it may somehow manage the same in 1QFY23F, in 2QFY23F it will make losses at EBITDA level. As SAIL makes losses, the government of India will be under pressure to lift the export tax. Please note that that if the government has to realize its dream of 300mt of steel-making capacity, then heavy lifting has to be done by SAIL and hence, its balance sheet should remain bankable.

JSPL is our only Add-rated stock in steel sector

We retain our Reduce rating on Tata Steel, JSW Steel and SAIL. Jindal Steel and Power or JSPL remains our top-pick in the steel space.

Figure 1: On P/BV basis, steel stocks are still far away from the buying zone



SOURCES: INCRED RESEARCH, BLOOMBERG. THE BLUE LINE REPRESENTS P/B VALUATION OF AN EQUALLY WEIGHTED INDEX COMPRISING OF FOUR STEEL STOCKS- JSPL, JSW STEEL, SAIL AND TATA STEEL

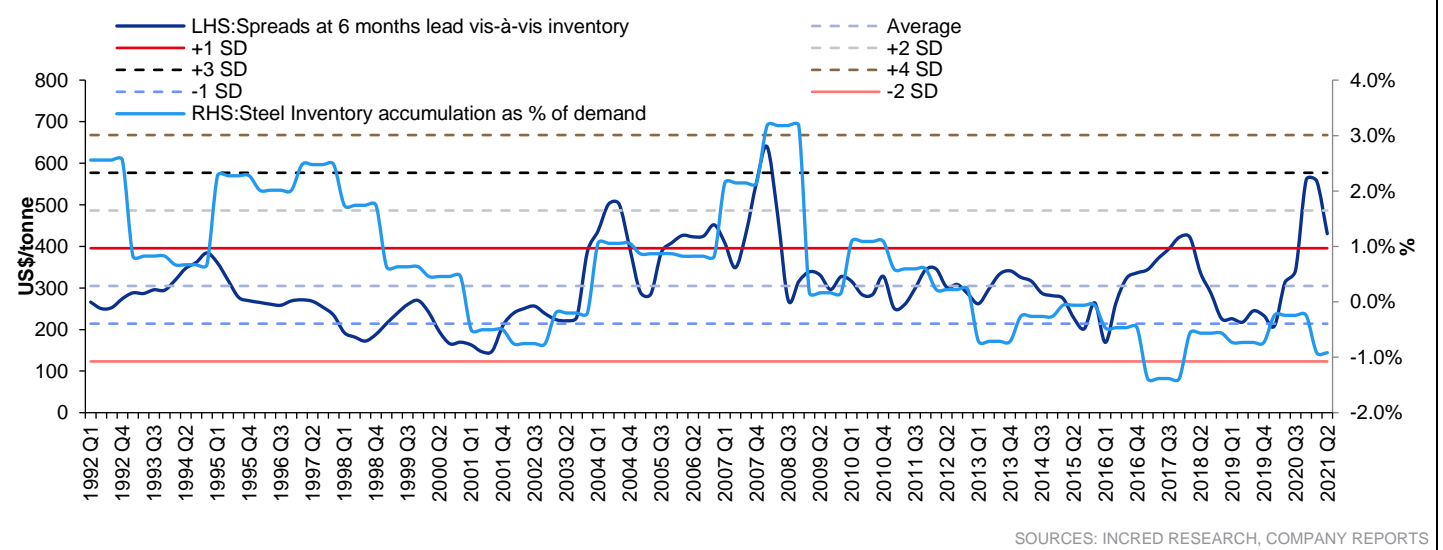
Supply shock is over and so is bull cycle

Inventory correction is underway and hence steel prices are correcting

During the bull phase last year, we had pointed out that steel spreads are rising because of inventory accumulation in supply chains. Please click the links to our reports: [IN: Steel - Recent market exuberance close to its end](#), [IN: Commodities - Overall - Last leg of steel rally](#); [Underweight](#) and [IN: Steel - Irrational enthusiasm](#). The sentiment is turning upside down in the commodities market and as supply chain destocking is starting the reverse “Bull whip effect” is working. Users across the supply chain will go to minimum inventory level, which will lead to lower than long-term average spreads. Please note that balance sheets will deteriorate as companies’ ability to keep suppliers’ money with them will decline with falling steel prices.

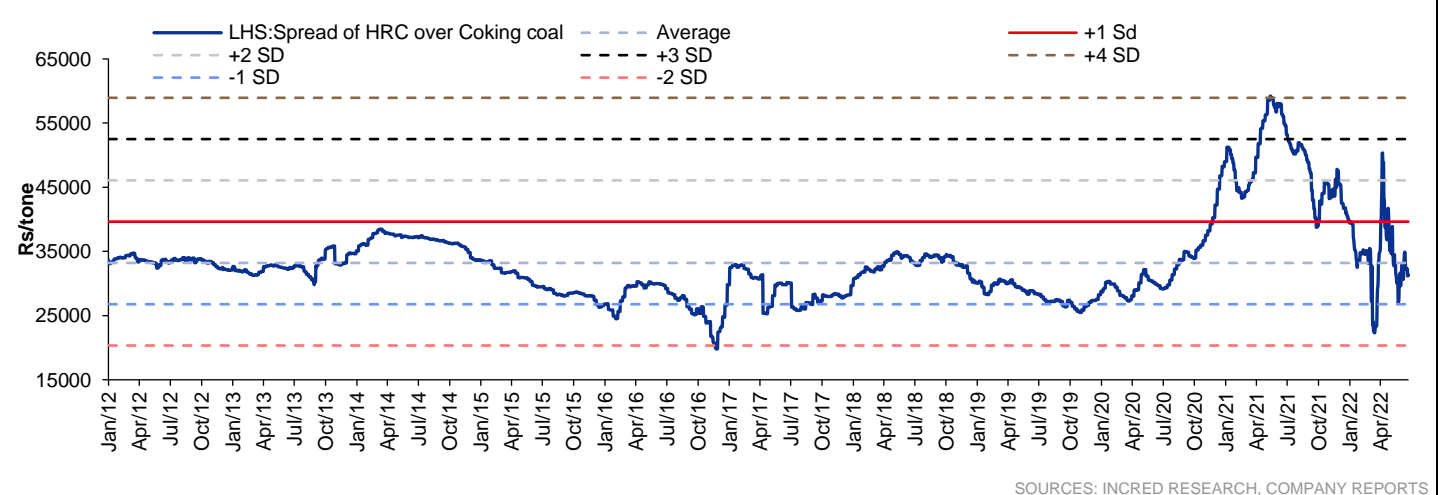
Inventory destocking appears to be underway in steel supply chains ➤

Figure 2: Inventory accumulation and destocking impacts steel spreads after ~six months; the graph below which has been plotted from CY92 depicts the same



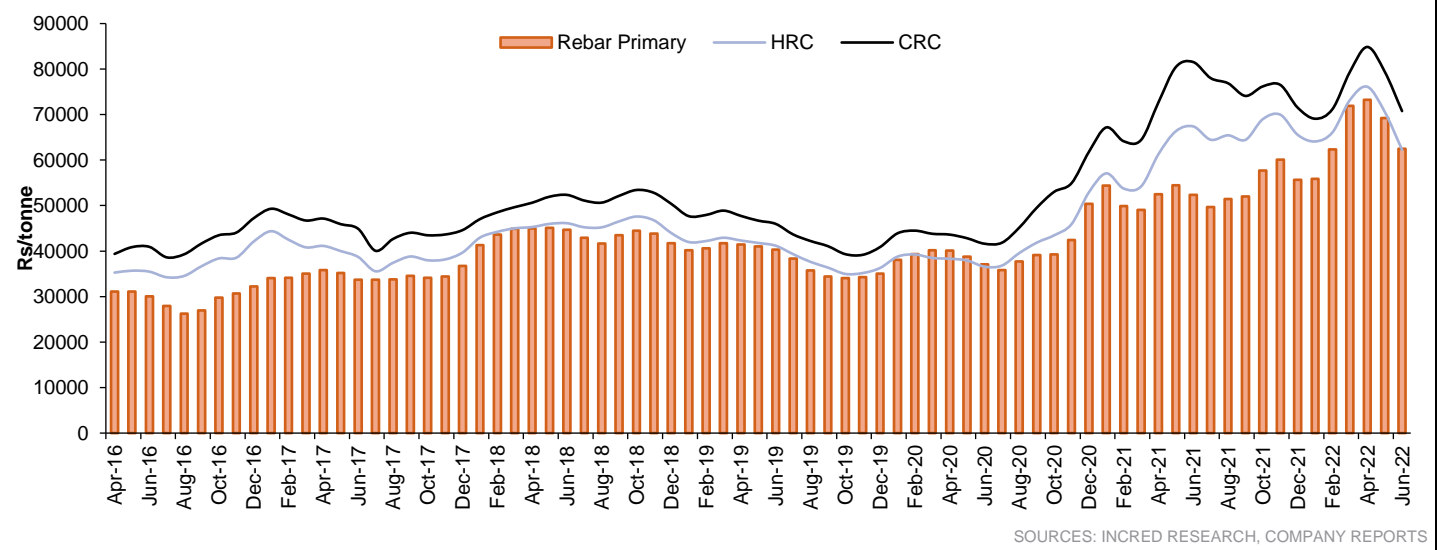
Domestic hot-rolled coil or HRC spreads over coking coal have corrected by 50% and still have room to decline further ➤

Figure 3: Like it always happens in case of commodities, the correction in prices and profitability of steel companies has been quite swift



There has been a huge correction in Indian steel prices ➤

Figure 4: India HRC, CRC, and rebar prices have corrected nearly 20% from their peak levels



But what will happen to coking coal? No respite for steel ➤

Figure 5: Australia, Russia, and USA are main exporters of coking coal

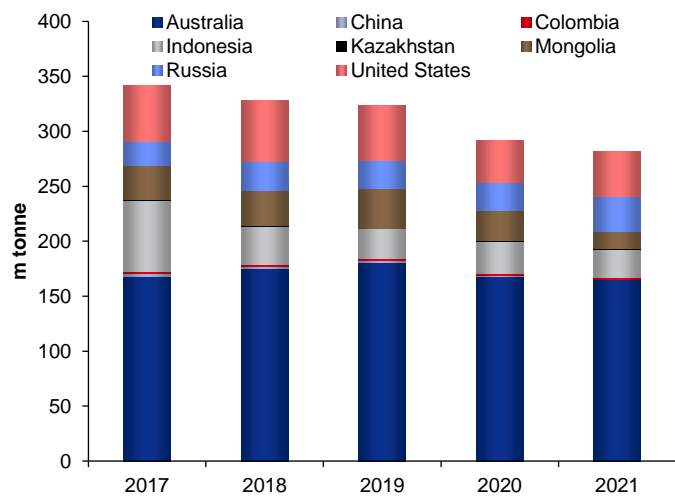


Figure 6: However, in recent years, Australia's market share in global coking coal export market has risen to 60%

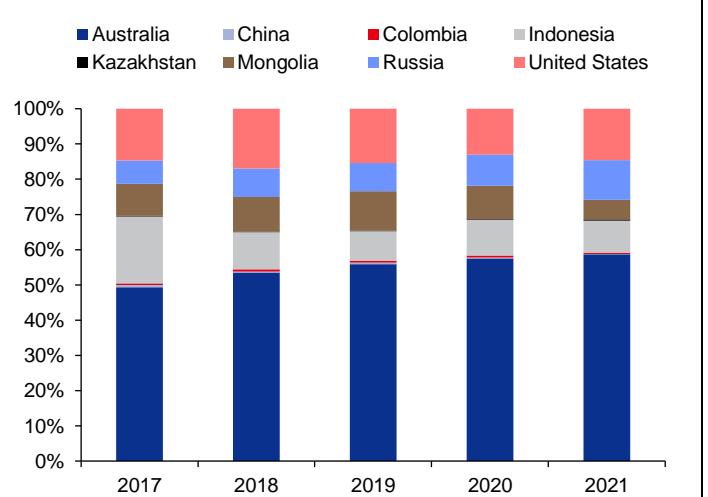


Figure 7: It's unlikely that production ramp-up in Australia will lead to shortage of coking coal in CY22F as well

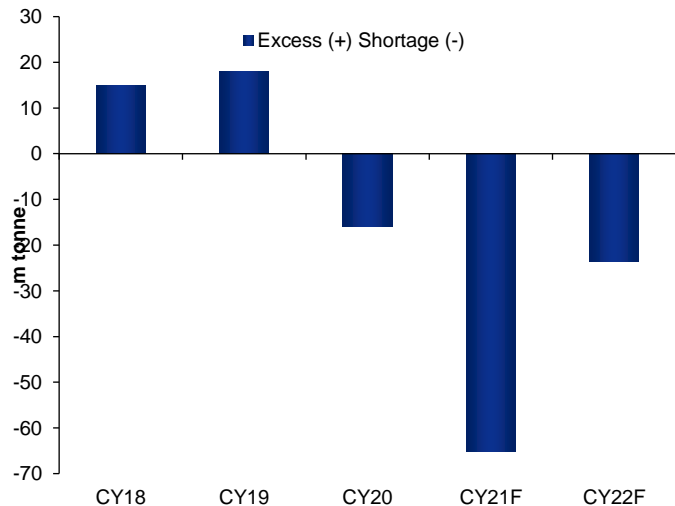
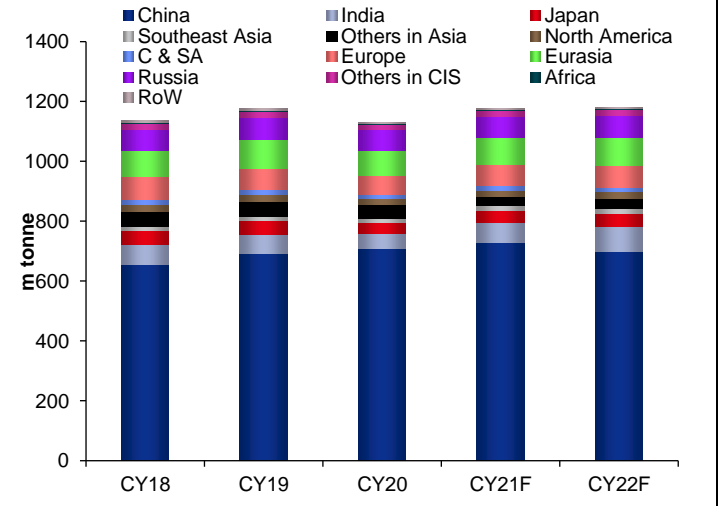
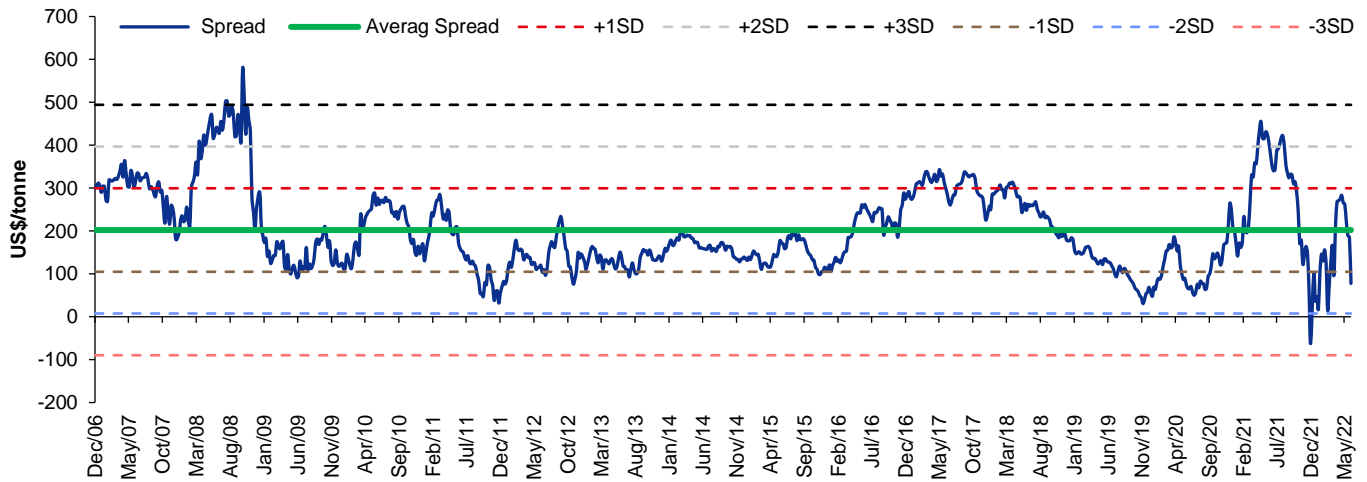


Figure 8: India is the second-largest coking coal user and a most significant importer as it imports ~90% of its requirement



Despite higher power prices, European electric arc furnace or EAF-based steel spreads are still in the positive territory and thus production can continue ►

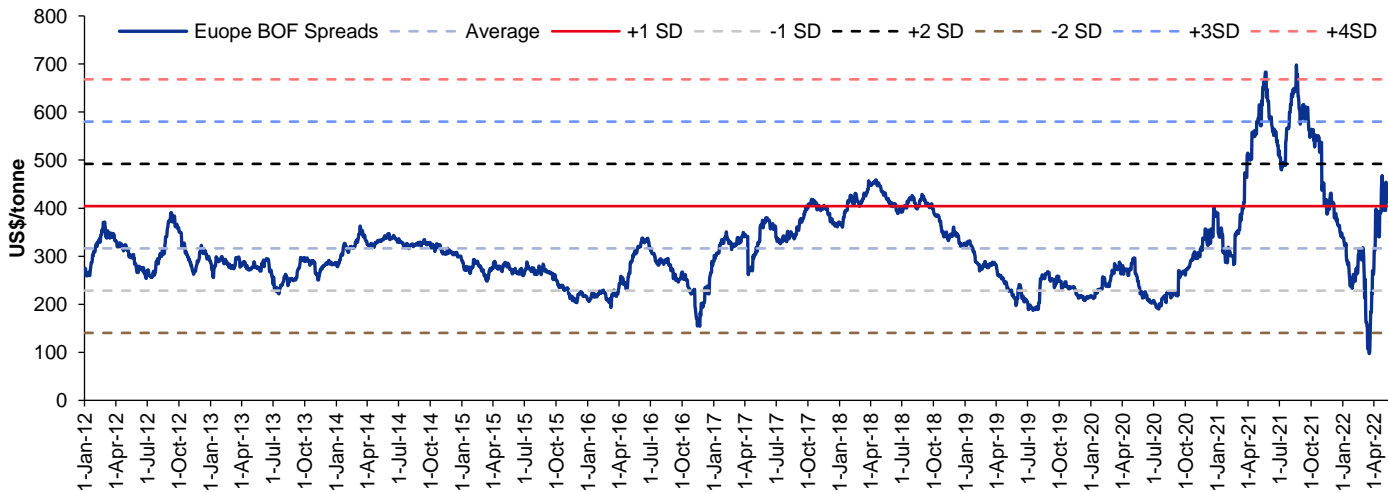
Figure 9: Despite sky-high power prices, European EAF-based steel spreads are still in the positive territory



SOURCES: INCRED RESEARCH, COMPANY REPORTS

On the other hand, we find that blast furnace or BOF-based steel spreads are near their long-term average when Europe is reeling under demand slowdown ►

Figure 10: BOF-based steel spreads are still quite high vis-à-vis demand scenario; we expect them to touch at least -1SD and hence, a price fall of US\$100-125/t is more likely soon



SOURCES: INCRED RESEARCH, COMPANY REPORTS

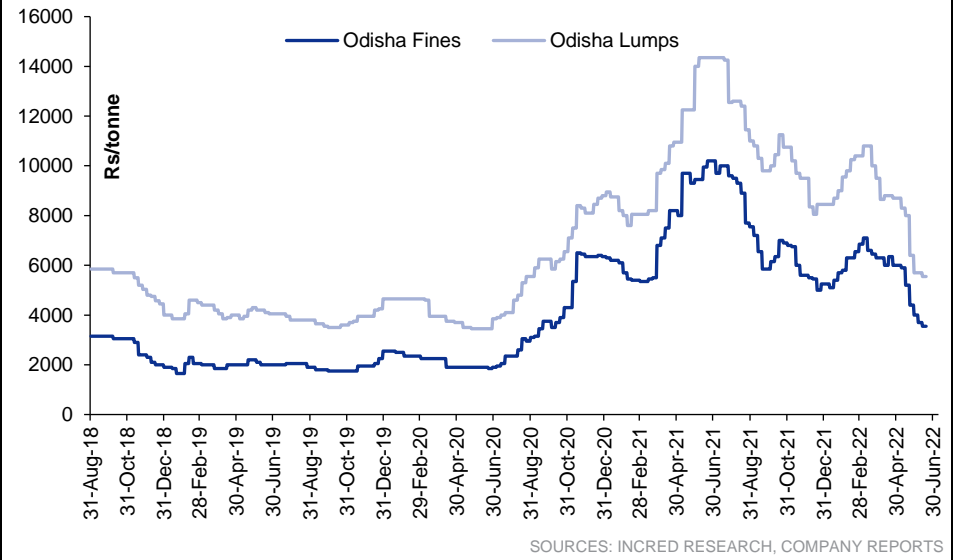
Export ban led to a correction in stock prices but now commodity price correction is also being witnessed across the world

India's export ban has led to a correction in stock prices and also to some extent on the prices of iron ore and pellets. As we have pointed out earlier, export ban on iron ore and pellets has led to a 50% correction in iron ore prices and there is room for a further fall in pellet prices. We expect pellet prices to correct to Rs5,500-6,000/t.

50% export duty on all grades of iron ore means that iron ore fines prices are likely to fall below Rs3,000/t ➤

Indian government imposed a 50% export duty on all grades of iron ore which has led to exports being unviable. Consequently, there has been a domestic oversupply and hence the correction in prices of iron ore fines as well as lumps.

Figure 11: While the prices of iron ore fines and lumps started falling before the imposition of export duty, the recent sharp price correction to the extent of 50% has been mainly because of oversupply caused by export duty



Pellet prices have fallen by 40% and a further fall of 25-30% is likely ➤

Earlier, pellets used to attract 5% export duty and iron ore fines 30% and hence, there was a plethora of pellet plants. India’s exports used to be in range of 13-14 mt. Following the imposition of export duty, exports have become unviable and hence Indian pellet prices have started to decline.

Figure 12: Indian pellet prices have fallen by 40% from their recent peak but are still 60% higher than export parity prices

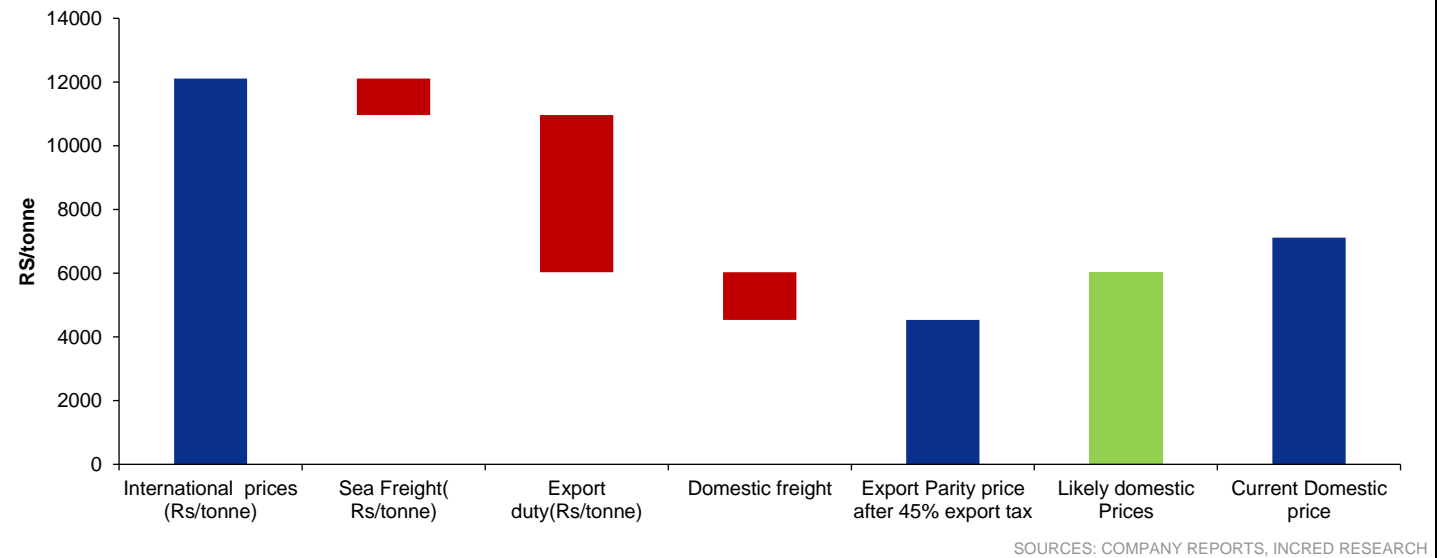
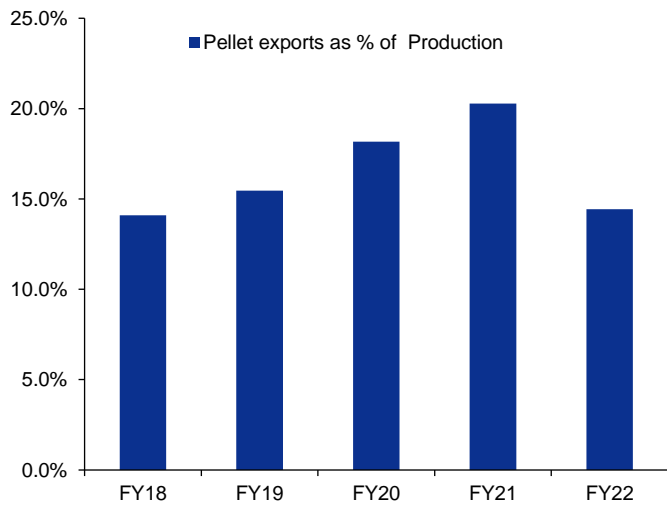
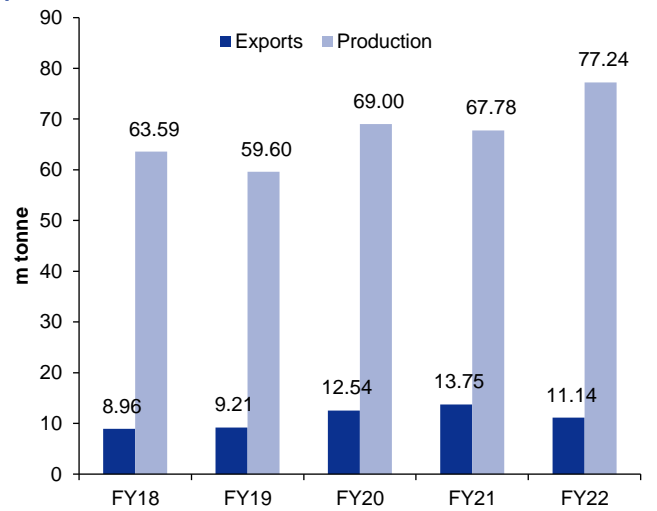


Figure 13: In FY22, India exported 14% of its pellet production



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 14: A major portion of the excess pellet production was exported in FY22



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Falling iron ore prices are good for JSPL and JSW Steel ➤

JSW Steel and Jindal Steel and Power or JSPL stand to benefit from falling iron ore prices in India as they are unintegrated on this front.

India

ADD (no change)

Consensus ratings*: Buy 18 Hold 3 Sell 5

Current price:	Rs310
Target price:	Rs380
Previous target:	Rs476
Up/downside:	22.6%
InCred Research / Consensus:	-23.3%
Reuters:	
Bloomberg:	JSP IN
Market cap:	US\$4,353m
	Rs316,074m
Average daily turnover:	US\$50.2m
	Rs3648.5m
Current shares o/s:	1,020.0m
Free float:	39.6%

*Source: Bloomberg

Key changes in this note

- FY23F EPS increased by 90.97%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(21.7)	(39.3)	(19.6)
Relative (%)	(19.0)	(33.2)	(18.9)

Major shareholders	% held
Promoter and Promoter Group	60.4
ICICI Prudential Life Insurance	3.1
Kotak Tax Saver Scheme	2.6

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Jindal Steel and Power

Continues to remain our top pick

- JSPL's resilient and flexible product portfolio (finished goods and raw materials like pellets and sponge iron) should help it withstand future price volatility.
- We believe JSPL is likely to benefit from falling iron ore prices in India as the company is unintegrated on this front.
- We have increased our FY23F EPS estimate and introduced FY24F and FY25F numbers. Retain Add rating with a revised TP of Rs400 (Rs476 earlier).

Flexible product mix will help maintain steel business profitability

JSPL has ~8.5mt of steel-making capacity. It can make 6.7mt of value-added steel and sell 1.8mt as simple mild steel. At the same time, JSPL has currently 9mt of pellets and 3.6mt of sponge iron-making capacity. We believe this helps the company to have stable profitability as it gives the ability to play around with product mix. We also believe JSPL is likely to benefit from falling iron ore prices in India as it is unintegrated on this front.

Coal block allocations positive for JSPL

JSPL has won four coal blocks in the 13th and 14th tranche of auctions, namely – Utkal C, Utkal B1, Utkal B2 and Gare Palma IV/6. These blocks have cumulative reserves of ~500 mt and clearance to produce up to 15.1mtpa. Once operational, these mines will help JSPL meet 100% of its thermal coal requirement for the current as well as expanded steel capacity (~16mtpa by FY25F). The company is planning to start production from these mines in the next 12-15 months. These mines will help JSPL to significantly enhance its fuel security and also aid in lowering cost.

Concludes Jindal Power divestment

JSPL has divested Jindal Power Ltd (JPL) on 30 May 2022, receiving Rs30.15bn in total from Worldone Private Limited (the acquirer) as part of the transaction. The divestment has further boosted the company's balance sheet strength, taking JSPL a step closer to its vision of becoming a net debt-free company. The divestment will further boost JSPL's ESG score with a significant reduction in its carbon footprint associated with thermal power plants.

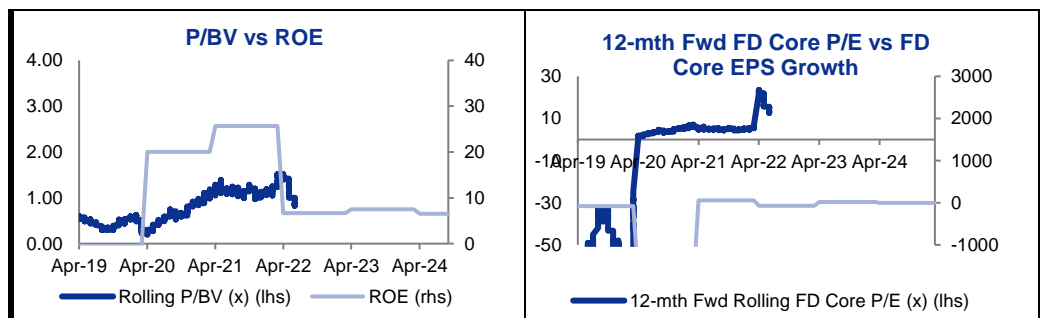
We value the stock at 6x FY24F EV/EBITDA; maintain Add rating

We have increased our FY23F EPS estimate by 90.97% and introduced FY24F and FY25F numbers. We now value the stock at 6x FY24F EV/EBITDA to arrive at a revised target price of Rs400 (Rs476 earlier). Downside risk: Rise in domestic iron ore prices will be negative to our thesis and rating.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	389,886	510,856	486,278	451,689	462,805
Operating EBITDA (Rsm)	144,443	155,134	69,239	73,583	72,808
Net Profit (Rsm)	52,721	82,553	24,512	29,580	27,772
Core EPS (Rs)	60.2	84.3	24.3	29.3	27.5
Core EPS Growth	(3,541.1%)	40.1%	(71.2%)	20.7%	(6.1%)
FD Core P/E (x)	5.99	3.81	12.78	10.59	11.28
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	3.12	2.69	5.25	4.34	3.79
P/FCFE (x)	4.08	18.51	(27.96)	5.22	5.21
Net Gearing	46.5%	23.9%	9.0%	(2.0%)	(11.4%)
P/BV (x)	0.99	0.88	0.82	0.76	0.71
ROE	19.2%	25.4%	6.7%	7.5%	6.5%
% Change In Core EPS Estimates			90.97%		
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	389,886	510,856	486,278	451,689	462,805
Gross Profit	282,669	305,831	264,226	275,564	281,201
Operating EBITDA	144,443	155,134	69,239	73,583	72,808
Depreciation And Amortisation	(34,533)	(20,968)	(28,525)	(28,947)	(29,334)
Operating EBIT	109,909	134,167	40,714	44,636	43,474
Financial Income/(Expense)	(30,933)	(18,877)	(9,076)	(5,955)	(6,942)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	5,389	504	1,962	1,962	1,962
Profit Before Tax (pre-EI)	84,365	115,793	33,601	40,644	38,495
Exceptional Items	(11,409)	(4,062)			
Pre-tax Profit	72,956	111,731	33,601	40,644	38,495
Taxation	(17,687)	(29,245)	(9,089)	(11,064)	(10,722)
Exceptional Income - post-tax					
Profit After Tax	55,269	82,485	24,512	29,580	27,772
Minority Interests	(2,548)	67			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	52,721	82,553	24,512	29,580	27,772
Recurring Net Profit	61,364	85,552	24,512	29,580	27,772
Fully Diluted Recurring Net Profit	61,364	85,552	24,512	29,580	27,772

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	144,443	155,134	69,239	73,583	72,808
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(26,846)	100	13,109	(4,871)	(3,486)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	7,517	14,430	(423)	940	30
Other Operating Cashflow	25,945	(5,044)	(7,139)	(14,211)	(12,540)
Net Interest (Paid)/Received	(30,933)	(23,747)	(9,076)	(5,955)	(6,942)
Tax Paid	(515)	19,604	9,089	11,064	10,722
Cashflow From Operations	119,609	160,478	74,799	60,550	60,592
Capex	(8,368)	(28,722)	(12,741)	(10,500)	(10,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(10,474)	5,409			
Cash Flow From Investing	(18,842)	(23,313)	(12,741)	(10,500)	(10,500)
Debt Raised/(repaid)	(23,367)	(120,166)	(73,259)	10,000	10,000
Proceeds From Issue Of Shares		(4,966)			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(22,753)	(26,064)	(9,076)	(5,955)	(6,942)
Cash Flow From Financing	(46,120)	(151,196)	(82,334)	4,045	3,058
Total Cash Generated	54,647	(14,031)	(20,276)	54,095	53,151
Free Cashflow To Equity	77,400	16,998	(11,200)	60,050	60,092
Free Cashflow To Firm	131,700	160,911	71,134	56,005	57,034

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	71,635	40,006	19,730	73,825	126,976
Total Debtors	27,944	12,641	17,020	20,929	23,981
Inventories	59,426	72,814	71,460	65,137	65,903
Total Other Current Assets	44,186	140,628	144,327	150,210	153,651
Total Current Assets	203,191	266,089	252,537	310,101	370,512
Fixed Assets	555,611	475,782	459,998	441,551	422,717
Total Investments	1,443	1,378	1,378	1,378	1,378
Intangible Assets	5,001	4,480	4,480	4,480	4,480
Total Other Non-Current Assets	13,159	18,707	18,707	17,824	17,855
Total Non-current Assets	575,214	500,347	484,563	465,234	446,430
Short-term Debt	13,208	44,277	11,018	11,018	11,018
Current Portion of Long-Term Debt					
Total Creditors	40,383	52,519	52,202	48,214	49,232
Other Current Liabilities	139,204	130,227	150,378	152,964	155,720
Total Current Liabilities	192,795	227,023	213,597	212,196	215,970
Total Long-term Debt	202,304	84,343	44,344	54,344	64,344
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	8,309	7,137	7,287	7,287	7,287
Total Non-current Liabilities	210,613	91,480	51,630	61,630	71,630
Total Provisions	65,627	76,981	76,408	76,465	76,526
Total Liabilities	469,035	395,483	341,636	350,291	364,126
Shareholders Equity	318,147	356,247	380,759	410,338	438,111
Minority Interests	(8,777)	14,705	14,705	14,705	14,705
Total Equity	309,370	370,952	395,464	425,044	452,816

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	28.0%	31.0%	(4.8%)	(7.1%)	2.5%
Operating EBITDA Growth	112.0%	7.4%	(55.4%)	6.3%	(1.1%)
Operating EBITDA Margin	37.0%	30.4%	14.2%	16.3%	15.7%
Net Cash Per Share (Rs)	(141.06)	(87.68)	(35.25)	8.37	51.07
BVPS (Rs)	311.91	352.48	376.73	405.99	433.47
Gross Interest Cover	3.55	7.11	4.49	7.50	6.26
Effective Tax Rate	24.2%	26.2%	27.0%	27.2%	27.9%
Net Dividend Payout Ratio					
Accounts Receivables Days	29.69	14.50	11.13	15.33	17.71
Inventory Days	209.56	117.71	118.58	141.54	131.69
Accounts Payables Days	163.50	82.70	86.07	104.05	97.93
ROIC (%)	20.9%	24.7%	7.9%	8.9%	9.0%
ROCE (%)	16.6%	23.1%	7.4%	8.2%	7.5%
Return On Average Assets	11.6%	13.6%	4.5%	4.7%	4.4%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

REDUCE (no change)

Consensus ratings*: Buy 11 Hold 9 Sell 13

Current price:	Rs559
Target price:	Rs330
Previous target:	Rs330
Up/downside:	-41.0%
InCred Research / Consensus:	-44.6%
Reuters:	
Bloomberg:	JSTL IN
Market cap:	US\$18,606m
	Rs1,351,105m
Average daily turnover:	US\$47.5m
	Rs3449.0m
Current shares o/s:	2,417.3m
Free float:	42.6%

*Source: Bloomberg

Key changes in this note

- FY23F EPS decreased by 12.31%.
- FY24F EPS increased by 67.34%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.1	(20.6)	(16.0)
Relative (%)	5.6	(12.6)	(15.3)

Major shareholders	% held
Promoter & Promoter Group	42.4
JFE Steel International Europe BV	15.0
APMS Investment Fund Ltd	1.3

Analyst(s)



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JSW Steel

Maintain Reduce rating

- Rising coking coal cost and a fall in realization along with volume are major headwinds in coming quarters for JSW Steel.
- We believe the company is enjoying the benefit of falling iron ore prices in India as the company is unintegrated on this front.
- We have changed our estimates for FY23F and FY24F and introduced FY25F numbers. Maintain REDUCE rating with an unchanged target price of Rs330.

Higher operating cost to dent profitability

In coming quarters, coking coal cost will increase, and realization will fall along with volume. We expect coking coal cost to increase by at least US\$60-70/t and iron ore cost to remain around the same level as in 4QFY22. We expect raw material cost to increase by Rs3,000/t and realization to decline by Rs3,000/t. We expect higher coking coal cost to be partially offset by the benefit from falling iron ore prices which the company is currently experiencing.

JSW Steel has done well on iron ore security front

In the iron ore mine auctions of 2018-20, JSW Steel won ~30mt p.a. of iron ore production capacity in Odisha. The commencement of coking coal production in Jharkhand captive mine cannot offset rising iron ore cost as production is about 1mt (in next two-to-three years) against a requirement of ~18mt.

Debt will continue to remain at an elevated level

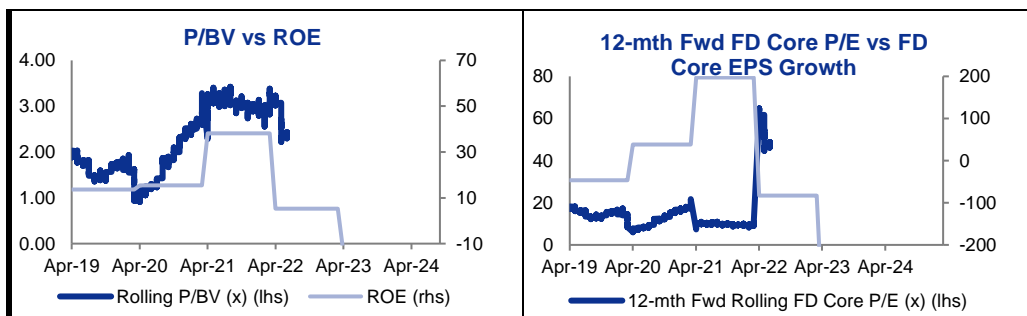
JSW Steel's debt level has not come down in FY22 and we do not expect it to decline in coming years. The company has a major capex plan of Rs488bn in next three years. This will lead to still higher debt level.

Maintain Reduce rating with target price of Rs330

We have cut our EPS estimate for FY23F and increased our EPS estimate for FY24F. We continue to maintain Reduce rating on the stock with an unchanged target price of Rs330.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	782,370	1,463,710	1,195,045	1,327,115	1,346,628
Operating EBITDA (Rsm)	185,390	390,070	167,990	(24,041)	(24,041)
Net Profit (Rsm)	63,369	209,659	35,796	(88,721)	(88,721)
Core EPS (Rs)	23.5	71.2	11.8	18.9	25.9
Core EPS Growth	16.3%	202.2%	(83.5%)	60.3%	37.3%
FD Core P/E (x)	23.93	8.05	47.16	(19.03)	(19.03)
DPS (Rs)	6.5	6.5	6.5	6.5	6.5
Dividend Yield	1.16%	1.16%	1.16%	1.16%	0.00%
EV/EBITDA (x)	10.69	5.71	11.18	(83.71)	(83.71)
P/FCFE (x)	12.29	75.80	5.29	(24.37)	(24.37)
Net Gearing	102.3%	76.7%	25.6%	54.4%	54.4%
P/BV (x)	3.61	2.51	2.35	2.26	2.12
ROE	15.3%	37.7%	5.3%	(14.3%)	(14.3%)
% Change In Core EPS Estimates			(12.31%)	67.34%	
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	782,370	1,463,710	1,195,045	1,327,115	1,346,628
Gross Profit	457,290	871,010	653,577	752,533	758,668
Operating EBITDA	185,390	390,070	167,990	(24,041)	(24,041)
Depreciation And Amortisation	(46,790)	(60,010)	(71,642)	(73,926)	(78,399)
Operating EBIT	138,600	330,060	96,349	(97,968)	(97,968)
Financial Income/(Expense)	(39,570)	(49,680)	(49,680)	(45,887)	(45,887)
Pretax Income/(Loss) from Assoc.	10	9,170	9,170	9,170	9,170
Non-Operating Income/(Expense)	5,920	15,310	5,106	7,001	8,491
Profit Before Tax (pre-EI)	104,960	304,860	60,945	(127,684)	(127,684)
Exceptional Items	(830)	(7,410)			
Pre-tax Profit	104,130	297,450	60,945	(127,684)	(127,684)
Taxation	(41,420)	(88,070)	(33,837)	(30,353)	(40,851)
Exceptional Income - post-tax					
Profit After Tax	62,710	209,380	35,517	(89,000)	(89,000)
Minority Interests	380				
Preferred Dividends	279	279	279	279	279
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	63,369	209,659	35,796	(88,721)	(88,721)
Recurring Net Profit	63,869	214,875	35,796	(88,721)	(88,721)
Fully Diluted Recurring Net Profit	63,869	214,875	35,796	(88,721)	(88,721)

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	185,390	390,070	167,990	(24,041)	(24,041)
Cash Flow from Invt. & Assoc.					
Change In Working Capital	12,640	(72,640)	33,733	(1,894)	(2,337)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(9,840)	(14,170)	45,175	(467)	954
Other Operating Cashflow	56,450	59,070	54,786	52,888	52,888
Net Interest (Paid)/Received	(37,450)	(45,840)	(49,680)	(45,887)	(45,887)
Tax Paid	(19,300)	(53,790)	(33,837)	(30,353)	(40,851)
Cashflow From Operations	187,890	262,700	327,892	12,232	12,232
Capex	(92,070)	(100,480)	90,570	(81,500)	(81,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	10,880	(59,390)			
Cash Flow From Investing	(81,190)	(159,870)	90,570	(81,500)	(81,500)
Debt Raised/(repaid)	16,740	(80,560)	(99,270)		
Proceeds From Issue Of Shares	390	720			
Shares Repurchased					
Dividends Paid	(4,830)	(15,710)	(19,909)	(19,909)	(19,909)
Preferred Dividends					
Other Financing Cashflow	(43,400)	(51,020)	(49,680)	(45,887)	(45,887)
Cash Flow From Financing	(31,100)	(146,570)	(168,859)	(65,796)	(65,796)
Total Cash Generated	75,600	(43,740)	249,603	(135,064)	(135,064)
Free Cashflow To Equity	123,440	22,270	319,192	(69,268)	(69,268)
Free Cashflow To Firm	144,150	148,670	468,142	(23,381)	(23,381)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	128,210	173,910	423,513	288,450	288,450
Total Debtors	44,860	75,570	73,765	72,075	73,485
Inventories	142,490	337,870	278,862	272,257	277,768
Total Other Current Assets	42,960	66,390	39,066	38,640	38,996
Total Current Assets	358,520	653,740	774,717	659,151	659,151
Fixed Assets	968,880	1,166,660	1,004,448	1,012,022	1,015,123
Total Investments	88,320	49,320	88,320	88,320	88,320
Intangible Assets	3,360	1,190	1,190	1,190	1,190
Total Other Non-Current Assets	64,090	93,940	72,592	71,765	71,867
Total Non-current Assets	1,124,650	1,311,110	1,166,550	1,173,296	1,176,501
Short-term Debt	19,990	120,460	19,990	19,990	19,990
Current Portion of Long-Term Debt					
Total Creditors	152,430	308,890	193,124	188,722	192,395
Other Current Liabilities	177,390	146,160	207,521	201,310	202,576
Total Current Liabilities	349,810	575,510	420,636	410,022	414,961
Total Long-term Debt	580,490	579,290	580,490	580,490	580,490
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	47,810	33,680	63,175	61,614	62,385
Total Non-current Liabilities	628,300	612,970	643,665	642,104	642,875
Total Provisions	43,610	91,020	85,352	85,619	85,905
Total Liabilities	1,021,720	1,279,500	1,149,653	1,137,745	1,143,741
Shareholders Equity	467,640	672,970	718,408	746,266	795,348
Minority Interests	(6,190)	12,380	12,380	12,380	12,380
Total Equity	461,450	685,350	730,788	758,646	807,728

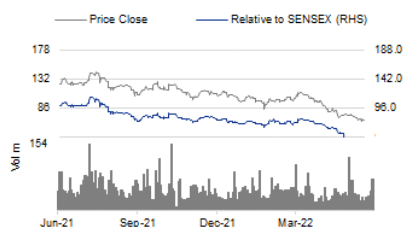
Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	6.7%	87.1%	(18.4%)	7.5%	1.5%
Operating EBITDA Growth	56.1%	110.4%	(56.9%)	(114.3%)	(114.3%)
Operating EBITDA Margin	23.7%	26.6%	14.1%	(1.9%)	(1.9%)
Net Cash Per Share (Rs)	(156.38)	(174.12)	(58.60)	(103.32)	(103.32)
BVPS (Rs)	154.85	222.84	237.88	247.11	263.36
Gross Interest Cover	3.50	6.64	1.94	(2.13)	(2.13)
Effective Tax Rate	39.8%	29.6%	41.7%		
Net Dividend Payout Ratio	30.6%	9.0%	54.8%	(22.1%)	(22.1%)
Accounts Receivables Days	20.97	15.02	22.01	20.06	19.73
Inventory Days	157.83	147.91	190.57	175.05	170.73
Accounts Payables Days	186.17	142.05	155.12	121.28	118.30
ROIC (%)	8.9%	17.8%	5.1%	(7.1%)	(7.1%)
ROCE (%)	13.4%	25.8%	6.8%	(7.5%)	(7.5%)
Return On Average Assets	6.2%	14.6%	3.1%	(3.0%)	(3.0%)

SOURCES: INCRED RESEARCH, COMPANY REPORTS

India

REDUCE (no change)

Consensus ratings*:	Buy 14 Hold 3 Sell 11
Current price:	Rs67
Target price:	Rs58
Previous target:	Rs60
Up/downside:	-13.4%
InCred Research / Consensus:	-38.1%
Reuters:	
Bloomberg:	SAIL IN
Market cap:	US\$3,825m Rs277,778m
Average daily turnover:	US\$52.2m Rs3794.1m
Current shares o/s:	4,130.5m
Free float:	25.0%
*Source: Bloomberg	



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(9.1)	(34.8)	(45.8)
Relative (%)	(6.0)	(28.1)	(45.4)

Major shareholders	% held
Government of India	75.0
Life Ins. Corp. of India	9.6
Reliance Capital Trustee Co Ltd	2.5

Steel Authority of India

Higher fixed cost to erode profits

- Despite having captive iron ore capacity, SAIL's operational cost/t is the highest among its steel peers. Its mining cost is also rising, negating the advantages.
- SAIL did Rs630bn (last 10 years) capex, but capacity remains un-commissioned (4-5mt); efficiency also didn't increase.
- Maintain Reduce rating on the stock with a revised TP of Rs58 (Rs60 earlier).

SAIL has highest fixed cost in the steel space

The signpost event for buying steel stocks is when SAIL will be making losses. With a fixed cost of ~Rs100bn per quarter, SAIL needs at least 5mt sales in 1Q and 2QFY23F to achieve breakeven at PBT level. While it may somehow manage the same in 1QFY23F, in 2QFY23F it will make losses at EBITDA level. As SAIL makes losses, the government of India will be under pressure to lift the export tax. Please note that if the government has to realize its dream of 300mt of steel-making capacity, then heavy lifting has to be done by SAIL and hence its balance sheet should remain bankable

Delayed projects and stagnant product mix are not helping SAIL

One would have assumed that after a capex of Rs630bn (last decade), SAIL would have stopped selling semis steel. Over the years, semis steel sales have stagnated at ~2mt. Despite higher capex, there has not been a material improvement in the performance of SAIL's product mix and in its operational and cost efficiencies. SAIL's expansion programmes have not shown any positive impact on the company.

We value SAIL at 6x EV/EBITDA to arrive at our target price of Rs58

High debt on SAIL's books will lead to a miniscule EPS. High debt and net debt/EBITDA will likely make the stock price volatile, in our view. Hence, we have changed our EPS estimates for FY23F and FY24F and introduced FY25F numbers. We now value the stock at 6x EV/EBITDA to arrive at a new TP of Rs58 (from Rs60 earlier). Maintain Reduce rating on the stock. Recovery in steel prices is an upside risk to our estimates.

Analyst(s)

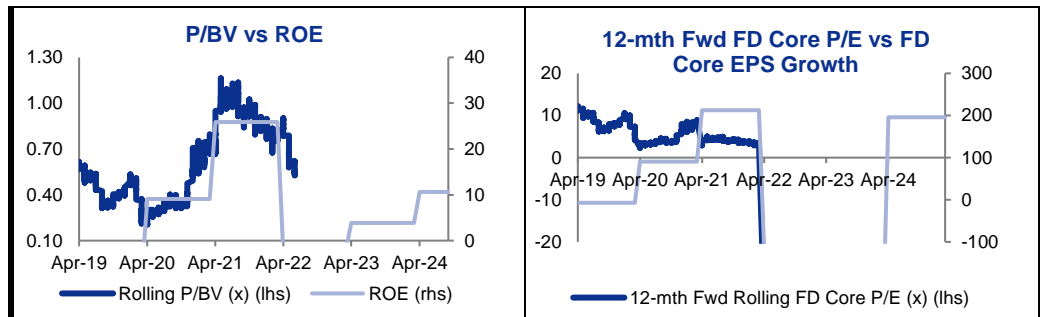


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Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	691,100	1,034,733	960,000	1,020,000	1,170,000
Operating EBITDA (Rsm)	127,281	213,222	45,611	96,132	150,293
Net Profit (Rsm)	38,500	120,150	(12,062)	19,978	59,114
Core EPS (Rs)	9.2	29.7	(2.9)	4.8	14.3
Core EPS Growth	(400.3%)	221.7%	(109.8%)	(265.6%)	195.9%
FD Core P/E (x)	7.21	2.31	(23.03)	13.90	4.70
DPS (Rs)	4.1	4.1	4.1	6.5	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	4.95	2.08	13.37	6.39	3.77
P/FCFE (x)	7.57	6.06	26.58	12.74	3.97
Net Gearing	80.9%	32.0%	65.4%	63.8%	49.1%
P/BV (x)	0.64	0.53	0.55	0.53	0.47
ROE	9.2%	25.7%	(2.3%)	3.9%	10.6%
% Change In Core EPS Estimates			(365.49%)	303.07%	
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	691,100	1,034,733	960,000	1,020,000	1,170,000
Gross Profit	417,053	609,819	472,208	501,721	575,504
Operating EBITDA	127,281	213,222	45,611	96,132	150,293
Depreciation And Amortisation	(41,020)	(42,742)	(45,557)	(48,035)	(49,794)
Operating EBIT	86,261	170,480	55	48,097	100,498
Financial Income/(Expense)	(28,171)	(16,979)	(16,157)	(21,428)	(21,588)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	10,117	10,420			
Profit Before Tax (pre-EI)	68,206	163,921	(16,102)	26,669	78,910
Exceptional Items	584	(3,534)			
Pre-tax Profit	68,790	160,387	(16,102)	26,669	78,910
Taxation	(30,290)	(40,237)	4,040	(6,690)	(19,796)
Exceptional Income - post-tax					
Profit After Tax	38,500	120,150	(12,062)	19,978	59,114
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	38,500	120,150	(12,062)	19,978	59,114
Recurring Net Profit	38,173	122,798	(12,062)	19,978	59,114
Fully Diluted Recurring Net Profit	38,173	122,798	(12,062)	19,978	59,114

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	127,281	213,222	45,611	96,132	150,293
Cash Flow from Invt. & Assoc.					
Change In Working Capital	100,367	94,816	(46,455)	(23,485)	(29,354)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(4,221)	(3,542)	(63,265)	10,839	8,840
Other Operating Cashflow	38,535	20,374	24,236	8,048	(18,005)
Net Interest (Paid)/Received	(28,226)	(16,069)	(16,157)	(21,428)	(21,588)
Tax Paid	224	836	(4,040)	6,690	19,796
Cashflow From Operations	233,959	309,636	(60,069)	76,795	109,983
Capex	(36,843)	(36,165)	(89,481)	(60,000)	(40,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	2,935	(3,582)			
Cash Flow From Investing	(33,908)	(39,747)	(89,481)	(60,000)	(40,000)
Debt Raised/(repaid)	(163,350)	(224,086)	160,000	5,000	
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(4,131)	(30,669)			
Preferred Dividends					
Other Financing Cashflow	(29,421)	(19,221)	(16,157)	(21,428)	(21,588)
Cash Flow From Financing	(196,901)	(273,976)	143,843	(16,428)	(21,588)
Total Cash Generated	3,150	(4,086)	(5,707)	367	48,395
Free Cashflow To Equity	36,701	45,803	10,450	21,795	69,983
Free Cashflow To Firm	228,277	285,959	(133,394)	38,224	91,571

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	6,805	6,478	771	1,138	49,533
Total Debtors	71,240	47,368	70,000	74,375	85,313
Inventories	152,720	195,693	236,712	251,507	288,493
Total Other Current Assets	88,996	82,789	101,861	100,112	101,079
Total Current Assets	319,761	332,329	409,345	427,132	524,418
Fixed Assets	788,951	776,728	820,653	832,618	822,823
Total Investments	15,950	16,245	15,950	15,950	15,950
Intangible Assets					
Total Other Non-Current Assets	28,740	52,109	41,110	34,170	29,501
Total Non-current Assets	833,642	845,082	877,713	882,738	868,274
Short-term Debt	158,502	55,419	115,419	115,419	115,419
Current Portion of Long-Term Debt					
Total Creditors	70,144	169,180	92,055	97,808	112,192
Other Current Liabilities	215,237	168,578	281,972	270,154	275,307
Total Current Liabilities	443,884	393,177	489,445	483,381	502,918
Total Long-term Debt	200,070	117,422	217,422	222,422	222,422
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	16,710	40,731	17,922	18,376	18,861
Total Non-current Liabilities	216,780	158,153	235,344	240,798	241,283
Total Provisions	57,791	105,910	54,454	57,899	61,585
Total Liabilities	718,454	657,240	779,243	782,078	805,786
Shareholders Equity	434,949	520,171	507,814	527,792	586,906
Minority Interests					
Total Equity	434,949	520,171	507,814	527,792	586,906

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	14.7%	49.7%	(7.2%)	6.3%	14.7%
Operating EBITDA Growth	198.6%	67.5%	(78.6%)	110.8%	56.3%
Operating EBITDA Margin	18.4%	20.6%	4.8%	9.4%	12.8%
Net Cash Per Share (Rs)	(85.17)	(40.28)	(80.40)	(81.52)	(69.80)
BVPS (Rs)	105.30	125.94	122.95	127.78	142.09
Gross Interest Cover	3.06	10.04		2.24	4.66
Effective Tax Rate	44.0%	25.1%		25.1%	25.1%
Net Dividend Payout Ratio					
Accounts Receivables Days	42.08	20.92	22.31	25.83	24.91
Inventory Days	259.85	149.64	161.78	171.92	165.77
Accounts Payables Days	(88.85)	(102.79)	(97.74)	(66.86)	(64.47)
ROIC (%)	10.2%	20.9%		5.2%	10.7%
ROCE (%)	9.9%	22.0%		5.6%	11.2%
Return On Average Assets	5.5%	12.1%	0.3%	3.2%	6.0%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** – Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CGET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** – Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, n/a, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** – Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.