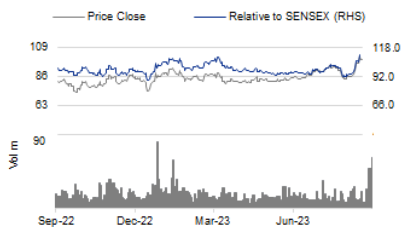


India
REDUCE (no change)

Consensus ratings*: Buy 11 Hold 6 Sell 9

Current price:	Rs100
Target price: ▲	Rs77
Previous target:	Rs60
Up/downside:	-23.0%
InCred Research / Consensus:	-15.1%
Reuters:	
Bloomberg:	SAIL IN
Market cap:	US\$5,662m
	Rs411,151m
Average daily turnover:	US\$18.7m
	Rs1359.1m
Current shares o/s:	4,130.5m
Free float:	25.0%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.8	17.5	21.0
Relative (%)	5.2	11.4	9.0

Major shareholders	% held
President Of India	65.0
Life Ins. Corp. of India	9.3
Nippon India	1.1

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Steel Authority of India

Debt to increase; retain REDUCE

- The working capital release-led debt reduction is behind us. Low profitability and continued capex will increase the debt on SAIL's books.
- Higher fixed cost, elevated raw material prices and subdued global demand will lead to anaemic EPS growth.
- We value SAIL at 6.5x EV/EBITDA to arrive at a target price of Rs77. Retain REDUCE rating on the stock.

Working capital release in FY22 gave false hope of debt reduction

Like all steel companies, Steel Authority of India or SAIL also witnessed significant working capital release in FY22. This was partly because of the Government of India's scheme where all vendors had an option to get their invoices discounted on the SIDBI platform. However, it was a temporary phenomenon. In FY22, creditor days increased by 70% over FY21 but they came down by 20% in FY23. In FY23, inventory also reverted to its mean level. All the above factors led the working capital requirement to rise by Rs92bn YoY in FY23, thereby wiping out all the balance sheet deleveraging theories.

Supply chain normalization and a rise in costs to reduce profitability

SAIL reported a 23-year high PAT of Rs120bn in FY22 as the supply chain panic led to higher steel prices and raw material prices were slow to rise. It's extremely unlikely that SAIL can report even 25% of the above profit for the next few years. Capex continues, which further drains cash flow. The rise in staff costs and inflationary pressure on other expenditure are further headwinds. While coking coal prices can remain sideways in FY24F, lack of investment in mining assets in Australia will lead to a deficit scenario in FY25F and beyond. Thus, coking coal prices will rise from the current levels.

Slowing China's economy and rising imports are more headwinds

Rising steel imports from China is a serious headwind for Indian companies. Please note that in FY16 the government saved the steel industry because of the banking sector. At that time, the steel sector had Rs3tr debt from the Indian banking system, which was around 50% of the banking system's net worth. Had the government not intervened in the steel crisis, there would have been wider ramifications for the banking system and the country itself. Don't expect the Indian government to pay heed to the call for protectionism. The production-linked incentive scheme (PLI) is a separate issue and advanced steel makers can derive the benefits.

We value SAIL at 6.5x Sep 2025F EV/EBITDA; retain REDUCE rating

We value SAIL at 6.5x Sep 2025F EV/EBITDA to arrive at our target price of Rs77. At our target price, the stock will trade at 15x FY24F EPS. Reiterate our REDUCE rating on it. Upside risk: A big economic stimulus in China can be sentimentally positive for SAIL and other steel companies.

Financial Summary

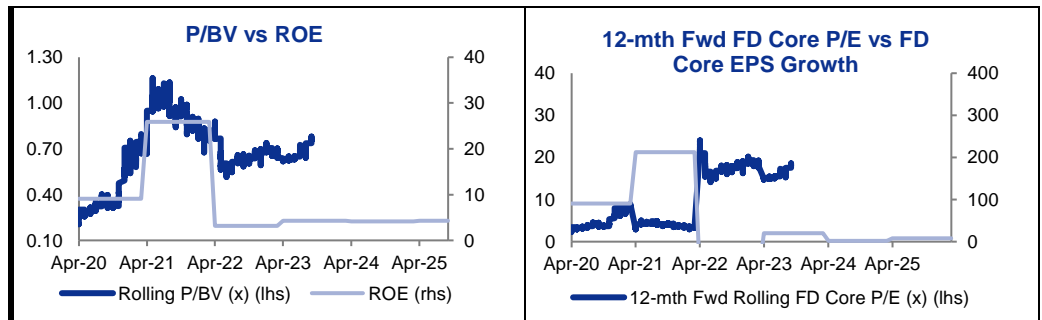
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	1,034,733	1,044,474	1,099,372	1,157,044	1,214,209
Operating EBITDA (Rsm)	213,222	80,241	91,805	96,866	100,780
Net Profit (Rsm)	120,150	19,031	22,819	23,185	25,062
Core EPS (Rs)	29.7	4.2	5.5	5.6	6.1
Core EPS Growth	221.7%	(86.0%)	32.9%	1.6%	8.1%
FD Core P/E (x)	3.42	21.61	18.02	17.74	16.41
DPS (Rs)	4.1	4.1	6.5	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	2.71	8.91	8.15	7.47	6.91
P/FCFE (x)	8.98	12.20	5.10	8.59	8.03
Net Gearing	32.0%	58.3%	61.9%	55.1%	48.2%
P/BV (x)	0.79	0.79	0.76	0.72	0.69
ROE	25.7%	3.3%	4.3%	4.2%	4.3%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	1,034,733	1,044,474	1,099,372	1,157,044	1,214,209
Gross Profit	609,819	475,164	496,372	520,544	544,209
Operating EBITDA	213,222	80,241	91,805	96,866	100,780
Depreciation And Amortisation	(42,742)	(49,625)	(47,462)	(49,794)	(51,202)
Operating EBIT	170,480	30,616	44,343	47,071	49,578
Financial Income/(Expense)	(16,979)	(20,375)	(21,904)	(24,144)	(24,144)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	10,420	13,548	8,022	8,022	8,022
Profit Before Tax (pre-EI)	163,921	23,789	30,461	30,949	33,455
Exceptional Items	(3,534)	2,580			
Pre-tax Profit	160,387	26,369	30,461	30,949	33,455
Taxation	(40,237)	(7,338)	(7,642)	(7,764)	(8,393)
Exceptional Income - post-tax					
Profit After Tax	120,150	19,031	22,819	23,185	25,062
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	120,150	19,031	22,819	23,185	25,062
Recurring Net Profit	122,798	17,169	22,819	23,185	25,062
Fully Diluted Recurring Net Profit	122,798	17,169	22,819	23,185	25,062

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	213,222	80,241	91,805	96,866	100,780
Cash Flow from Invt. & Assoc.					
Change In Working Capital	94,816	(138,224)	10,803	(9,264)	(9,183)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(3,542)	(7,923)			
Other Operating Cashflow	20,374	28,020	14,643	16,638	15,380
Net Interest (Paid)/Received	(16,069)	(20,375)	(21,904)	(24,144)	(24,144)
Tax Paid	836	4,196	7,642	7,764	8,393
Cashflow From Operations	309,636	(54,065)	102,988	87,859	91,226
Capex	(36,165)	(39,150)	(92,444)	(40,000)	(40,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(3,582)	6,814			
Cash Flow From Investing	(39,747)	(32,335)	(92,444)	(40,000)	(40,000)
Debt Raised/(repaid)	(224,086)	120,091	70,107		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(30,669)	(13,424)			
Preferred Dividends					
Other Financing Cashflow	(19,221)	(20,800)	(21,904)	(24,144)	(24,144)
Cash Flow From Financing	(273,976)	85,867	48,203	(24,144)	(24,144)
Total Cash Generated	(4,086)	(533)	58,748	23,715	27,082
Free Cashflow To Equity	45,803	33,691	80,652	47,859	51,226
Free Cashflow To Firm	285,959	(66,026)	32,449	72,003	75,370

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	6,478	3,980	40,814	64,988	92,562
Total Debtors	47,368	53,625	56,443	59,404	62,339
Inventories	195,693	277,163	271,078	285,299	299,394
Total Other Current Assets	82,789	42,866	42,866	42,866	42,866
Total Current Assets	332,329	377,633	411,200	452,557	497,161
Fixed Assets	776,728	784,141	829,123	819,328	808,126
Total Investments	16,245	16,727	15,950	15,950	15,950
Intangible Assets					
Total Other Non-Current Assets	52,109	98,650	98,650	98,650	98,650
Total Non-current Assets	845,082	899,517	943,722	933,928	922,726
Short-term Debt	55,419	199,237	155,419	155,419	155,419
Current Portion of Long-Term Debt					
Total Creditors	169,180	143,389	150,925	158,843	166,690
Other Current Liabilities	168,578	150,429	150,429	150,429	150,429
Total Current Liabilities	393,177	493,055	456,773	464,691	472,538
Total Long-term Debt	117,422	108,497	222,422	222,422	222,422
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	40,731	40,699	18,008	18,468	18,960
Total Non-current Liabilities	158,153	149,196	240,431	240,891	241,383
Total Provisions	105,910	113,508	113,508	113,508	113,508
Total Liabilities	657,240	755,758	810,712	819,089	827,429
Shareholders Equity	520,171	521,392	544,211	567,396	592,458
Minority Interests					
Total Equity	520,171	521,392	544,211	567,396	592,458

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	49.7%	0.9%	5.3%	5.2%	4.9%
Operating EBITDA Growth	67.5%	(62.4%)	14.4%	5.5%	4.0%
Operating EBITDA Margin	20.6%	7.7%	8.4%	8.4%	8.3%
Net Cash Per Share (Rs)	(40.28)	(73.54)	(81.60)	(75.74)	(69.07)
BVPS (Rs)	125.94	126.23	131.76	137.37	143.44
Gross Interest Cover	10.04	1.50	2.02	1.95	2.05
Effective Tax Rate	25.1%	27.8%	25.1%	25.1%	25.1%
Net Dividend Payout Ratio					
Accounts Receivables Days	20.92	17.65	18.27	18.27	18.30
Inventory Days	149.64	151.58	165.93	159.53	159.26
Accounts Payables Days	(102.79)	(100.20)	(89.08)	(88.82)	(88.67)
ROIC (%)	20.9%	3.2%	4.4%	4.7%	5.0%
ROCE (%)	22.0%	3.8%	4.8%	4.7%	4.9%
Return On Average Assets	12.1%	3.0%	3.4%	3.5%	3.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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