

In line operating performance

CMP:	Rs.44
Target Price:	Rs. 44
Recommendation:	Neutral

Stock Info

BSE Group	A/BSE100
BSE Code	500113
NSE Symbol	SAIL
Bloomberg	SAIL.IN
Reuters	SAIL.BO
BSE Sensex	19368
NSE Nifty	5742

Market Info

Market Capital	₹ 17263cr
Equity Capital	₹ 413cr
Avg. Trading Vol. (NSE Qtly)	2594730
52 Wk High/ Low	102/38
Face Value	10

Shareholding Pattern (%) (30th June 2013)

Promoters	80.0
Domestic Institutions	11.9
Foreign Institutions	4.8
Non Promoters Corp.	0.7
Public & Others	2.6

August 16, 2013

SAIL's operating performance was largely in line with our estimates. Revenues for the quarter declined 5% yoy and 17% qoq. Volumes jumped 4.8% yoy, while they declined 18% qoq to 2.62mn tonnes. Saleable steel production during the quarter was at 3.2mn tonnes. Blended realizations rose 1.4% qoq and declined 9.4% yoy to Rs 38573 per tonne. SAIL's production cost per tonne declined qoq by 0.4% which largely came from 4-7% decline at BSP and RSP. However, higher operating cost at BSL negated cost reduction at other units.

Consequently, on account of improved realisations and lower operating cost qoq, EBITDA margins improved qoq by 190bps to 9.4%. On yoy basis, however, margins declined from 14.1% to 9.4%. EBITDA per tonne during the quarter was at \$66 per tonne, which was better than our estimate of ~\$ 56 per tonne.

Profit after tax rose 1% qoq to Rs 451cr. Reported PAT includes impact on account of Rs 88cr forex loss and Rs 108cr of MAT credits availed on commissioning of new facilities.

Concall Updates:

- Steel demand continues to remain subdued impacting steel prices. Long steel prices have corrected by Rs 1200 per tonne in recent times, while flat steel prices have been largely flat.
- SAIL exported 58000 tonne of steel during 1QFY14 and expects same to improve going forward. SAIL has maintained export guidance of 0.7mn tonne for the FY14.
- Volume guidance for FY14E and FY15E is maintained at 13.6mn tonnes and 14.6mn tonnes. Management expects incremental volumes to come from ISP and RSP.
- Wage negotiations with labour union are on advance stage of completion and management expects favorable outcome during 2QFY14.
- Steel inventory levels increased by 0.267mn tonnes during 1QFY14 on subdued demand. Cumulative inventory levels by 1QFY14 end stood at ~1.4mn tonnes. Management expects inventory levels to come down going forward as demand is expected to pick up during 2HFY14.
- Management expects capex to peak during FY14. SAIL would be incurring capex of ~Rs 11000cr and Rs 8000-9000cr during FY14E and FY15E respectively. Capex, however, does not include recurring capex of Rs 1000-1100cr per annum and capex of raw material augmentation.

Valuations:

SAIL's 1QFY14 performance has been in line with estimates. Going forward we forecast SAIL's earnings to be driven by incremental volume and lower operating cost benefits coming from expansion and modernization projects. We have valued stock on EV/EBITDA(x) of 5.5(x) its FY15E estimate and have arrived at a fair value of Rs 44 per share. At CMP of Rs 44 the stock is trading at EV/EBITDA(x) of 6.2x and 6.3x its FY14E and FY15E estimates, respectively, at which we believe stock looks fairly valued. We recommend Neutral recommendation on the stock.



1QFY14 Results

Rs in Crore Std	1QFY14	1QFY13	YOY (%)	4QFY13	QoQ (%)
Net Sales	10268	10778	-4.7%	12330	-16.7%
Expenditure	9301	9262	0.4%	11407	-18.5%
EBITDA	967	1515	-36.2%	924	4.7%
EBITD Margins (%)	9.4%	14.1%	-	7.5%	25.7%
Other Income	226	278	-18.8%	209	8.2%
Interest	192	125	53.6%	215	-10.6%
Depreciation	393	402	-2.2%	194	102.9%
Exceptional Items	-88	-257	-	16	-
PBT after EI	521	1010	-48.4%	741	-29.7%
Tax	70	314	-77.7%	295	-76.2%
Tax rate (%)	13.4%	31.1%	-	39.7%	-
Reported PAT	451	696	-35.3%	447	1.0%
Adj PAT	509	868	-41.3%	436	17.0%
Adj NPM	5%	8%	-	4%	-



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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
REDUCE	<5

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