

Dismal performance

CMP:	Rs.64
Target Price:	Rs. 54
Recommendation:	Reduce

Stock Info

BSE Group	A/BSE100
BSE Code	500113
NSE Symbol	SAIL
Bloomberg	SAIL.IN
Reuters	SAIL.BO
BSE Sensex	20491
NSE Nifty	6079

Market Info

Market Capital	₹ 26205cr
Equity Capital	₹ 413cr
Avg. Trading Vol. (NSE Qtly)	2594730
52 Wk High/ Low	102/38
Face Value	10

Shareholding Pattern (%) (30th Sept 2013)

Promoters	80.0
Domestic Institutions	11.1
Foreign Institutions	5.4
Non Promoters Corp.	0.7
Public & Others	2.8

SAIL reported dismal performance during the quarter. Volumes at 3.1mn tonnes (*up 19.2% yoy and 18.3% qoq*) were better than estimate; however it came at the expense of weak realisations. Blended realisation dropped 4.6% qoq to Rs 36806 per tonne. Consequently revenues rose 7% yoy and 12% qoq to Rs 11536cr. SAIL's production cost per tonne declined by 8% yoy and 3.1% qoq.

Consequently, on account of weak realisations EBITDA margins dropped qoq by 190bps to 7.5%. On yoy basis margins declined from 10.3% to 7.5%. EBITDA per tonne during the quarter was declined qoq from Rs 3692 per tonne to Rs 2796 per tonne.

During the quarter company received Rs 1056.3cr of damage claim pertaining to non-supply of full quantity of contracted supply from Vale-Australia. Thus profit after tax rose 117% yoy to Rs 1180cr.

Concall Updates:

- All major steel producers including SAIL have witnessed weak steel off-take for October. Management attributed this to festive season, extended monsoon and logistic issues caused by cyclone in eastern part of India.
- SAIL has hiked steel prices in the range of Rs 600-1000 per tonne in recent times and management expects same to remain firm due to season pickup in demand.
- SAIL exported 122000 tonne of steel during 2QFY14 and expects same to improve going forward. SAIL has maintained export guidance of 0.7mn tonne for the FY14.
- YOY Incremental volumes for FY14E and FY15E expected to be around 1mn tonnes and 2mn tonnes, respectively.
- Inventory levels remained flat qoq.
- Wage negotiations with labour union are still on and management expects same to be completed by Dec-13. Management, however, has raised increase in wage bill from 15% to 20%.
- SAIL expects annual wage bill of ~Rs 9600cr for FY14. However, it could come down to Rs 9000cr due to favorable actuarial assumptions (*Assuming 9% Long term Govt bond yield VS 7.5% during FY13*).
- SAIL thus far has incurred Rs 48426cr of capex out of planned ~Rs62000cr. SAIL would be spending Rs 11500cr in FY14 and has already spent Rs 4609cr till 1HFY14.
- Company is looking to save Rs 5000cr on production cost over three years period.
- SAIL would be paying MAT as new capacities come on stream.
- Various modules of expansion project at BSL, ISP and RSP are going as per schedule and major parts of these projects are expected to get commissioned by FY14 end. Expansion project at Bhilai steel plant has been delayed further and same will get capitalized by Sep-14.

Nov 12, 2013



2QFY14 Results

Rs in Crore Std	2QFY14	2QFY13	YOY (%)	1QFY14	QoQ (%)
Net Sales	11536	10820	6.6%	10268	12.3%
Expenditure	10669	9711	9.9%	9301	14.7%
EBITDA	867	1109	-21.9%	967	-10.4%
EBITDA Margins (%)	7.5%	10.3%	-	9.4%	-20.2%
Other Income	153	225	-32.3%	226	-32.5%
Interest	216	186	16.3%	192	12.9%
Depreciation	399	403	-1.0%	393	1.5%
Exceptional Items	988	42	-	-88	-
PBT after EI	1392	788	76.7%	521	167.3%
Tax	212	245	-13.4%	70	203.1%
Tax rate (%)	15.2%	31.1%	-	13.4%	-
Reported PAT	1180	543	117.3%	451	161.8%
Adj PAT	340	515	-33.9%	526	-35.2%
Adj NPM	3%	5%	-	5%	-

Valuations:

SAIL's 2QFY14 performance was disappointing and going forward too we forecast margins to remain under pressure till the time SAIL completes expansion, up-gradation and modernization program. We have valued stock on EV/EBITDA(x) of 5.5(x) its FY15E estimate and have arrived at a fair value of Rs 54 per share. At CMP of Rs 64 the stock is trading at EV/EBITDA(x) of 7.5x and 7.4x its FY14E and FY15E estimates, respectively, at which stock looks expensive. **We recommend reduce rating on the stock.**

Y/E March, (Rs in Cr)	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	43,307	46,342	44,598	47,423	52,165
EBITDA	7544	6035	4687	4261	5215
PAT	4905	3543	2170	2955	1730
EPS	11.9	8.6	5.3	7.2	4.2
EPS Growth (%)	(27.4)	(27.8)	(38.7)	36.2	(41.5)
RONW (%)	13.2	8.9	5.3	6.9	3.9
P/E (x)	5.3	7.4	12.1	8.9	15.2
EV/EBITDA (x)	2.3	3.7	5.8	7.5	7.4

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Stock Rating Scale

	Absolute Return
BUY	>20
ACCUMULATE	12-20
HOLD	5-12
NEUTRAL	0-5
REDUCE	<0

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