

Results in line

CMP: Rs.62

Target Price: Rs. 60

Recommendation: Reduce

Stock Info

BSE Group	A/BSE100
BSE Code	500113
NSE Symbol	SAIL
Bloomberg	SAIL.IN
Reuters	SAIL.BO
BSE Sensex	20367
NSE Nifty	6048

Market Info

Market Capital	₹ 25382cr
Equity Capital	₹ 413cr
Avg. Trading Vol. (NSE Qtly)	2594730
52 Wk High/ Low	82/38
Face Value	10

Shareholding Pattern (%) (Dec- 2013)

Promoters	80.0
Domestic Institutions	10.6
Foreign Institutions	6.3
Non Promoters Corp.	0.7
Public & Others	2.4

SAIL's 3QFY14 numbers were largely in line with estimates with company reporting profit after tax of Rs 532cr and volumes of 2.98mn tonnes (*up 6.4% yoy and down 3.9% qoq*). Blended realisations rose 3.6% qoq to Rs 38130 per tonne, while on yoy basis increase was 1.7%. Consequently revenues rose 7.4% yoy, while declined 0.7% qoq to Rs 11459cr.

Operating cost increased marginally qoq by 0.7%. On per tonne basis significant part of increase came from 28% qoq jump in other expenses that increased from Rs 5572/t to Rs 7118/t. Other expenses increased qoq on higher repair & maintenance expenses and reversal of lower depreciation charge taken. Cumulative effect of both was Rs ~220cr. Besides, there was qoq increase in freight, handling and demurrage charges. Raw material cost declined qoq from Rs 16606/t to Rs 15798/t. Employee expenses declined from Rs 8050/t to Rs 7610/t. However, employee cost includes Rs ~229cr write back of excess other expenses provided for executives. Adjusting for write back, employee cost would have been higher at Rs 8379/t and operating cost would have been higher by 3% qoq. Unadjusted EBITDA margin jumped qoq by 240bps to 9.9%, while adjusted for write backs EBITDA margin would have been higher by ~40bps qoq to 7.9%.

Concall highlights:

- Management expects FY14 and FY15 wage bill to be around Rs 9500cr and Rs 9900cr respectively.
- Commissioning of new units continue to face hiccups though management is confident of their timely commissioning. Commissioning of Bhilai unit has been shifted to FY15, while commissioning of IISCO has been postponed by 4-5 months to June-July-2014.
- Company has witnessed strong off-take in January (*10-11% yoy growth*) and expects strong momentum in Feb and March too.
- Steel inventory stands at 1.45mn tonnes, which management intends to bring down to ~1.2mn tonnes by FY14 end.
- Realisations in 4QFY14 are in upward trajectory with Rs 500/t of m-o-m increase seen in January and February.
- Management has pegged 7-8% volume growth for FY15E.
- Company has spent Rs 7383cr on capital expenditure during 9MFY14. Total capex for FY14 is pegged at Rs 11500cr. Capex for FY14 will be Rs 9000cr.
- Thus far company has spent Rs 51030cr on modernizations and expansion project.
- Company will capitalize Rs 8000cr in FY14 and Rs 18000-20000cr in FY15E. However, quantum of depreciation charged will be on pro-rata basis.
- Company announced the interim dividend of Rs 2.02 per share.

Feb 16, 2014



3QFY14 Results

Rs in Crore Std	3QFY14	3QFY13	YOY (%)	2QFY14	QoQ (%)
Net Sales	11459	10670	7.4%	11536	-0.7%
Expenditure	10327	9532	8.3%	10669	-3.2%
EBITDA	1132	1138	-0.6%	867	30.6%
EBITDA Margins (%)	9.9%	10.7%	-	7.5%	31.5%
Other Income	209	221	-5.5%	153	36.7%
Interest	247	222	11.1%	216	14.0%
Depreciation	409	405	0.9%	399	2.5%
Exceptional Items	0	-31	-	988	-
PBT after EI	705	702	0.5%	1392	-49.4%
Tax	173	217	-20.6%	212	-18.6%
Tax rate (%)	24.5%	31.0%	-	15.2%	-
Reported PAT	533	484	10.0%	1180	-54.9%
Adj PAT	516	505	2.2%	340	51.4%
Adj NPM	5%	5%	-	3%	-

Valuations:

SAIL's 3QFY14 performance was largely in line with estimates with margins (adjusted) continuing to remain below 8% levels. Going forward too we forecast margins to remain under pressure till the time SAIL completes its 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 60 per share. At CMP of Rs 62 the stock is trading at EV/EBITDA(x) of 7.3x and 7.3x on 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)	36.1	(41.5)
RONW (%)	13.2	8.9	5.3	6.9	3.9
P/E (x)	5.2	7.2	11.7	8.6	14.7
EV/EBITDA (x)	2.2	3.5	5.6	7.3	7.3

Note: * includes Rs 1056cr for damage claims pertaining to non-supply of full quantity of contracted supply from Vale-Australia



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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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