

### Q4-FY21 Result Update

Target: ₹ 181

- ❑ Steel Authority of India Limited (SAIL) consolidated revenue for 4QFY21, increased by 17.4% QoQ and 43.9% YoY to ₹ 232.8 billion largely aided by higher realizations. Sales volumes were in-line at 4.35 MT up by 16% YoY and 5% QoQ, while blended realizations improved by ₹ 5,718/t QoQ. EBITDA grew by 21.1% QoQ to ₹ 61.5 billion supported by decline in raw material (as % of revenue). Despite wage revision impact the profitability numbers remained strong. EBITDA/t at ₹ 14,145 down by 18% on YoY and increased by 16% QoQ. PAT stood at ₹34.7 billion and increased 9% YoY and 177% on QoQ.
- ❑ During FY21, operating revenue has increased 12.1% to ₹ 691.1 billion. Operating profit margin has jumped from 16.5% to 18.4%, leading to 24.8% rise in operating profit to ₹ 127.4 billion. In FY21, sales volumes went up to 14.9MT (14.2MT in FY20). The Covid-19 related disruptions in Q1 FY21, were offset by strong rebound in demand in the second half of the year. Company sold 3.2 MT of iron ore worth ₹ 12 billion in FY21. Management has targeted 13.5 MT for FY22, including fresh fines and tailings.
- ❑ In FY21, the company reduced debt by nearly ₹ 200 billion to ₹ 354 billion. The company has changed the mix of its loans with higher reduction in long-term debt. Consequently, net debt to EBITDA at the end of FY21 stood at 2.54x. Management targets reduction of debt to ₹ 250 billion by the end of FY22, with free cash flow being utilized entirely for debt reduction. Average interest rates now stand at 6.34% as compared to 7.7% in FY20.
- ❑ FY22 capex is targeted at ₹ 80 billion following government directive. However, management expects the disbursal to be lower as incremental tendering is yet to start. Management expects FY22 capex to be higher than ₹ 40 billion. Maintenance capex as part of the initial outlay was at ₹ 20 billion, while ₹ 20 billion was earmarked to settle payments of old Modernization plans for plants which have been commissioned.
- ❑ We believe Indian steel names with financial leverage could outperform significantly as deleveraging could surpass even the loftiest of street estimates. Going ahead, we expect SAIL's performance to improve further driven by realization uptick, volume growth and iron ore sales providing additional revenue stream. We maintain our **BUY** recommendation on the stock with a LONG rating and value the stock at 4.5x EV/EBITDA and arrive at a price target of ₹ 181.

## Financials:

(In ₹ mn)	Q4-FY21	Q4-FY20	Chg	12M-FY21	12M-FY20	Chg
Net Sales	232,849	161,718	44.0%	691,136	616,642	12.1%
Operating Expense	171,310	97,180	76.3%	563,749	514,484	9.6%
EBITDA	61,539	64,538	-4.6%	127,387	102,157	24.7%
Other Income	2,483	4,029	-38.4%	8,607	9,058	-5.0%
Depreciation	11,579	10,555	9.7%	41,028	37,557	9.2%
EBIT	52,443	58,012	-9.6%	94,966	73,658	28.9%
Interest	5,404	9,086	-40.5%	28,172	34,868	-19.2%
PBT	47,039	48,926	-3.9%	66,795	38,790	72.2%
Tax	11,911	14,554	-18.2%	30,575	11,809	158.9%
Exceptional Items	(1,664.4)	(7,718)		584	(7,718)	
<b>PAT</b>	<b>33,464</b>	<b>26,654</b>	<b>25.5%</b>	<b>36,804</b>	<b>19,264</b>	<b>91.1%</b>
Minority /Other Adj.	1,235	(179)		4,677	1,943	
<b>Consolidated PAT</b>	<b>34,699</b>	<b>26,475</b>	<b>31.1%</b>	<b>41,481</b>	<b>21,207</b>	<b>95.6%</b>

Margins	Q4-FY21	Q4-FY20	Chg BPS	12M-FY21	12M-FY20	Chg BPS
Operating Margin %	26.4%	39.9%	-1348	18.4%	16.6%	186
Net Margin %	14.9%	16.4%	-147	6.0%	3.4%	256

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
Net Sales	616,642	691,136	927,360	969,000
Operating Expense	514,484	563,749	750,234	785,859
EBITDA	102,157	127,387	177,126	183,141
Other Income	9,058	8,607	9,274	9,690
Depreciation	37,557	41,028	41,175	43,024
EBIT	73,658	94,966	145,225	149,807
Interest	34,868	28,172	31,258	32,900
Misc. items	(7,718)	584	-	-
PBT	<b>31,073</b>	<b>67,379</b>	<b>113,967</b>	<b>116,907</b>
Tax	11,809	30,575	34,190	35,072
Minority Interest	1,943	4,677	-	-
PAT	<b>21,207</b>	<b>41,481</b>	<b>79,777</b>	<b>81,835</b>

Margins	FY-20	FY-21	FY-22E	FY-23E
Sales Growth %	-7.9%	12.1%	34.2%	4.5%
Operating Margin %	16.6%	18.4%	19.1%	18.9%
Net Margin %	3.4%	6.0%	8.6%	8.4%

(In ₹ mn)	FY-20	FY-21	FY-22E	FY-23E
<b><u>Liabilities</u></b>				
Equity Share Capital	41,305	41,305	41,305	41,305
Reserves & Surplus	373,797	412,757	492,534	574,368
Total Shareholder's Funds	415,102	454,062	533,839	615,674
Long-Term Liabilities	345,600	197,260	197,260	197,260
Other Long-term Liabilities	58,818	62,778	62,778	62,778
Deferred Tax Liability	(20,222)	13,341	13,341	13,341
Short-term Liabilities	450,360	464,976	662,073	689,108
<b>Total</b>	<b>1,249,766</b>	<b>1,192,459</b>	<b>1,469,291</b>	<b>1,578,161</b>
<b><u>Assets</u></b>				
Net Fixed Assets	777,865	807,340	848,427	860,923
Long-Term L&A	22,761	23,305	23,305	23,305
Non Current Investments	32,415	34,434	34,434	34,434
Other Non-Current Assets	4,759	5,538	5,538	5,538
Current Asset	411,966	321,842	557,587	653,961
<b>Total</b>	<b>1,249,766</b>	<b>1,192,459</b>	<b>1,469,291</b>	<b>1,578,161</b>

Particulars	FY-20	FY-21	FY-22E	FY-23E
EPS (₹)	5.1	10.0	19.3	19.8
P/E (x)	24.3	12.4	6.5	6.3
P/B (x)	1.2	1.1	1.0	0.8
ROE	5.1%	9.1%	14.9%	13.3%

## Key Risks:

- ❑ Moderation in domestic demand to lower infra spending
- ❑ Faster than-expected slowdown in Chinese and global demand
- ❑ Increase in coking coal prices



Rating and Target Price history:

SAIL rating history & price chart



SAIL rating details

Date	Rating	Target Price (₹)	Share Price (₹)
25-Feb-21	Buy	94	74
13-July-21	Buy	181	126

Source: Bloomberg, Anand Rath Research  
NOTE: Prices are as on 13 July 2021 close.



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