

SAIL

HOLD
CMP Rs206
TP Rs222

28 May 2010

SAIL's Q4FY10 bottomline was above our estimates, driven by lower than expected interests and depreciation. Strong steel prices and lower input costs led to a stunning growth in the earnings during the quarter.

Higher realisation offset fall in volumes: For Q4FY10, SAIL posted a flattish 1.5% YoY growth in its topline to Rs119.6bn (Rs117.7bn). Despite the volume de-growth of 5.2% YoY at 3.4mn tonnes (3.6mn tonnes), topline was supported by strong realisation, which grew by 7.2% YoY during the quarter. In FY10, topline de-grew 6.1% to Rs405.5bn (Rs431.9bn) due to 12.2% lower realisations. However, volumes grew by 7% in FY10 at 12.1mn tonnes (11.3mn tonnes), which arrested fall in the topline.

EBITDA improves on higher prices and lower costs: During Q4FY10, SAIL's EBITDA grew 48.8% YoY compared to flattish topline growth. The EBITDA margins expanded by 750bps at 23.6% (16.1%), on account of lower net raw material costs, which was down by 19.4% YoY, driven by lower contracted coking coal price. In FY10, EBITDA Margin was up by 300bps at 22.7% (19.7%), despite lower realisations YoY, due to lower employee cost as company net off the excess provisions in FY10.

Net profit ahead of estimates: During Q4FY10, strong steel prices and lower raw material costs led to net profit surging by 40.4% YoY at Rs20.9bn (IRs14.9bn). However, higher interest cost (due to additional borrowings), which was up by hefty 215% YoY at Rs1,347mn (Rs427mn) resisted the growth in the net profit. For FY10, the company posted 9.7% growth in net profit at Rs67.5bn (Rs61.5bn), due to lower employee costs.

VALUATIONS AND RECOMMENDATION

At CMP of Rs206, the stock is trading at FY11E and FY12E P/E of 9.8 and 8.9x and EV/EBITDA of 6.6x and 6.0x respectively. Though we have an overall positive outlook for the company, we believe that the current valuation does not provide enough room for appreciation. We value SAIL at FY12E EV/EBITDA of 6.5x to arrive at a fair value of Rs222. Hence, we maintain our 'HOLD' recommendation on the stock with a target price of Rs222.

KEY FINANCIALS

Rs mn	FY08	FY09	FY10P	FY11E	FY12E
Net Sales	400,010	431,880	405,514	517,596	578,614
YoY Gr.(%)	17.9	8.0	(6.1)	27.6	11.8
Op. Profit	110,635	84,947	91,894	130,514	150,405
Op. Marg.(%)	27.7	19.7	22.7	25.2	26.0
Adj. Net Profit	75,368	61,704	67,544	86,305	95,716
YoY Gr.(%)	21.5	(18.1)	9.5	27.8	10.9

KEYRATIO

Dil. EPS (Rs)	18.2	14.9	16.4	20.9	23.2
ROCE (%)	23.3	12.8	10.3	11.9	12.0
RoE (%)	32.7	22.0	20.4	21.7	20.3
PER (x)	11.3	13.8	12.6	9.8	8.9
EV/ Net Sales (x)	1.9	1.7	1.9	1.7	1.6
EV/EBIDTA (x)	6.7	8.7	8.5	6.6	6.0

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-09	Dec-09	Mar-10
Net sales	99,439	96,971	119,552
YoY Gr.(%)	(16.8)	11.2	1.5
Op.Profit	22,932	23,969	28,225
OPM(%)	23.1	24.7	23.6
Adj.Net Profit	16,635	16,756	20,849
YoY Gr. (%)	(17.2)	98.7	40.4

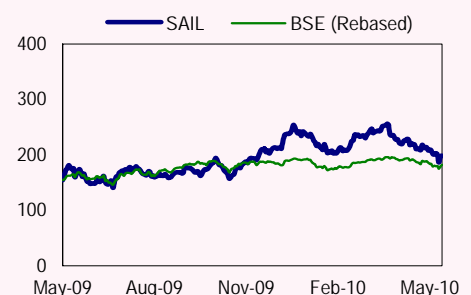
STOCK DATA

Market cap	Rs848.8bn
Book Value per share	Rs68
Shares O/S (F.V. Rs10)	4,130mn
Free Float	14.2%
Avg Trade Value (6 months)	Rs1,579mn
52 week High/Low	Rs259/139
Bloomberg Code	SAIL IN
Reuters Code	SAIL.BO

PERFORMANCE (%)

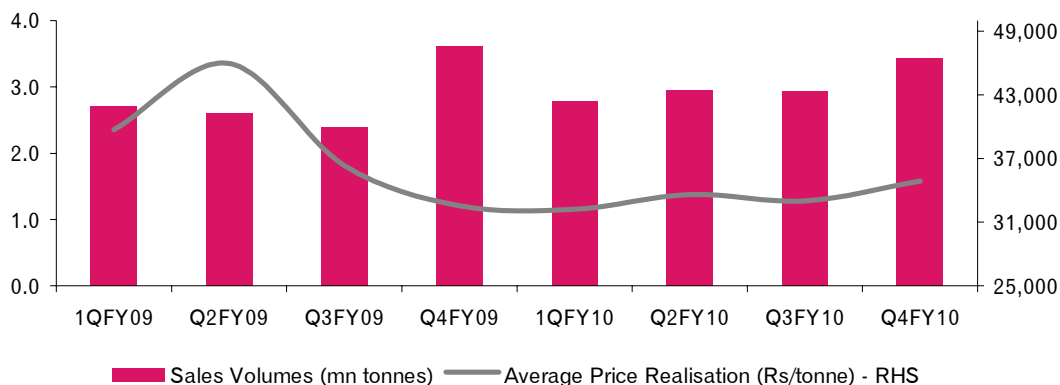
	1M	3M	12M
Absolute	(5.3)	(5.8)	25.1
Relative	(2.3)	(8.4)	7.2

RELATIVE PERFORMANCE



Result Review

Exhibit 1 - Volume and Realisation trend



Source: Company, PINC Research

Expansions well on track

To leverage the strong domestic story, SAIL is almost doubling its saleable steel capacity from 12.5mtpa (FY09) to 23.1mtpa by 2014. The capacity expansion is advancing in phases; in phase I, the company will expand its capacity to 20.2mtpa by 2012. We believe that the expansion along with the modernisation programme would help SAIL reduce its fixed cost/tonne over the long term.

Exhibit 2 - Capacity expansion plans

Mn tonnes	Existing Capacity	Post Expansion by 2012	Post Expansion by 2014
Hot Metal	14.4	23.5	26.2
Crude Steel	13.4	21.4	24.6
Saleable steel	12.5	20.2	23.1
Captive Power (MW)	872	1,922	1,922

Source: Company, PINC Research

Huge capex in place

For its expansion programme, SAIL has planned a capex of Rs598bn, of which ~Rs175bn has already been utilised in FY08, FY09 and FY10. Of the total capex planned, Rs70bn would be spent for value addition/product mix, Rs35bn for modernization and technology up-gradation, and Rs123bn for sustenance including de-bottlenecking, AMR and the environment.

Exhibit 3 - Capex Break up

Purpose	Capex (Rs mn)
Expansion to 20.2	370
Additional Capex	
Value addition/product mix improvement	70
Technological Upgradation/ Moderanisation	35
Sustenance including debottlenecking, AMR and Environment	123
Total	598

Source: Company, PINC Research

Exhibit 4 - Q4FY10 Quarterly Snapshot								
Rs mn	Q4FY10	Q4FY09	YoY (%)	Q3FY10	QoQ (%)	FY10	FY09	YoY (%)
Net Sales	119,552	117,740	1.5	96,971	23.3	405,514	431,880	(6.1)
Net Raw Material	51,574	63,949	(19.4)	36,127	42.8	171,984	169,320	1.6
(% of Net Sales)	43.1	54.3		37.3		42.4	39.2	
Employee Costs	16,381	13,519	21.2	15,712	4.3	54,168	84,615	(36.0)
(% of Net Sales)	13.7	11.5		16.2		13.4	19.6	
Power & Fuel	9,494	8,170	16.2	7,180	32.2	33,643	31,832	5.7
(% of Net Sales)	7.9	6.9		7.4		8.3	7.4	
Other expenses	13,878	13,129	5.7	13,983	(0.7)	53,825	61,168	(12.0)
(% of Net Sales)	11.6	11.2		14.4		13.3	14.2	
Total Expenditure	91,327	98,767	(7.5)	73,002	25.1	313,620	346,934	(9.6)
Operating Profits	28,225	18,972	48.8	23,969	17.8	91,894	84,947	8.2
EBITDA Margins (%)	23.6	16.1		24.7		22.7	19.7	
Interest	1,347	427	215.4	1,101	22.3	4,020	2,594	55.0
Depreciation	3,384	3,305	2.4	3,390	(0.2)	13,372	12,878	3.8
Other Income	7,175	7,454	(3.7)	5,883	22.0	26,819	24,354	10.1
Extraordinary items	-	160		-		-	160	
Profit before Tax	30,668	22,854	34.2	25,361	20.9	101,320	93,989	7.8
(% of Net Sales)	25.7	19.4		26.2		25.0	21.8	
Total Tax	9,819	8,002	22.7	8,605	14.1	33,777	32,285	4.6
(% of PBT)	32.0	35.0		33.9		33.3	34.3	
Profit after Tax	20,849	14,852	40.4	16,756	24.4	67,544	61,544	9.7
(% of Net Sales)	17.4	12.6		17.3		16.7	14.3	

Source: Company, PINC Research

Figures in Rs mn

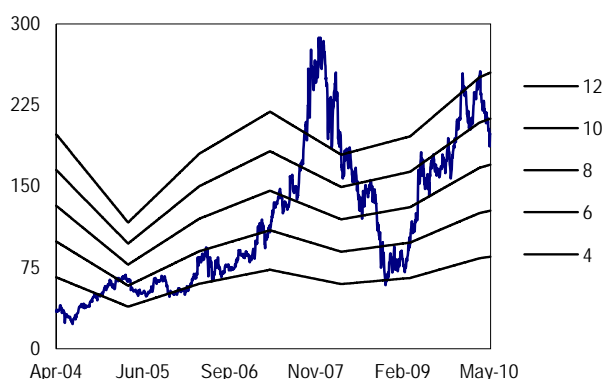
Income Statement	FY08	FY09	FY10P	FY11E	FY12E
Net sales	400,010	431,880	405,514	517,596	578,614
Growth (%)	17.9	8.0	(6.1)	27.6	11.8
Operating Profit	110,635	84,947	91,894	130,514	150,405
Other operating income	-	-	-	-	-
EBITDA	110,635	84,947	91,894	130,514	150,405
Growth (%)	23.4	(23.2)	8.2	42.0	15.2
Depreciation	12,355	12,878	13,372	17,580	21,055
Other Income	18,917	24,354	26,819	25,895	30,951
EBIT	117,197	96,423	105,340	138,829	160,301
Interest Paid	2,509	2,594	4,020	8,063	15,277
PBT (before E/o items)	114,687	93,829	101,320	130,766	145,024
Tax Provision	39,320	32,285	33,777	44,460	49,308
E/o loss/(income)	-	160	-	-	-
Net Profit	75,368	61,544	67,544	86,305	95,716
Adjusted Net Profit	75,368	61,704	67,544	86,305	95,716
Growth (%)	21.5	(18.1)	9.5	27.8	10.9
Diluted EPS (Rs)	18.2	14.9	16.4	20.9	23.2
Diluted EPS Growth (%)	21.5	(18.1)	9.5	27.8	10.9

Cash Flow Statement	FY08	FY09	FY10P	FY11E	FY12E
Pre-tax profit	114,687	94,035	101,320	130,766	145,024
Depreciation	12,343	12,873	13,372	17,580	21,055
Total Tax Paid	(37,826)	(31,393)	(33,777)	(44,460)	(49,308)
Chg in working capital	(7,434)	(24,176)	5,660	(19,116)	(11,093)
Other operating activities	2,011	9,903	(15,706)	(12,086)	(9,448)
Cash flow from oper (a)	83,782	61,243	70,870	72,683	96,230
Capital Expenditure	(21,988)	(54,025)	(106,060)	(150,000)	(125,000)
Chg in investments	(244)	(1,141)	(0)	-	-
Other investing activities	10,833	11,101	19,682	20,150	24,725
Cash flow from inv. (b)	(11,399)	(44,065)	(86,378)	(129,850)	(100,275)
Free cash flow (a+b)	72,383	17,178	(15,508)	(57,167)	(4,045)
Equity raised/(repaid)	8	9	-	-	-
Debt raised/(repaid)	(11,124)	45,197	89,000	50,000	10,000
Change in minority interest	-	-	-	-	-
Dividend (incl. Tax)	(16,430)	(14,960)	(15,805)	(20,195)	(22,398)
Other financing activities	(3,341)	(2,733)	(4,020)	(8,063)	(15,277)
Cash flow from fin ©	(30,887)	27,513	69,175	21,741	(27,675)
Net chg in cash (a+b+c)	41,496	44,691	53,667	(35,426)	(31,720)

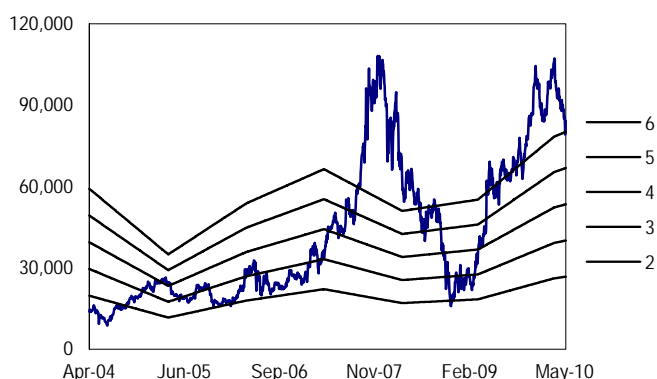
Balance Sheet	FY08	FY09	FY10P	FY11E	FY12E
Equity Share Capital	41,304	41,304	41,304	41,304	41,304
Reserves & surplus	189,332	238,537	290,231	356,341	429,660
Shareholders' funds	230,636	279,841	331,535	397,645	470,964
Minorities interests	-	-	-	-	-
Total Debt	30,452	75,388	164,388	214,388	224,388
Capital Employed	261,088	355,229	495,923	612,033	695,351
Net fixed assets	139,609	188,131	280,818	413,238	517,183
Cash & Cash Eq.	137,594	182,285	235,952	200,526	168,806
Net Other current assets	(6,406)	(8,393)	(14,052)	5,064	16,157
Investments	5,382	6,527	6,527	6,527	6,527
Net Deferred tax Assets	(15,091)	(13,322)	(13,322)	(13,322)	(13,322)
Total Assets	261,088	355,229	495,923	612,033	695,351

Key Ratios	FY08	FY09	FY10P	FY11E	FY12E
OPM (%)	27.7	19.7	22.7	25.2	26.0
Net Margin (%)	18.8	14.3	16.7	16.7	16.5
Yield (%)	2.1	1.5	1.9	2.4	2.6
Net debt/Equity (x)	(0.5)	(0.4)	(0.2)	0.0	0.1
Working Capital Days	130	152	139	129	129
RoCE (%)	23.3	12.8	10.3	11.9	12.0
RoE (%)	32.7	22.0	20.4	21.7	20.3
EV/Net Sales (x)	1.9	1.7	1.9	1.7	1.6
EV/EBITDA (x)	6.7	8.7	8.5	6.6	6.0
PER (x)	11.3	13.8	12.6	9.8	8.9
PCE (x)	9.7	11.4	10.5	8.2	7.3
Price/BV (x)	3.7	3.0	2.6	2.1	1.8

1 Year forward P/E Band



1 Year forward EV/EBIDTA



T E A M

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