

Date: 3 June 2010

C.M.P:
Rs.202.85

Target Price:
Rs.243.00

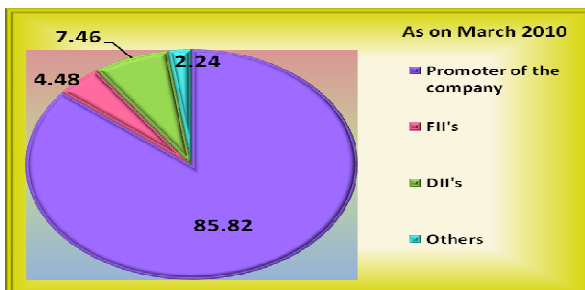
1 Year Comparative Graph



Stock Data

Sector	Steel
Face Value(Rs)	10.00
52 wk. High/Low (Rs.)	258.55/138.60
Volume (2 wk. Avg.)	820000
BSE Code	500113
Market Cap(Rs in Mn)	837851.6

Share Holding Pattern



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SYNOPSIS

- Steel Authority of India Limited (SAIL) is the leading steel-making company in India. It is a fully integrated iron and steel maker, producing both basic and special steels for domestic construction, engineering, power, railway, automotive and defence industries and for sale in export markets.
- Ranked amongst the top ten public sector companies in India in terms of turnover.
- The company has the distinction of being India's second largest producer of iron ore and of having the country's second largest mines network.
- The revenue of the company for the quarter ended on March 31st increased 1% YoY while Profit increased 40% YoY.
- The topline of the company are expected to grow at a CAGR of 4% over 2009A to 2012E.

Financials (Rs in Mn)

	FY10A	FY11E	FY12E
Net Sales	413072	454379	499817
EBIDTA	118712	136090	149294
PAT	67543	78810	86949
EPS	16.3	19.08	21.05
P/E	12.4	10.6	9.64

Peer Group Comparison

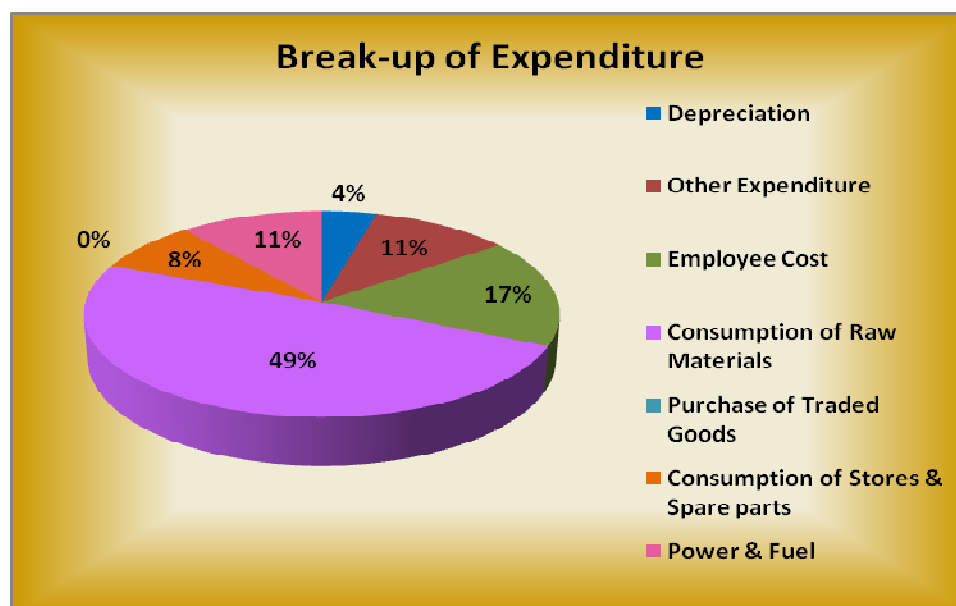
Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
SAIL	202.85	837851.6	19.08	12.40	2.51	13
Monnet Ispat	370.00	19335.5	50.8	7.27	1.31	50
JSW	1070.05	200151.4	108.1	9.90	2.08	10
Jindal Steel & Power Ltd	633.55	590143.0	15.8	39.8	10.9	550

Investment Highlights

FY10 Performance

Net profit of the company has increased at yoy 9.4% Rs.67543.70mn from Rs.61748.10mn of same period of last year. Total revenue for the year stood at Rs.413072.10 mn from Rs.442084.30 which is 6.6% decreased than that of a year ago. EPS for the year stood at Rs.16.35 per equity share of Rs.10.00 each.

Operating profit of the company stood at Rs.118712.80mn. OPM for the year stood at 29%. Expenditure of the company decreased 10.8% YoY to Rs.313619.80 mn. Interest expenses for the year stood at Rs.4020.10mn.

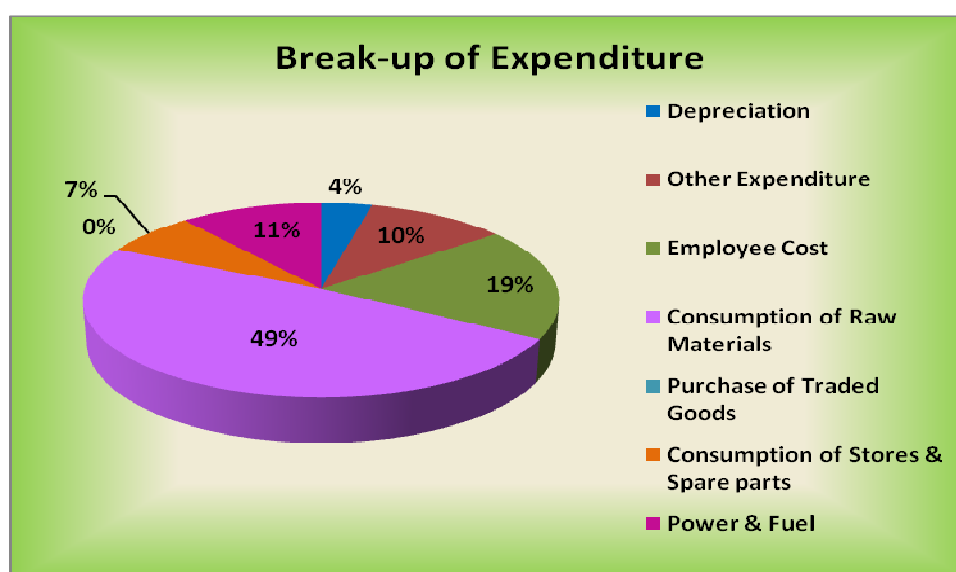


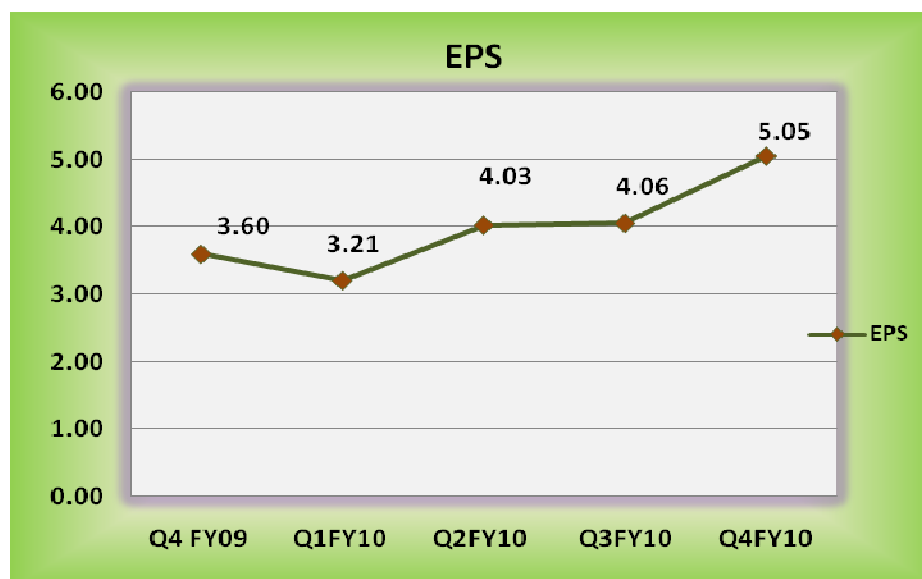
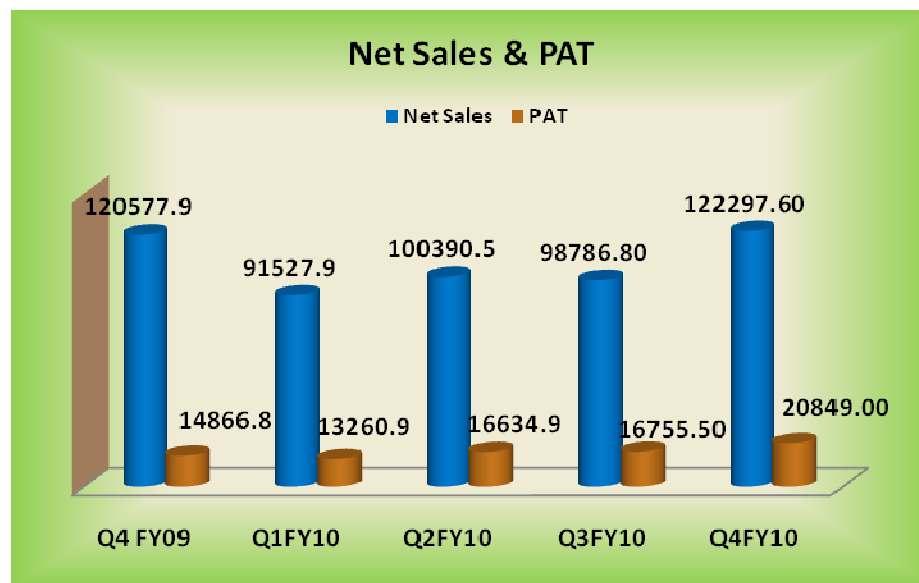
■ Results Updates (Q4 FY10)

The bottomline of the company for the quarter increased at 40% yoy Rs.20849.00mn from Rs.14866.80mn of same period of last year. Total revenue for the fourth quarter stood at Rs.122297.60 mn from Rs.120577.90 which is 1% increased than that of a year ago. EPS for the quarter stood at Rs.5.05 per equity share of Rs.10.00 each.

Expenditure of the company decreased 8% YoY to Rs.91327.00mn from Rs.99320.60mn of same period of last year. Interest expenses for the quarter stood at Rs.1347.10mn. OPM & NPM for the quarter stood at 29% and 17% respectively.

Quarterly Results - Standalone (Rs in mn)			
As At	Mar-10	Mar-09	%Change
Net sales	122297.6	120577.9	1
PAT	20849.0	14866.8	40
Basic EPS	5.05	3.60	40
Equity Capital	41304.00	41304.00	





- The company's improved profitability in Q4 was mainly due to market-oriented product-mix, 37% increase in production of value-added steels and several cost efficiency measures. Improved sales realisation during the quarter and reduction in cost of some inputs like imported coking coal and ferro-alloys also boosted the bottomline.

- The SAIL Board has recommended final dividend payment to company shareholders at 17% of paid-up equity, with total dividend payout (including interim dividend of 16%) for the year 2009-10 at 33% amounting to Rs. 1,363 crore.
- During FY '10, the SAIL plants produced 14.5 million tonnes of hot metal and 13.5 million tonnes of crude steel and 12.6 million tonnes of saleable steel (capacity utilisation of 114%). With demand for special and value-added steels rising, SAIL continued its special thrust on production of value-added and special steel products. This resulted in production of value-added products reaching a record level of 4.6 million tonnes, a growth of 24% over FY'09.
- Under SAIL's modernisation & expansion plan, capital expenditure at Rs. 2,894 crore in Q4 was 45% higher than Rs. 2,002 crore in CPLY. During FY '10, the company's capex touched Rs. 10,606 crore – more than twice the previous year (Rs. 5,233 crore). Modernisation & expansion projects at Salem Steel Plant which involve installation of new steel making facilities and a new cold rolling mill are ready to be commissioned shortly. Several stand-alone projects have been commissioned during the year, namely new slab caster with RH degasser and ladle furnace and rebuilt Coke Oven Battery-5 at Bhilai, augmented coking coal storage facilities at Bokaro, rebuilt Coke Oven Battery-4 and new coke oven gas holder at Rourkela, as well as a new bloom caster at VISL.
- During the year, several cost efficiency and administrative measures resulted in savings of over Rs. 2,000 crore during the year. Improvement in major techno-economic parameters – best-ever coke rate, lowest-ever energy consumption and 4% improvement in blast furnace productivity – contributed substantially to cost savings.
- FY '10 was a milestone year for SAIL in terms of obtaining raw material security. After more than two decades of intense efforts, the company secured mining lease of Rowghat mines in Chhattisgarh in October '09. Rowghat, with estimated

reserves of 500 million tonnes of iron ore, will meet Bhilai Steel Plant's needs for the next 30 years. The process for setting up a 14 million tonnes per annum (MTPA) state-of-the-art mining facility at Rowghat has been initiated by the company. SAIL also obtained in-principle clearance in October '09 from the Jharkhand government for renewal of the Budhaburu lease in Chiria/Gua, which has a reserve of about 810 million tonnes of iron ore. The detailed project report for setting up a 7 MTPA mining facility here is also underway.

- A number of new strategic initiatives and alliances also made FY '10 significant for SAIL. Erstwhile Bharat Refractories Limited was merged with SAIL in July '09 and renamed as SAIL Refractory Unit. The company also acquired the assets of Malvika Steel Limited at Jagdishpur in Uttar Pradesh and in the initial stage would put up a 1.75-lakh tonne capacity TMT bar production facility, crash barriers and corrugation plant. A joint venture agreement was also signed with Shipping Corporation of India to set up a shipping company to initially handle a part of SAIL's coal import needs. SAIL is also exploring setting up joint ventures with other steel majors.

Company Profile

Steel Authority of India Limited (SAIL) is the leading steel-making company in India. It is a fully integrated iron and steel maker, producing both basic and special steels for domestic construction, engineering, power, railway, automotive and defence industries and for sale in export markets.

Ranked amongst the top ten public sector companies in India in terms of turnover, SAIL manufactures and sells a broad range of steel products, including hot and cold rolled sheets and coils, galvanised sheets, electrical sheets, structurals, railway products, plates, bars and rods, stainless steel and other alloy steels. SAIL produces iron and steel at five integrated plants and three special steel plants, located principally in the eastern and central regions of India and situated close to domestic sources of raw materials, including the Company's iron ore, limestone and dolomite mines. The company has the distinction of being India's second largest producer of iron ore and of having the country's second largest mines network. This gives SAIL a

competitive edge in terms of captive availability of iron ore, limestone, and dolomite which are inputs for steel making.

SAIL's wide range of long and flat steel products are much in demand in the domestic as well as the international market. This vital responsibility is carried out by SAIL's own Central Marketing Organisation (CMO) that transacts business through its network of 37 Branch Sales Offices spread across the four regions, 25 Departmental Warehouses, 42 Consignment Agents and 27 Customer Contact Offices. CMO's domestic marketing effort is supplemented by its ever widening network of rural dealers who meet the demands of the smallest customers in the remotest corners of the country. With the total number of dealers over 2000 , SAIL's wide marketing spread ensures availability of quality steel in virtually all the districts of the country.

Subsidiary

Maharashtra Elektrosmet Limited (MEL) in Maharashtra

Joint Ventures

- NTPC SAIL Power Company Pvt. Ltd (NSPCL)
- Bokaro Power Supply Company Pvt. Limited (BPSCL)
- Mjunction Services Limited
- SAIL-Bansal Service Center Ltd
- Bhilai JP Cement Ltd
- Bokaro JP Cement Ltd
- SAIL&MOIL Ferro Alloys (Pvt.) Limited
- S&T Mining Company Pvt. Ltd
- International Coal Ventures Private Limited

Ownership and Management

The Government of India owns about 86% of SAIL's equity and retains voting control of the Company. However, SAIL, by virtue of its 'Navratna' status, enjoys significant operational and financial autonomy.

Major Units

Integrated Steel Plants

Bhilai Steel Plant (BSP) in Chhattisgarh

Durgapur Steel Plant (DSP) in West Bengal

Rourkela Steel Plant (RSP) in Orissa

Bokaro Steel Plant (BSL) in Jharkhand

IISCO Steel Plant (ISP) in West Bengal

Special Steel Plants

Alloy Steels Plants (ASP) in West Bengal

Salem Steel Plant (SSP) in Tamil Nadu

Visvesvaraya Iron and Steel Plant (VISL)
in Karnataka



Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	FY09A	FY10A	FY11E	FY12E
Description	12m	12m	12m	12m
Net Sales	442,084.30	413,072.10	454379.31	499817.24
Other Income	19,023.20	19,260.50	20223.53	21841.41
Total Income	461,107.50	432,332.60	474602.84	521658.65
Expenditure	-351,689.40	-313,619.80	-338512.59	-372363.84
Operating Profit	109,418.10	118,712.80	136090.25	149294.80
Interest	-2,532.40	-4,020.10	-4422.11	-4775.88
Gross profit	106,885.70	114,692.70	131668.14	144518.92
Depreciation	-12,851.20	-13,372.40	-14041.02	-14743.1
Profit Before Tax	94,034.50	101,320.30	117627.12	129775.85
Tax	-32,286.40	-33,776.60	-38816.95	-42826.0
Net Profit	61,748.10	67,543.70	78810.17	86949.82
Equity capital	41,304.00	41,304.00	41,304.00	41,304.00
Reserves	238,537.00	291,863.00	370,673.17	457,622.99
EPS	14.95	16.35	19.08	21.05

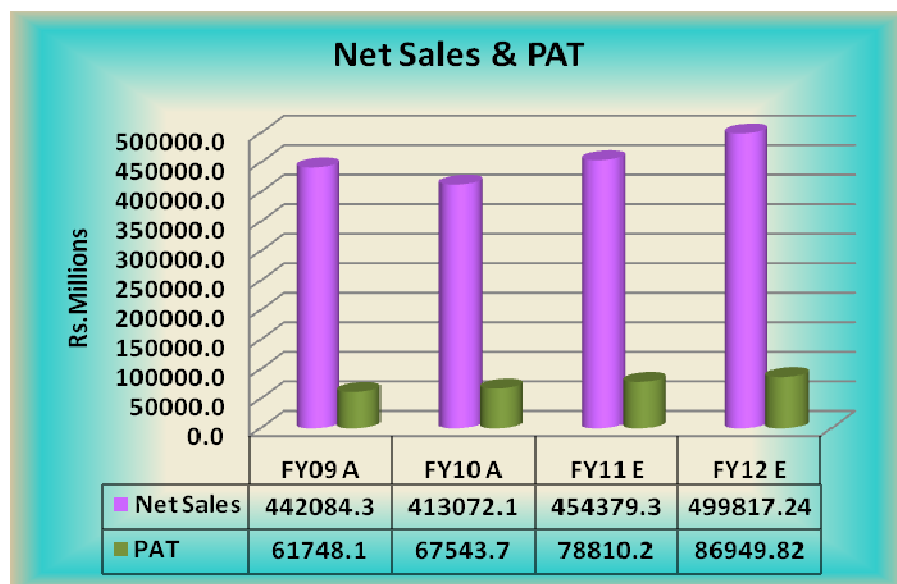
Quarterly Ended Profit & Loss Account (Standalone)

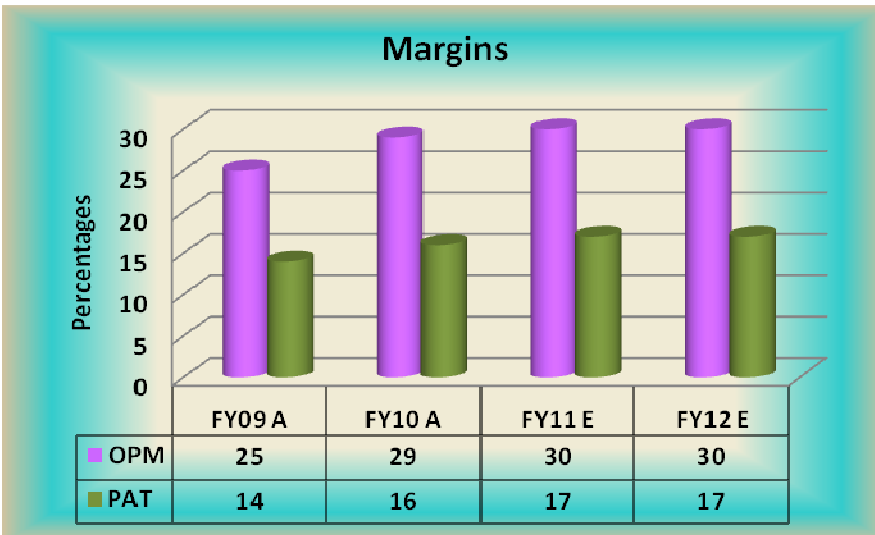
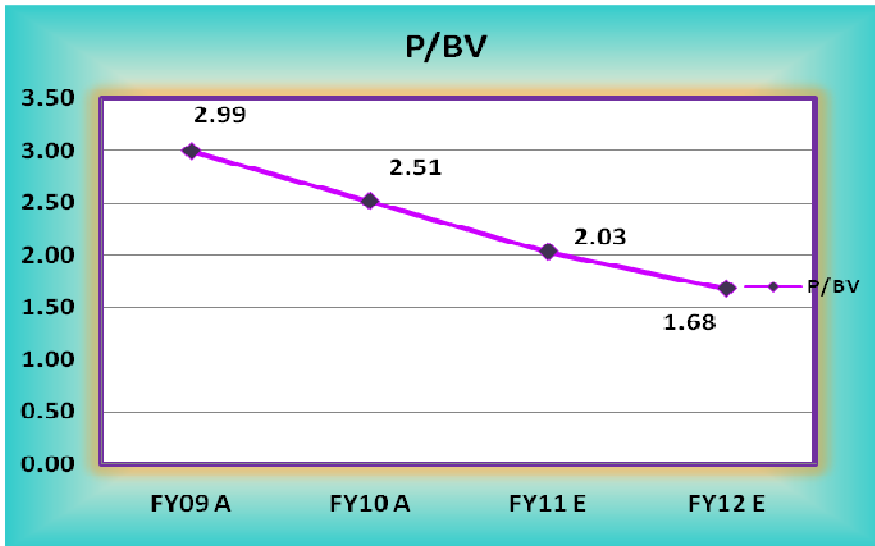
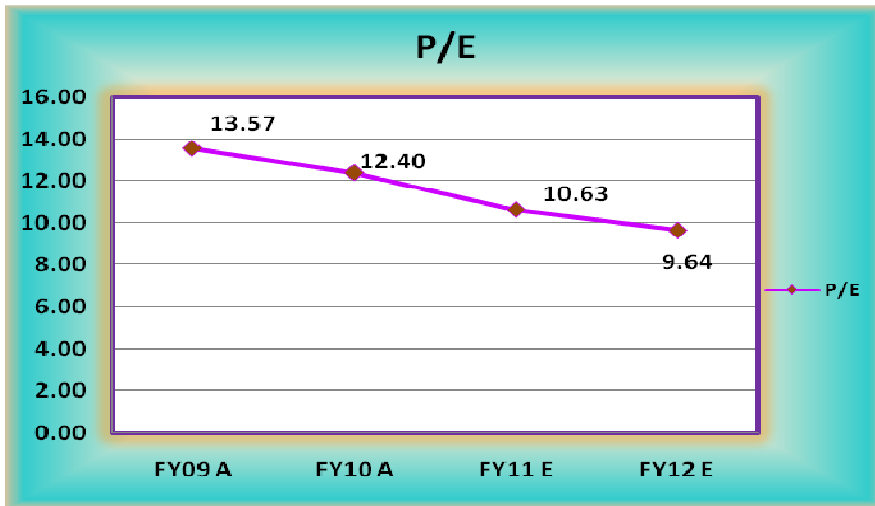
Value(Rs.in.mn)	Sep-09A	Dec-09A	Mar-10A	June-10E
Description	3m	3m	3m	3m
Net sales	100,390.50	98,786.80	122,297.60	124743.55
Other income	5,362.30	4,067.90	4,429.30	4650.77
Total Income	105,752.80	102,854.70	126,726.90	129394.32
Expenditure	-76,507.00	-73,002.40	-91,327.00	-92310.23
Operating profit	29,245.80	29,852.30	35,399.90	37084.09
Interest	-735	-1,101.10	-1,347.10	-1481.81
Gross profit	28,510.80	28,751.20	34,052.80	35602.28
Depreciation	-3,322.20	-3,390.40	-3,384.40	-3452.09
Profit Before Tax	25,188.60	25,360.80	30,668.40	32150.19
Tax	-8,553.70	-8,605.30	-9,819.40	-10293.84
Net Profit	16,634.90	16,755.50	20,849.00	21856.35
Equity capital	41,304.00	41,304.00	41,304.00	41304.00
EPS	4.03	4.06	5.05	5.29

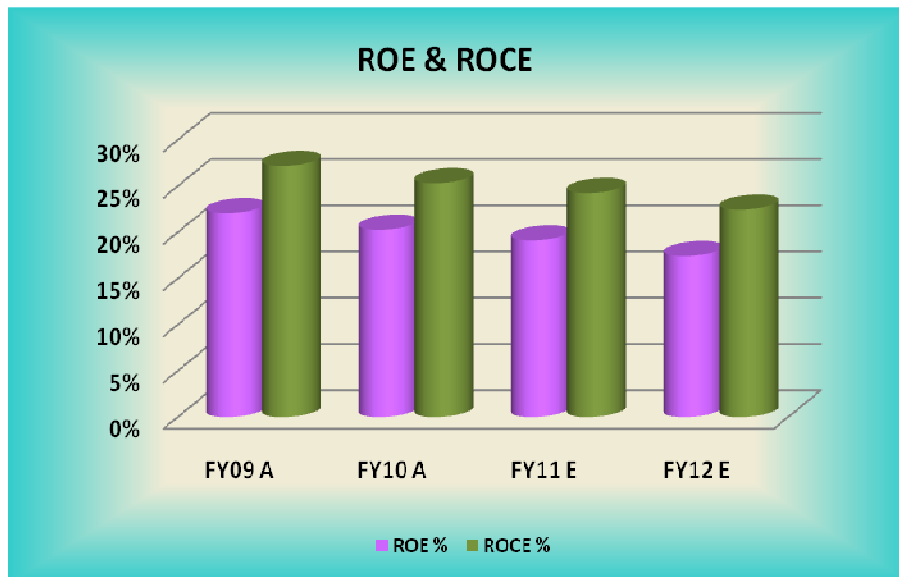
Key Ratio

Particulars	FY09 A	FY10 A	FY11 E	FY12 E
EBIDTA %	25%	29%	30%	30%
PAT %	14%	16%	17%	17%
P/E ratio (x)	13.57	12.40	10.63	9.64
ROCE - %	27%	25%	24%	22%
ROE - %	22%	20%	19%	17%
Price/Book Value	2.99	2.51	2.03	1.68
Debt Equity Ratio	0.27	0.25	0.22	0.20
Book Value (Rs.)	67.75	80.66	99.74	120.79
EV/EBIDITA (x)	7.66	7.06	6.77	6.73

Charts:







Outlook and Conclusion

- At the current market price of Rs.202.85, the stock trades at a P/E of 10.63x and 9.64x for FY11E and FY12E respectively.
- On the basis of EV/EBDITA, the stock trades at 6.77x and 6.73x for FY11E and FY12E respectively.
- Price to Book Value of the stock is expected to be at 2.03 and 1.68 respectively for FY11E and FY12E.
- EPS of the company is expected to be at Rs.19.08 and Rs.21.05 for the earnings of FY11E and FY12E respectively.
- The Net sales of the company are expected to grow at a CAGR of 4% over 2009 to 2012E.
- Under SAIL's modernization & expansion plan, capital expenditure at Rs. 2,894 crore in Q4 was 45% higher than Rs. 2,002 crore in CPLY.
- During FY '10, the company's capex touched Rs. 10,606 crore – more than twice the previous year (Rs. 5,233 crore). Modernisation & expansion projects at Salem

Steel Plant which involve installation of new steel making facilities and a new cold rolling mill are ready to be commissioned shortly.

- Several stand-alone projects have been commissioned during the year, namely new slab caster with RH degasser and ladle furnace and rebuilt Coke Oven Battery-5 at Bhilai, augmented coking coal storage facilities at Bokaro, rebuilt Coke Oven Battery-4 and new coke oven gas holder at Rourkela, as well as a new bloom caster at VISL.
- We recommend **'BUY'** in this particular scrip with a target price of Rs.**243.00** for Medium to Long Term Gains.

Industry Overview

The steel industry in India has been moving from strength to strength and according to the Annual Report 2009-10 by the Ministry of Steel, India has emerged as the fifth largest producer of steel in the world and is likely to become the second largest producer of crude steel by 2015-16.

Recently, Steel Minister, Mr Virbhadra Singh said that India will become the world's second-largest steel producer by 2012, more than doubling its capacity to 124 million tonnes (MT) as part of the push being given to assist overall infrastructure development.

Production

Steel production rose 4.2 per cent to reach 60 MT in 2009-2010, according to the Ministry of Steel.

The National Steel Policy 2005 had projected an annual steel consumption growth of 7 per cent based on GDP growth rate of 7-7.5 per cent and production of 110 MT of crude steel by 2019-2020. Nonetheless, with the current rate of ongoing greenfield and

brownfield projects, the Ministry of Steel has projected that these growth trends are likely to be exceeded and it is envisaged that in the next five years demand will grow at higher annual average growth rate of over 10 per cent as compared to around 7 per cent growth achieved between 1991-92 and 2005-06.

Moreover, according to the ministry, the crude steel production capacity in the country by 2011-12 will be nearly 124 MT.

According to the Ministry of Steel, 222 memorandum of understanding (MoUs) have been signed with various states for planned capacity of around 276 MT. Major investment plans are in Orissa, Jharkhand, Chattisgarh, West Bengal, Karnataka, Gujarat and Maharashtra.

According to the Annual Report 2009-10 by the Ministry of Steel, domestic crude steel production grew at a compounded annual growth rate of 8.6 per cent during 2004-05 and 2008-09.

Consumption

India's steel consumption rose 8 per cent in the year ended March 2010, over the same period a year ago on account of improved demand from sectors like automobile, infrastructure and housing. The country's steel consumption increased to 56.3 MT in the 12 months to March 2010 from 52.3 MT in the previous year, as per the Ministry of Steel.

Investments

A host of steel companies have lined up major investment proposals. Furthermore, with an expanding consumer market, the Indian steel industry is likely to receive huge domestic and foreign investments.

The domestic steel sector has attracted a staggering investment of about US\$ 238 billion, according to the Minister of State for Steel, Mr A. Sai Prathap.

This consists of nearly 222 MoUs signed between the investors and various state governments mostly in the states of Orissa, Jharkhand, Chhattisgarh and West Bengal.

- SAIL is planning to set up a 12-million tonne plant in Jharkhand.
- In December, India's largest engineering conglomerate Larsen & Toubro (L&T) and state-owned Nuclear Power Corporation of India Limited (NPCIL) formed a US\$ 373.2 million joint venture for specialised steel and forging products.
- Stainless steel manufacturer and exporter, Varun Industries, is setting up a US\$ 171.8 million stainless steel-cum-alloy steel plant at Rohat, Jodhpur.
- Tata Steel has entered into a joint venture with Japan's Nippon Steel for production and sales of automotive cold-rolled flat products at Jamshedpur. The JV is expected to invest US\$ 400 million to set up an automobile venture in India.
- Steel major, JSW Steel has earmarked a capex of US\$ 1.6 billion for 2010-11 and plans to increase capacity of its Bellary plant in Karnataka from 7 MT to 10 MT by end of 2010-11.

Government Initiative

As per the Press Information Bureau, during 2009, the government took a number of fiscal and administrative steps to contain steel prices. Central value added tax (CENVAT) on steel items was reduced from 14 per cent to 10 per cent with effect from February 2009.

Moreover, in the Union Budget 2010-11, the government has allocated US\$ 37.4 billion to the infrastructure sector and has increased the allocation for road transport by 13 per cent to US\$ 4.3 billion which will further promote the steel industry.

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