

SAIL

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Under Review / Rs 173

Margin woes continue

Steel Authority of India (SAIL) reported a 12.6 % dip in revenues for the quarter ended March 2009 to Rs 120.6bn, largely due to a 16% decline in realisations. EBITDA margins stood at 8.6% a decline of 1,795bps YoY, primarily due to higher input costs. This resulted in SAIL's bottom line declining by 83.4% YoY to Rs 3.93bn. However, a write-back to the tune of Rs 10.7 bn relating to an ad-hoc payment made earlier for employee's provision for wage revision resulted in the reported PAT declining by a lesser 37% to Rs 14.86 bn. For FY09, the company reported revenues of Rs 442 bn and PAT of Rs 61.6 bn.

Other Q4FY09 highlights

- Sales volumes down 5.3% YoY, but up 51% QoQ.
- Realisations for the quarter stood at ~Rs 33,309/ton as compared to Rs 39,403/ton in Q4FY08. EBITDA/ton was down 72.7% YoY to Rs 2,852.
- Other income stood at Rs 5.32bn, an increase of 41.1% YoY, mainly due to higher yield on investments.
- Bhilai plant continues to deliver strong performance with 34.2% EBIT margins, as compared to 2-11% margins for all other plants.
- Inventory currently stands at 1 mn tonnes of steel, 0.5 mn tonnes of coking coal and 0.5 mn tonnes of coking coal in transit.
- The company has decided to change its coking coal contract period from July-June to April-March; hence currently the company has carry over obligation to the tune of ~4 mn tonnes (\$300/ton). This unutilised coke is planned to be used over the next three years, to reduce the cost burden.

Steel Outlook— Domestic scenario totally different from international

- With steel prices correcting sharply due to the global slowdown in demand, after hitting their all-time highs in July last year, prices have stabilised at the current levels. We believe that the medium-term environment continues to be challenging for steel companies across the globe, but India, which is seeing good demand largely for long products. With new contracts for key raw materials signed at significantly lower rates, in our view steel prices have almost bottomed out.
- Although SAIL is secure in terms of iron ore and has its own captive mines, for coking coal, the company is dependent on external sources. Despite prices of the same being contracted ~57% lower than FY09, the company's carry forward quantity is quite high and hence margins would continue to remain under some pressure.

Valuations

At the CMP of Rs 173, the stock trades at 11.6x its FY09 earnings and 6.4x EV/EBITDA. We shall soon come out with a detailed report and revised earnings estimates.

This note should be read for:

- Q4FY09 results analysis

Bloomberg code : SAIL IN
Reuters code : SAIL.BO
www.sail.co.in

BSE Sensex : 14296
NSE Nifty : 4337

Company data

O/S shares :	4130mn
Market cap (Rs) :	684bn
Market cap (USD) :	13.8bn
52 - wk Hi/Lo (Rs) :	182 / 55
Avg. daily vol. (3mth) :	17.4mn
Face Value (Rs) :	10

Share holding pattern, %

Promoters :	85.8
FII / NRI :	3.8
FI / MF :	7.5
Non Promoter Corp. Holdings :	0.6
Public & Others :	2.1

Price performance, %

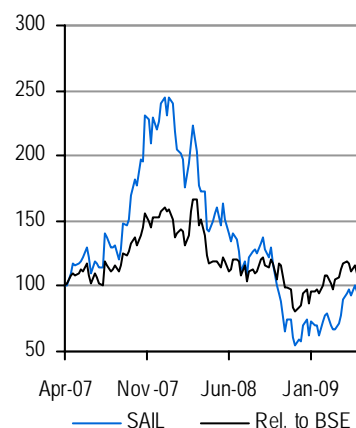
	1mth	3mth	1yr
Abs	53.3	117.8	0
Rel to BSE	23.4	57.0	13.5

Valuation summary

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009	FY2010E
Net Sales	282,883	343,331	399,993	437,028	571,604
Core EBITDA	66,590	98,398	115,476	90,235	134,631
EBITDA margins, %	23.5	28.7	28.9	20.6	23.6
Net profit	39,434	61,607	74,685	61,588	84,816
PAT margins, %	13.6	17.4	18.1	13.5	14.6
EPS, Rs	9.5	14.9	18.1	14.9	20.5
EPS Growth, %	-41.0	56.2	21.2	-17.5	37.7
PER, x	18.1	11.6	9.6	11.6	8.4
EV/EBITDA, x	10.4	6.7	5.3	6.4	4.6
EV/Net Sales, x	2.5	1.9	1.5	1.3	1.1
Price/Book Value, x	5.8	4.2	3.1	2.6	2.1
ROIC, %	33.8	46.5	52.0	36.0	38.7
ROE, %	35.2	41.7	37.2	24.2	27.2
Dividend Yield, %	1.3	2.1	2.5	1.7	2.7

Source: Company, MF Global India Research Estimates

Price vs. Sensex



Source: Bloomberg, MF Global India Research

Q4FY09 Results

(Rs mn)	Mar-09	Mar-08	% Chg	Dec-08	% Chg
Net Sales	120,578	137,912	(12.6)	89,206	35.2
EBITDA	10,325	36,569	(71.8)	11,287	(8.5)
Other income	5,323	3,774	41.1	5,550	(4.1)
PBIDT	15,648	40,343	(61.2)	16,837	(7.1)
Depreciation	3,298	3,171	4.0	3,194	3.3
Interest	412	522	(21.1)	1,078	(61.8)
PBT	11,938	36,650	(67.4)	12,566	(5.0)
Tax	8,004	12,883	(37.9)	4,132	93.7
Other provisions	0	0		0	
Adjusted PAT	3,934	23,768	(83.4)	8,433	(53.3)
Extra ordinary income/ (exp.)	10,933	0		0	
Reported PAT	14,867	23,768	(37.4)	8,433	76.3
No. of shares (mn)	4,130	4,130		4,130	
EBITDA margins (%)	8.6	26.5	-	12.7	-
PBIDT margins (%)	13.0	29.3	-	18.9	-
EPS - non annualized (Rs.)	1.0	5.8	(83.4)	2.0	(53.3)

Source: Company, MF Global India Research Estimates

FINANCIALS

Income Statement

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009	FY2010E
Net sales	282,883	343,331	399,993	437,028	571,604
<i>Growth, %</i>	-1.2	21.4	16.5	9.3	30.8
Other operating income	3,984	4,475	4,917	5,057	6,495
Total income	286,867	347,806	404,910	442,084	578,099
Operating expenses	-220,277	-249,408	-289,434	-351,850	-443,468
EBITDA	66,590	98,398	115,476	90,235	134,631
<i>Growth, %</i>	-37.1	47.8	17.4	-21.9	49.2
<i>Margin, %</i>	23.5	28.7	28.9	20.6	23.6
Depreciation	-12,073	-12,115	-12,355	-12,851	-15,889
EBIT	54,517	86,283	103,121	77,384	118,742
<i>Growth, %</i>	-42.3	58.3	19.5	-25.0	53.4
<i>Margin, %</i>	19.3	25.1	25.8	17.7	20.8
Interest received/(paid)	-4,678	-3,321	-2,509	-2,532	-1,236
Other Income	6,523	10,848	13,393	19,023	10,809
Income from Associates	0	0	0	0	0
Pre-tax profit	56,362	93,810	114,004	93,874	128,315
Tax provided	-16,928	-32,203	-39,320	-32,286	-43,499
Profit after tax before MI	39,434	61,607	74,685	61,588	84,816
Minority Interest/Associates	0	0	0	0	0
Profit after tax after MI & Extra-ordinary Items	39,434	61,607	74,685	61,588	84,816
MF Global Net profit	39,434	61,607	74,685	61,588	84,816
<i>Growth, %</i>	-41.0	56.2	21.2	-17.5	37.7
Extraordinary items: Gains/(Losses)	695	416	619	160	0
Unadj. shares (m)	4,130	4,130	4,130	4,130	4,130
Wtd avg shares (m)	4,130	4,130	4,130	4,130	4,130

Cash Flow

Y/E Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Pre-tax profit	56,362	93,810	114,004	93,874	128,315
Depreciation	12,073	12,115	12,355	12,851	15,889
Chg in working capital	-11,050	-10,869	4,373	21,474	2,283
Total tax paid	-20,526	-32,921	-37,760	-32,286	-43,499
Other operating activities	0	0	0	0	0
Cash flow from operating activities	36,859	62,135	92,972	95,913	102,988
Capital expenditure	-12,758	-11,252	-23,626	-50,000	-126,000
Chg in investments	1,957	0	0	0	0
Chg in associates	1,190	-2,218	-244	0	0
Cash flow from investing activities	-9,611	-13,469	-23,870	-50,000	-126,000
Free cash flow	27,247	48,665	69,102	45,913	-23,012
Debt raised/(repaid)	-11,146	-671	-11,122	-30,452	0
Dividend (incl. tax)	-9,419	-14,784	-17,875	-12,457	-19,338
Other financing activities	-6,276	1,161	0	0	0
Cash flow from financing activities	-26,842	-14,293	-28,997	-42,910	-19,338
Net chg in cash	405	34,372	40,105	3,003	-42,350

Balance Sheet

As at 31st Mar, Rs mn	FY2006	FY2007	FY2008	FY2009E	FY2010E
Cash & bank	61,726	96,098	137,594	140,758	98,409
Debtors	18,817	23,148	30,481	32,328	42,283
Inventory	62,101	66,515	68,572	94,468	129,905
Loans & advances	13,664	18,026	26,528	23,947	31,321
Total current assets	156,308	203,786	263,176	291,501	301,918
Investments	122	122	122	122	122
Associates	2,798	5,016	5,260	5,260	5,260
Gross fixed assets	293,605	299,127	309,227	334,227	397,227
Less: Depreciation	171,983	183,150	193,514	206,365	222,254
Add: Capital WIP	7,579	12,360	23,896	48,896	111,896
Net fixed assets	129,201	128,338	139,609	176,757	286,868
Total assets	288,429	337,262	408,167	473,640	594,168
Current liabilities	106,752	109,490	131,988	178,622	233,672
ST Debt/Lease financing	731	231	0	0	0
Total current liabilities	107,483	109,720	131,988	178,622	233,672
Non-current liabilities	57,090	55,701	46,138	15,686	15,686
Total liabilities	164,573	165,422	178,126	194,308	249,358
Paid-up capital	41,304	41,304	41,304	41,304	41,304
Reserves & surplus	82,552	130,536	188,737	238,028	303,506
Shareholders' equity	123,856	171,840	230,041	279,332	344,810
Total equity & liabilities	288,429	337,262	408,167	473,640	594,168

Per-share data

	FY2006	FY2007	FY2008	FY2009E	FY2010E
MF FDEPS (INR)	9.5	14.9	18.1	14.9	20.5
Growth, %	-41.0	56.2	21.2	-17.5	37.7
Book NAV/share (INR)	30.0	41.6	55.7	67.6	83.5
FDEPS (INR)	9.5	14.9	18.1	14.9	20.5
CEPS (INR)	12.5	17.8	21.1	18.0	24.4
CFPS (INR)	8.2	12.5	19.3	18.6	22.3
DPS (INR)	2.3	3.6	4.3	3.0	4.7

Financial structure

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Total debt/Equity (%)	34.7	24.3	13.2	0.0	0.0
Net debt/Equity (%)	-15.1	-31.6	-46.6	-50.4	-28.5

Profitability, Productivity, Liquidity and Valuation Ratios

	FY2006	FY2007	FY2008	FY2009E	FY2010E
Return on assets (%)	15.0	20.4	20.5	14.3	16.0
Return on equity (%)	35.2	41.7	37.2	24.2	27.2
Return on Invested capital (%)	33.8	46.5	52.0	36.0	38.7
RoIC/Cost of capital (x)	5.1	7.4	8.8	6.8	7.3
RoIC - Cost of capital (%)	27.2	40.2	46.1	30.7	33.4
Return on capital employed (%)	24.0	31.2	30.3	22.1	26.1
Cost of capital (%)	6.6	6.3	5.9	5.3	5.3
RoCE - Cost of capital (%)	17.4	24.9	24.4	16.9	20.8
Asset turnover (x)	2.5	2.8	3.1	3.1	2.8
Sales/Total assets (x)	1.0	1.1	1.1	1.0	1.1
Sales/Net FA (x)	2.2	2.7	3.0	2.8	2.5
Working capital/Sales (x)	0.0	0.0	0.0	-0.1	-0.1
Fixed capital/Sales (x)	0.0	0.0	0.0	0.0	0.0
Receivable days	24	25	28	27	27
Inventory days	80	71	63	79	83
Payable days	86	79	166	164	184
Current ratio (x)	1.5	1.9	2.0	1.6	1.3
Quick ratio (x)	0.9	1.3	1.5	1.1	0.7
Interest cover (x)	11.7	26.0	41.1	30.6	96.1
Dividend cover (x)	4.2	4.2	4.2	4.9	4.4
PER (x)	18.1	11.6	9.6	11.6	8.4
PEG (x) - y-o-y growth	-0.4	0.2	0.5	-0.7	0.2
Price/Book (x)	5.8	4.2	3.1	2.6	2.1
Yield (%)	1.3	2.1	2.5	1.7	2.7
EV/Net sales (x)	2.5	1.9	1.5	1.3	1.1
EV/EBITDA (x)	10.4	6.7	5.3	6.4	4.6
EV/EBIT (x)	12.8	7.7	5.9	7.4	5.2
EV/NOPLAT (x)	18.2	11.7	9.0	11.3	7.9
EV/CE	3.8	2.9	2.2	1.9	1.7
EV/IC (x)	6.2	5.4	4.7	4.1	3.0

Source: Company, MF Global India Research Estimates

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