

August 2, 2010

Rating	Accumulate
Price	Rs204
Target Price	Rs233
Implied Upside	14.2 %
Sensex	17,868

(Prices as on July 30, 2010)
Trading Data

Market Cap. (Rs bn)	842.6
Shares o/s (m)	4,130.4
Free Float	14.18%
3M Avg. Daily Vol ('000)	4,632.0
3M Avg. Daily Value (Rs m)	937.6

Major Shareholders

Promoters	85.82%
Foreign	4.30%
Domestic Inst.	7.43%
Public & Others	2.45%

Stock Performance

(%)	1M	6M	12M
Absolute	6.2	(4.4)	20.4
Relative	3.6	(14.4)	1.9

Price Performance (RIC: SAIL.BO, BB: SAIL IN)


Source: Bloomberg

■ **Results below expectation:** Impacted by lower-than-expected sales volumes and higher-than-expected employee cost associated with additional provisioning for employee-related benefits (Rs3bn), SAIL reported PAT of Rs11.8bn (PLe: Rs19.4bn). On the same lines, EBITDA arrived at Rs17.4bn below PLe of Rs27.3bn.

■ **Result highlights:** Higher blended realisations (up 26% QoQ and 11% YoY to Rs39,258 per tonne) helped SAIL to contain the impact of sharp fall in volume (32% QoQ and 17% YoY to 2.3m tonnes), with fall of 24% QoQ and growth of 1% YoY in revenue to Rs90bn. However, the benefit of higher realisations got diluted due to additional provisioning towards employees benefits, escalation in cost on account of higher contracted coking coal and depressed volumes. Hence, EBITDA fell by 38% QoQ (up 4% YoY). On per tonne basis, it fell by 9% QoQ (up 26% QoQ) to Rs7,560. Lower other income due to lower yields on investments and loss on translation of forex (shown in other expenses) against forex gain (shown in other income) in Q1FY10 and higher interest expense, pulled the PAT down by 11% YoY.

■ **Delay of a quarter in commissioning of expansions at Salem (SSP) and IISCO unit:** Management guided for delay of a quarter in integrated commissioning of expanded capacity at SSP and IISCO, with a revised schedule of August 2010 and September 2011, respectively. While, work at other plants is progressing as per schedule.

■ **Earnings cut by 17% for FY11 and 11% for FY12:** Management guided employee cost to be higher in the range of Rs78-79bn for FY11 against earlier guidance of Rs65bn to provide for additional provisioning for employee benefits and shortfall in provisioning for wage revision. Hence, we cut our earnings EPS estimate for FY11 and FY12 by 17% and 11%, respectively to Rs14.5 for FY11 and Rs16.8 for FY12 to provide for higher employee cost and lower volumes.

■ **Valuation:** Led by fully domestic focussed operations, strong balance sheet to support ongoing massive expansion and modernisation program, decent valuations (P/B below 2x), huge potential to expand the capacity beyond its ongoing expansion programs in partnership or on its own backed by huge iron ore reserves and excess land already under possession, we maintain our 'Accumulate' rating on the stock.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	431,501	405,514	448,623	494,083
Growth (%)	9.2	(6.0)	12.2	10.1
EBITDA (Rs m)	87,323	91,894	80,093	101,418
PAT (Rs m)	61,749	67,534	60,051	69,479
EPS (Rs)	14.4	16.4	14.5	16.8
Growth (%)	(21.7)	13.3	(11.1)	15.7
Net DPS (Rs)	2.6	3.3	2.9	3.3

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	20.2	22.7	17.9	20.5
RoE (%)	22.1	20.6	15.9	16.1
RoCE (%)	18.1	13.8	10.3	10.1
EV / sales (x)	1.7	1.9	1.9	1.9
EV / EBITDA (x)	8.4	8.1	10.8	9.3
PE (x)	14.1	12.3	14.0	12.1
P / BV (x)	3.0	2.5	2.2	1.9
Net dividend yield (%)	1.3	1.6	1.4	1.6

Source: Company Data; PL Research

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Q1FY11 Result Overview

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Net Sales	90,294	89,506	0.9	119,552	448,623	405,514	10.6
Raw Material	30,246	41,194	(26.6)	51,574	195,272	171,984	13.5
<i>% of Net Sales</i>	<i>33.5</i>	<i>46.0</i>		<i>43.1</i>	<i>43.5</i>	<i>42.4</i>	
Staff Costs	20,117	10,709	87.9	16,381	78,462	54,168	44.8
<i>% of Net Sales</i>	<i>22.3</i>	<i>12.0</i>		<i>13.7</i>	<i>17.5</i>	<i>13.4</i>	
Power & Fuel	8,784	8,148	7.8	9,493	34,071	33,643	1.3
<i>% of Net Sales</i>	<i>9.7</i>	<i>9.1</i>		<i>7.9</i>	<i>7.6</i>	<i>8.3</i>	
Stores and spares	5,734	6,530	(12.2)	6,220	26,537	25,738	3.1
<i>% of Net Sales</i>	<i>6.3</i>	<i>7.3</i>		<i>5.2</i>	<i>5.9</i>	<i>6.3</i>	
Other Expenses	9,928	7,323	35.6	9,343	40,268	33,982	18.5
<i>% of Net Sales</i>	<i>11.0</i>	<i>8.2</i>		<i>7.8</i>	<i>9.0</i>	<i>8.4</i>	
Less: Finished goods internally consumed	1,904	1,131	68.4	1,685	6,079	5,894	3.1
<i>% of Net Sales</i>	<i>2.1</i>	<i>1.3</i>		<i>1.4</i>	<i>1.4</i>	<i>1.5</i>	
Total Expenditure	72,905	72,772	0.2	91,327	368,531	313,620	17.5
EBITDA	17,389	16,734	3.9	28,226	80,093	91,894	(12.8)
<i>Margin (%)</i>	<i>19.3</i>	<i>18.7</i>		<i>23.6</i>	<i>17.9</i>	<i>22.7</i>	
Depreciation	3,505	3,269	7.2	3,384	14,054	13,366	5.2
Other income	4,902	7,421	(34.0)	4,429	29,281	26,793	9.3
EBIT	18,786	20,887	(10.1)	29,270	95,319	105,321	(9.5)
Interest	1,296	828	56.6	1,347	5,399	4,011	34.6
PBT	17,489	20,059	(12.8)	27,923	89,920	101,310	(11.2)
Tax	5,723	6,798	(15.8)	9,819	29,869	33,777	(11.6)
<i>% PBT</i>	<i>32.7</i>	<i>33.9</i>		<i>35.2</i>	<i>33.2</i>	<i>33.3</i>	
Reported PAT	11,767	13,261	(11.3)	18,104	60,051	67,534	(11.1)
Adjusted PAT	11,767	13,261	(11.3)	18,104	60,051	67,534	(11.1)

Operating Metrics

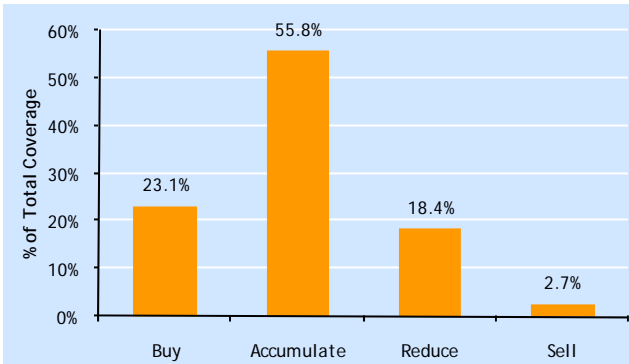
Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Sales Volume (m Tonnes)	2.3	2.8	(17.3)	3.4	12.0	12.1	(1.3)
Realisation per tonne	39,258	31,062	26.4	35,370	37,542	33,486	12.1
EBITDA per tonne	7,560	6,020	25.6	8,351	6,702	7,586	(11.6)

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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