

SELL

Price	Rs176
Target Price	Rs139
Investment Period	12 Months

Stock Info

Sector	Steel
Market Cap (Rs cr)	72,550
Beta	1.2
52 WK High / Low	186 /55
Avg Daily Volume	2666297
Face Value (Rs)	10
BSE Sensex	15,388
Nifty	4,571
BSE Code	500113
NSE Code	SAIL
Reuters Code	SAIL.BO
Bloomberg Code	SAIL@IN

Shareholding Pattern (%)

Promoters	85.8
MF/Banks/Indian FIs	8.2
FII/ NRIs/ OCBs	3.9
Indian Public/others	2.1

Abs.	3m	1yr	3yr
Sensex (%)	34.9	7.7	44.1
SAIL (%)	60.7	29.1	145.8

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Performance Highlights

- Lower steel prices impact Revenues:** For 1QFY2010, SAIL posted 16.5% yoy decline in Top-line to Rs8,951cr (Rs10,722cr), which came in slightly below our estimate of Rs9,175cr. Top-line de-grew mainly on account of the decline in average steel realisations. Notably, average steel realisations fell by 19% yoy to Rs32,197/tonne (Rs39,712/tonne). However, steel realisations fell by a marginal 2% on a sequential basis. The company's Sales volumes were sluggish during the quarter and came in below our estimate at 2.78mn tonnes posting a yoy growth of just 3%. On a qoq basis, Sales volumes fell by a significant 23%.
- Operating Margins declined on lower prices and higher costs:** SAIL reported an almost 610bp dip in OPM to 18.7% (24.8%) in 1QFY2010, which was more or less in line with our estimate of 18.2%. Margins were impacted by the lower steel prices yoy and higher costs. Net raw material cost/tonne increased by 25% yoy to Rs14,818 (Rs11,863) on account of higher coking coal costs. However, the steep 51.7% yoy fall in Employee costs at Rs1,071cr supported Margins. Employee costs were lower due to the reduction in employee provisioning by Rs199cr during the quarter as against the increase of Rs860cr during 1QFY2009. Overall, total cost of production/tonne fell 12.3% yoy to Rs26,177 (Rs29,860) due to the sharp decline in Employee costs. However, decline in realisations by 19% yoy (lower by Rs7,516/tonne yoy) led to EBIDTA/tonne falling to Rs6,020/tonne (Rs9,852/tonne) during the quarter.
- Net Profit falls 27.7%:** SAIL's Bottom-line fell 27.7% yoy to Rs1,326cr (Rs1,835cr), which came in higher than our estimate of Rs1,112cr mainly due to the higher-than-expected Other Income. Higher Interest Income (on account of higher investments) resulted in Other Income increasing by 46.7% yoy to Rs742cr and helped restrict the decline in Bottom-line. However, higher-than-expected Interest costs, which increased by 45.8% yoy to Rs82.8cr (Rs56.8cr) was also responsible for the sluggish Bottom-line growth.

Key Financials

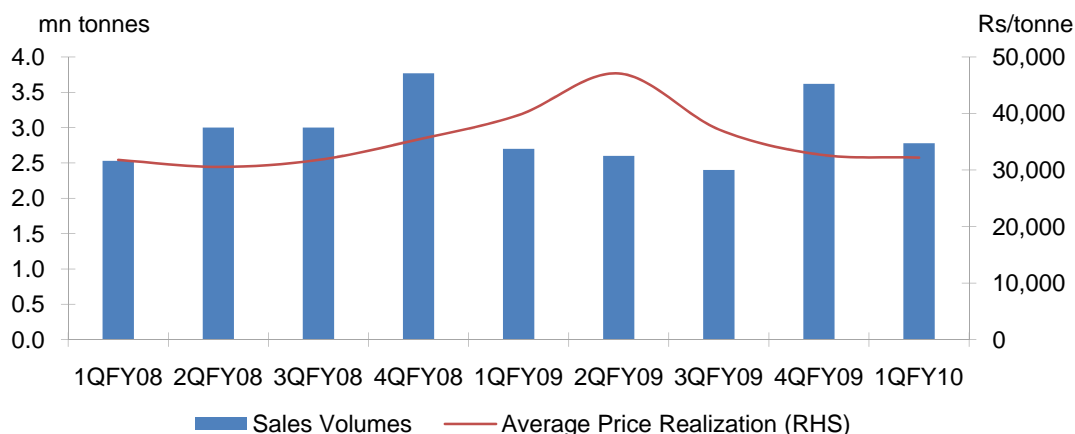
Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	39,688	43,703	39,006	44,091
% chg	17.0	10.1	(10.7)	13.0
Net Profit	7,537	6,175	5,320	6,246
% chg	21.5	(18.1)	(13.8)	17.4
OPM (%)	27.2	19.5	20.9	22.9
EPS (Rs)	18.2	14.9	12.9	15.1
P/E (x)	9.6	11.7	13.6	11.6
P/BV (x)	3.1	2.6	2.3	2.0
RoE (%)	35.8	24.1	17.7	18.2
RoCE (%)	45.1	29.8	21.8	21.5
EV/Sales (x)	1.6	1.4	1.7	1.6
EV/EBITDA (x)	5.7	7.4	8.2	7.0

Source: Company, Angel Research

Realisations fell on lower prices...Volumes too disappoint

In 1QFY2010, SAIL reported just 3% yoy increase in saleable steel volumes to 2.78mn tonnes (2.70mn tonnes) as against our estimate of 2.9mn tonnes. On a sequential basis, Sales volumes fell by 23%. The fall in steel prices impacted SAIL's blended realisations, which fell 19% yoy and 2% qoq to Rs32,197/tonne. However, a better product mix, higher proportion of value-added sales and lower semi-finished product sales improved realisations.

Exhibit 1: Steel Sales Volumes and Realisation



Source: Company, Angel Research

Outlook and Valuation

Steel prices in most regions have recovered lately as de-stocking has considerably eased while re-stocking has gathered pace as global fundamentals seem to be improving. A weak US Dollar has also supported the up move in prices as exporters have to adjust the prices to maintain Profitability at the local currency. Altogether, prices have increased by 5-10% across major regions. CIS export prices have recovered by US \$50/tonne to US \$390/tonne since hitting a bottom of US \$340/tonne in March 2009, while prices in the European region have increased by US \$70-80 to US \$527/tonne now. Prices in the Chinese market have also strengthened by US \$70-80 as domestic demand has increased considerably owing to the Chinese stimulus package and restoration of inventory re-stocking by Chinese traders. Steel prices in India have also improved by 2-3% and currently prices are hovering in the region of Rs27,000-28,000/tonne for HRC, which is at 8-10% premium to the landed costs. However, we do not expect prices to increase substantially from current levels due to excess capacities globally and low underlying demand.

At the CMP of Rs176, SAIL is trading at a P/E of 13.6x and 11.6x FY2010E and FY2011E EPS and an EV/EBITDA of 8.2x and 7.0x FY2010E and FY2011E EBIDTA. We believe that SAIL with low leverage and high Cash in its book is well placed amidst the downturn. However, at current valuations, SAIL has been trading at a premium to JSW and Tata Steel. Considering the lower steel prices and lower demand globally and sluggish volume growth for SAIL vis-a-vis Tata Steel and JSW Steel, we believe that the stock is trading expensive. **Hence, we recommend a Sell on SAIL with a Target Price of Rs139, at which level the stock would trade at an EV/EBIDTA of 5.5x, P/E of 9.2x and P/BV of 1.6x on FY2011 Estimates.**

Exhibit 2: 1QFY2010 Performance

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	8,951	10,722	(16.5)	43,703	39,688	10.1
Raw Materials	4,119	3,204	28.6	16,809	12,295	36.7
(% of Net Sales)	46.0	29.9		38.5	31.0	
Power & Fuel	815	779	4.6	3,115	2,822	10.4
(% of Net Sales)	9.1	7.3		7.1	7.1	
Staff Costs	1,071	2,215	(51.7)	8,402	7,919	6.1
(% of Net Sales)	12.0	20.7		19.2	20.0	
Other Expenditure	1,272	1,864	(31.7)	6,860	5,841	17.5
(% of Net Sales)	14.2	17.4		15.7	14.7	
Total Expenditure	7,277	8,062	(9.7)	35,185	28,877	21.8
Operating Profit	1,673	2,660	(37.1)	8,518	10,811	(21.2)
OPM (%)	18.7	24.8		19.5	27.2	
Interest	82.8	56.8	45.8	253.2	250.9	0.9
Depreciation	327	317	3.3	1,285	1,235	4.0
Other Income	742	506	46.7	2,408	1,831	31.5
Exceptional Items	-	-		16	313	
Profit Before Tax	2,006	2,793	(28.2)	9,404	11,469	(15.8)
(% of Net Sales)	22.4	26.0		21.5	28.9	
Current Tax	680	958	(29.0)	3,229	3,932	(17.9)
(% of PBT)	33.9	34.3		34.3	34.3	
Profit After Tax	1,326	1,835	(27.7)	6,175	7,537	(14.7)
(% of Net Sales)	14.8	17.1		14.1	18.9	
EPS (Rs)	3.2	4.4	(27.7)	14.9	18.2	(18.1)

Source: Company, Angel Research



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Ratings (Returns) :	Buy (Upside > 15%) Reduce (Downside upto 15%)	Accumulate (Upside upto 15%) Sell (Downside > 15%)	Neutral (5 to -5%)
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