

**CMP: Rs 160; SL: Rs 148; Target: Rs 195; Upside: 22%; Horizon: 6 Months**

Bloomberg Code	SAIL IN
Market Cap (Rs bn/USD bn)	660.8/14.52
Face Value (Rs)	10
Book Value (Rs)	80.66
EPS (Rs)	13.22
Dividend Yield	2.1%
52 week H/L (Rs)	258.45/150
Daily Avg. Vol (mn)	0.43
Listed At	NSE/BSE
Equity capital (Rs cr)	4130.4

(Rs Cr)	Q3FY11	Q3FY10	VAR %	9MFY11
Revenue	11,143	9,697	14.9	30,775.4
EBITDA	1795.7	2578.4	-30.4	6,365.9
PAT	1107.4	1675.5	-33.9	3,374.1
OPM %	16.1	26.6	(1049bps)	20.7
NPM %	10	17.3	(740bps)	11
EPS (Rs)	2.68	4.1	-	8.2

### Price Performance %

	1M	3M	6M	12M
Absolute	(4.5)	(15.7)	(21.4)	(33.8)
Rel to Nifty	(2.7)	(7.3)	(14)	(37.9)

## INVESTMENT THESIS

- SAIL is all set to bank on the domestic consumption of steel primarily driven by the ongoing infrastructure development in the country, with its ambitious expansion plans, which will increase its crude steel capacity to 23.2mt by 2013 from 14mt currently.
- SAIL is banking on the robust demand witnessed for finished and premium steel segment by expanding its value added steelmaking capacity. The value added or premium segment commands 20-25% premium over semi-finished or crude steel
- SAIL is 100% integrated with respect to Iron Ore. However, its coking coal reserves could suffice only 30% integration. The company has the Iron ore reserves which is sufficient enough to back its ambitious expansion plans to take its capacity upto 23.2mt, thus the backward integration would de-risk the company to raw material price volatility.
- India's finished steel demand is expected to grow at 12% CAGR over FY 10-13, led by strong demand from Automobiles, consumer durables and Engineering sector. India will remain a net steel importer over FY11-13, as demand is likely to outpace supply.

**Valuations:** We expect company to post its higher ever sales number during the March quarter of FY11. With high backward integration SAIL would be de-risk from adverse movement of raw material. At the current price of Rs 160, stock is trading at 12.15x and 11.48x of our estimated FY11E and FY12E EPS of Rs 13.16 and Rs13.93. The stock came off sharply by over 25% in the last quarter at Rs 150. It is available at EV/EBIDTA of 10.4 & 9.6 of FY11E and FY12E. We thus recommend 'BUY' with the target price Rs 195.

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Ranked amongst the top ten public sector companies in India in terms of turnover, Steel Authority of India Limited (SAIL) 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.



Stock Ratings	
<b>BUY</b>	The stock's total return is expected to exceed 15% over the next 12 months
<b>ACCUMULATE</b>	The stock's total return is expected to be within 10-15% over the next 12 months
<b>REDUCE</b>	The stock's total return is expected to be within 0-10% over the next 12 months
<b>SELL</b>	The stock's total return is expected to give negative returns over the next 12 months
<b>NOT RATED</b>	The Analyst has no recommendation on the stock under review

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