Anagram

STEEL AUTHORITY OF INDIA LTD.

20th May, 2008

EARNINGS REVIEW

"HOLD" **CMP=184**

BSE Code	500113
NSE Code	SAIL
Bloomberg Code	SAIL IN
Reuters Code	SAIL.BO

Key Data

Sensex	17230
52 week H/L (Rs.)	293/123
May month H/L (Rs.)	189.7/157.3
Market Cap (Rs cr)	75958
Avg. daily vol. (6mth)	2691417
Face Value	10

Shareholding Pattern (%)

Promoters	85.82
MFs / Banks/ FI's	6.25
FII's /NRI/ OCB's	5.48
Private Corporate Body	0.53
Public	1.94

One-Year Performance (Rel. to Sensex)

Source: Capitaline

Analysis: Team Anagram
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RESULT KEYHIGHLIGHTS

- SAIL reported 40% Top line growth and 23% Bottom line growth on QoQ basis, better than market expectations. Main reason for growth was due to higher production, higher demand and rising steel prices.

- SAIL recorded highest-ever saleable steel production of 3.5 million tonnes (6% growth) during January-March 2008, taking annual production to a new level of 13 million tonnes during FY '08 with a capacity utilisation of 118%.

- Highest-ever sales of 12.3 million tonnes during the year showed substantial growth in sales of value-added products like long rails of 130/260 metres (56%), plates (8%), HR coils (7%) and medium structurals (20%). For the first time, SAIL's marketing network covered all districts in the country during 2007-08, with addition of about 1,200 new dealers. SAIL thus became the first steel company in the country to have a distribution network covering each and every district.

- The company achieved lowest-ever energy consumption at 6.95 giga calories per tonne of crude steel and coke rate at 533 kgs per tonne of hot metal in 2007-08 by fine-tuning operational efficiencies. In addition, thrust on cost reduction continued, resulting in a saving of over Rs. 300 crore. These factors enabled SAIL to partially offset the price increase of inputs such as coal, zinc, nickel, freight charges, etc.

- EBIDTA Margins have risen marginally by 40 bps from 31.82% in FY07 to 32.22% in FY08. Steel Price realization has increased 13% from around 31500 tonnes in FY07 to around 35600 tonnes in FY08.

- The SAIL Board has recommended highest-ever dividend at 37% on paid-up equity amounting to over Rs. 1,500 crore for the company's shareholders for the year 2007-08. This includes the 19% interim dividend paid in February 2008.

INVESTMENT POSITIVES

Steel Authority of India Limited (SAIL) achieved new financial and physical performance landmarks during the year 2007-08 due to high production and productivity, market-driven product mix, substantially higher value-added/special steel production, several initiatives towards cost reduction and strong demand for steel.

Plans to increase Production Capacity from 13mn tonnes to a total of 23m tonnes

SAIL has very consistent production volume growth planned for the next five years to take its current capacity of 13mn tonnes to a total of 23m tonnes mostly through brown-field expansions and upgradation. Additionally, the company has an extremely strong balance sheet with zero net debt, compared with other large domestic steel makers, most of which have significantly leveraged their balance sheet. Lower Borrowing and lower Interest Cost has reduced the Debt Equity Ratio of company to 0.13 in FY08 from 0.24 in FY07.

International Iron Ore and Coal Contract Prices have risen 70% and 200% respectively on annual basis

SAIL is 100% captive for Iron ore and partly captive in Coal. Total requirement of coal is 15mtpa. Out of these 15mt, the company sources 30% from domestic market, at an average cost of Rs 4,000/tn, and balance 70% is imported. 90% of the coal imports are on long-term contracts and balance 10% is on spot basis.

INVESTMENT CONCERNS

Company will hold the current prices for next 2-3 months

Indian steelmakers have agreed to cut prices of HR steel by Rs 4,000/tonne and those of wire rods and rebar by Rs2,000/tonne from May 08. The revised prices will hold for three months. With flat products accounting for over 55% of its volumes, SAIL will take a small hit on earnings.

VALUATION & RECOMMENDATION

SAIL's annual contracts for coking coal follow the July–June calendar, thus significant rise in coking coal price will not result in higher input cost for SAIL in 1QFY09. Hence, even at prices on hold, its earnings will not take a hit. SAIL will have to raise steel prices in 2QFY09 to offset the impact of increases in coking coal prices.

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We believe that Aggressive Capacity Expansion roadmap, higher Volume sales along with improved product mix and mounting Steel price scenario will result in better valuations going forward. At CMP of 184, stock trades at 10x of FY08 EPS of Rs 18.2. We recommend to "**HOLD**" this stock.

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FINANCIAL HIGHLIGHTS

(In Crore Rs)

	Q4 FY08	Q3 FY08	QoQ (%)	FY08	FY07	YoY (%)
Net Sales	**13477.90**	**9533.30**	41	**40214.16**	**34468.04**	17
Other Income	377.35	314.34	20	1302.88	839.17	55
Total Income	13855.25	9847.64	41	41517.04	35307.21	18
Expenditure	10134.22	6549.93	55	28875.14	24898.72	16
EBIDT	**3721.03**	**3297.71**	13	**12641.90**	**10408.49**	21
EBIDTA				**12955.15**	**10966.66**	**18**
Interest	52.19	59.75	-13	250.94	332.13	-24
EBDT	3668.84	3237.96	13	12390.96	10076.36	23
Depreciation	317.06	316.03	0	1235.48	1211.48	2
EBT	3351.78	2921.93	15	11155.48	8864.88	26
Tax	1288.27	987.27	30	3931.95	3220.33	22
Net Profit	2063.51	1934.66	7	7223.53	5644.55	28
Extra Ordinary Items	313.25	0.00		313.25	558.17	-44
Adjusted PAT	**2376.76**	**1934.66**	23	**7536.78**	**6202.72**	22
OPM (%)	***27.61***	***34.59***		***31.44***	***30.20***	
NPM (%)	***15.31***	***20.29***		***18.74***	***18.00***	
Equity	4130.4	4130.4		4130.4	4130.4	
EPS	**5.75**	**4.6**		**18.25**	**15.02**	

RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period
Accumulate Expected to appreciate up to 20% over a 12-month period
Hold Expected to remain in a narrow range
Avoid Expected to depreciate up to 10% over a 12-month period
Exit Expected to depreciate more than 10% over a 12-month period