

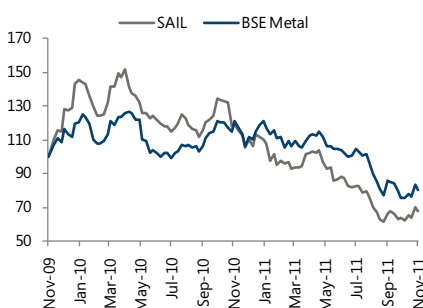
## Result Update - Q2FY12

### Sell

Reco	Maintained
CMP	₹ 109
Target Price	₹ 95
Downside Potential	12.8%

### Price Performance

52 wk Hi/Lo	202/98
All time Hi/Lo	293/4
6 mnth Average Vol	2713415
Stock Beta	1.21



### Valuation

	FY11	FY12P	FY13P
P/E (x)	8.97	10.38	7.96
P/BV (x)	1.20	1.10	0.99
RONW (%)	13.3	10.6	12.4
ROCE (%)	6.5	5.0	6.6

### Peer Valuation (FY12)

	Tata Stl	JSW
PE	4.8	27.9
EV/EBIDTA	5.5	7.7

### Equity Data

Market Cap. (₹ bln)	450
Face value (₹)	10
No of shares o/s (mln)	4131

	Sep'10	Sep'11	Δ%
Promoters	85.82	85.82	0.00
DFI's	7.47	7.51	0.53
FII's	4.38	4.00	-8.67
Public	2.33	2.67	14.59

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## SAIL

### Another Subdued Quarter!!

**SAIL's Top line & EBITDA was in line with our expectation, however Ad. PAT came higher than expectation due to higher other income and lower tax outgo.**

#### In line top line growth

SAIL's net sales for Q2FY12 just grew by 2.2% y-o-y to ₹108.3bln due to realization growth (+8.3% y-o-y to ₹37890/ton) which offset 5.6% y-o-y drop in volumes. Sequentially, the revenue growth remained muted as fall in realization (-4% q-o-q) has been mitigated by minor jump in volume (+4.4% q-o-q). Going ahead we believe that the company will continue to deliver subdued revenue growth due to bleak market conditions and falling realizations.

#### No respite in cost

For Q2FY12, SAIL's EBITDA de grew by 13.9% y-o-y to ₹ 13.2bln due to higher raw material expenses and Power and fuel cost due to higher coal cost. EBITDA Margin for the same period plunged by 230 bps y-o-y to 12.2%. Though employee cost has fallen sequentially, the company is not able to see any margin expansion due to higher energy cost. We believe that EBITDA margin is going to remain under pressure as raw material cost is expected to remain stable in coming quarters and realization is expected to remain muted.

#### PAT hits by one of item

In Q2FY12, dismal operating performance, higher interest cost & forex loss of ₹ 5.08bln forced the company to report 54.6% y-o-y drop in net profit to ₹ 4.96bln. We believe that interest is going to increase and other income is going to decrease from here on as company is aggressively increasing its debt level to finance its capex and high cash reserve will be partly used for capex.

#### Cut estimates by 18%; Maintain Sell

At CMP of ₹ 109, the company is trading at P/E of 10.3x and 7.9x of its FY12E and FY13E earnings, while on EV/EBITDA basis; it is trading at 8.7x and 6.9x for FY12E and FY13E respectively. In spite of severe correction (-21%) in past three months, valuations are still looking a bit stretched at this point of time. The environment is not very conducive for the steel sector as companies need to deal with rising cost and slowing demand. Moreover SAIL is also facing problems of project delays which will limit upside if the tide turns. We have factored in higher coking coal prices and subdued realization growth into our model and cut our EPS estimates by 18% in FY12. Thus we maintain our SELL recommendation with the price target of ₹ 95.

#### Summary Financials

₹ in Mn	2010	2010E	2012P	2013P
Net Sales	414,842	436,202	463,580	508,308
OPBDIT	93,972	72,628	66,618	102,054
Net Profit	68,506	50,172	38,176	56,559
EPS	16.6	12.1	9.2	13.7
Networth	337,435	376,043	404,537	448,994
Debt	176,378	212,601	305,601	365,601
Fixed Assets	304,182	392,144	526,504	705,928
Net Current Assets	223,491	211,578	198,716	123,749

**Change in Estimates**

We have factored in higher volume, realization and cost in our estimates and changed our numbers accordingly.

	Earlier		New		Difference	
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Volume	11.94	13.30	11.90	13.30	-0.3%	0.0%
Blended Realization	39590	40249	38538	37858	-3%	-5.9%
Net Sales	473387	538306	459,283	506,502	-3.0%	-5.9%
EBITDA	75275	131676	66618	102054	-11.5%	-22.5%
Ad. PAT	46748	74984	38176	56559	-18.3%	-24.6%
Ad. EPS	11.3	18.2	9.2	13.7	-18.3%	-24.6%

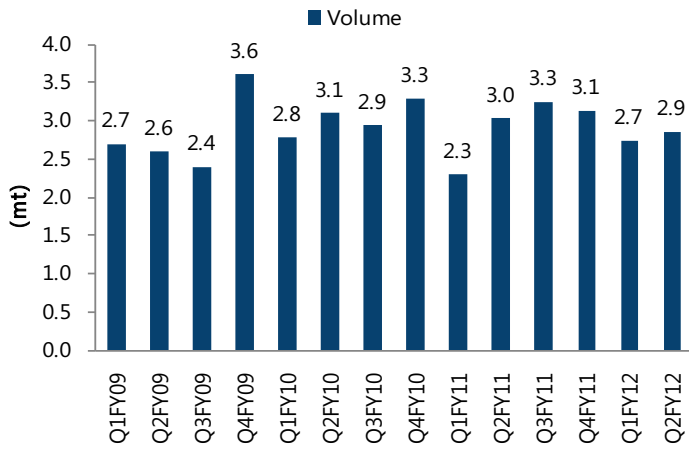
**Actual Vs MSFL Estimates**

	Actual	Estimated	Difference
Volume	2.86	2.80	2.1%
Blended Realization	37890	39010	-2.9%
Net Sales	108367	109227	-0.8%
EBITDA	13271	13212	0.5%
Ad. PAT	10034	8220	22.1%

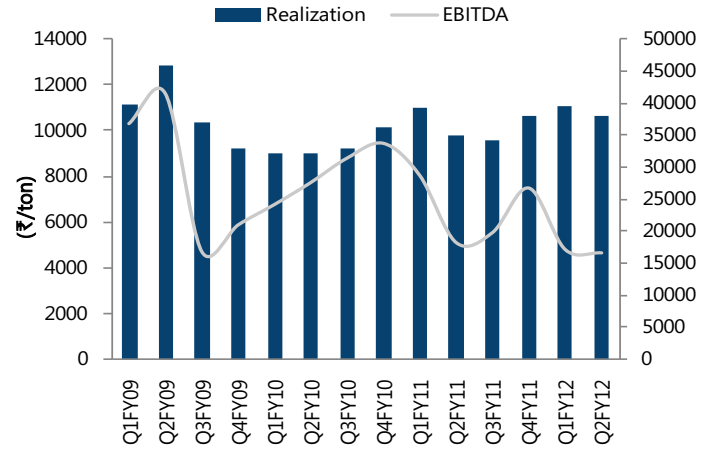
**SAIL Result Highlights**

Description (INR Mln)	Q2FY12	Q2FY11	Y-o-Y	H1FY12	H1FY11	Y-o-Y
Gross Sales/ Inc from operations	119704	116975	2.3%	238778	216282	10.4%
Less: Excise Duty	11337	10946	3.6%	22148	19960	11.0%
<b>Net sales / Inc from operations</b>	<b>108367</b>	<b>106029</b>	<b>2.2%</b>	<b>216630</b>	<b>196323</b>	<b>10.3%</b>
Interest Earned	4338	3325	30.5%	8865	7067	25.5%
Other Income	1429	1446	-1.1%	2580	2485	3.8%
Total Income	114134	110799	3.0%	228075	205874	10.8%
<b>Expenditure</b>						
Inc (-)/Dec in stock-in-trade	-4548	2865		-7452	-13923	-46.5%
Consumption of Raw Materials	56085	48794	14.9%	107980	95816	12.7%
Purchase of traded goods	19	12	67.0%	28	25	14.5%
Staff cost	19808	17004	16.5%	42469	37121	14.4%
Consumption of stores & spares	6521	6076	7.3%	12720	11810	7.7%
Power & Fuel	11237	8766	28.2%	21857	17550	24.5%
Other Expenditure	7403	8535	-13.3%	15112	15621	-3.3%
Total Expenditure	96525	92052	4.9%	192716	164019	17.5%
<b>EBITDA</b>	<b>13271</b>	<b>15423</b>	<b>-13.9%</b>	<b>26495</b>	<b>34789</b>	<b>-23.8%</b>
EBITDA Margin (%)	12.2%	14.5%	-230 bps	12.2%	17.7%	-550 bps
Depreciation	3938	3688	6.8%	7686	7193	6.8%
Interest	2000	1090	83.4%	3712	2387	55.5%
Other Income	565	429	31.8%	699.6	549.3	27.4%
Exceptional Item	-5087	1525		-5203.7	587.3	
<b>Profit before tax</b>	<b>7149</b>	<b>15923</b>	<b>-55.1%</b>	<b>19458</b>	<b>33412</b>	<b>-41.8%</b>
Tax Expenses	2203	5023	-56.2%	6121	10746	-43.0%
Net Profit after Tax	4946	10900	-54.6%	13336	22667	-41.2%
EPS	1.2	2.6	-54.6%	3.2	5.5	-41.2%

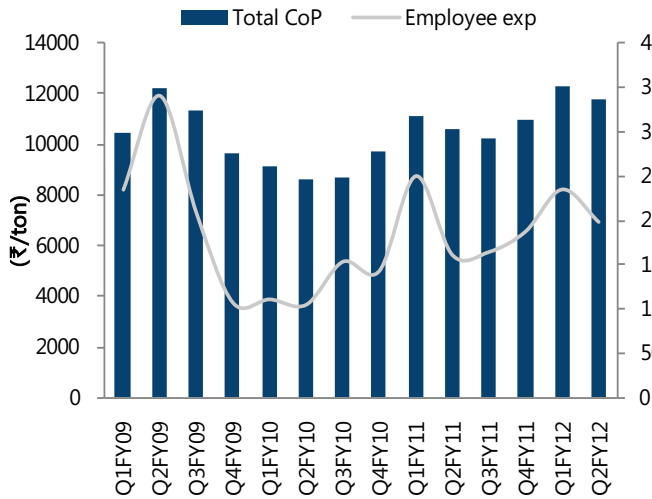
## Salable Volume



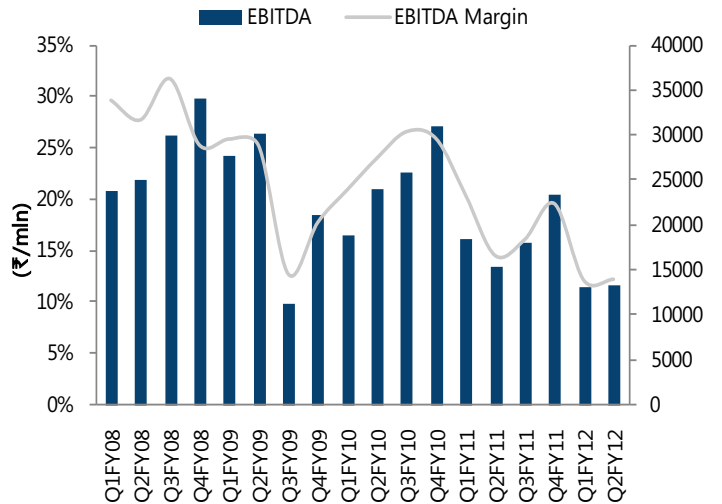
## Realization and EBITDA/Ton



## Total CoP and Employee exp/ton



## EBITDA & EBITDA Margin



Source - Company, MSFL Research

## Financial Summary

### Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
<b>Net Sales</b>	<b>439,640</b>	<b>414,842</b>	<b>436,202</b>	<b>463,580</b>	<b>508,308</b>
Total Expenditure	346,823	311,798	355,516	396,962	406,253
<b>EBIDTA</b>	<b>85,364</b>	<b>93,972</b>	<b>72,628</b>	<b>66,618</b>	<b>102,054</b>
EBIDTA Margin (%)	19.4%	22.7%	16.7%	14.4%	20.1%
Depreciation	13,342	14,296	16,029	15,640	20,576
EBIT	72,022	79,675	56,599	50,978	81,479
Interest cost	2,637	4,740	5,816	7,761	10,068
Operating Profit	69,385	74,936	50,783	43,217	71,411
Other Income	18,452	18,751	14,032	17,386	13,983
Extraordinary Item	40	232	1,024	-4,418	173
<b>PBT</b>	<b>95,330</b>	<b>102,991</b>	<b>73,896</b>	<b>56,185</b>	<b>85,566</b>
Tax	32,875	34,481	23,723	18,009	29,007
<b>PAT (After MI)</b>	<b>62,453</b>	<b>68,506</b>	<b>50,172</b>	<b>38,176</b>	<b>56,559</b>
PAT Margin (%)	14.2%	16.5%	11.5%	8.2%	11.1%
EPS	15.1	16.6	12.1	9.2	13.7
Sales Growth (%)	9.2%	-5.6%	5.1%	6.3%	9.6%
EBITDA Growth (%)	-20.4%	10.1%	-22.7%	-8.3%	53.2%
PAT Growth (%)	-17.8%	9.7%	-26.8%	-23.9%	48.2%

### Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
<b>Sources of Funds</b>					
Share Capital	41,304	41,304	41,304	41,304	41,304
Reserves & Surplus	243,146	296,131	334,739	368,437	412,894
<b>Networth</b>	<b>284,450</b>	<b>337,435</b>	<b>376,043</b>	<b>409,741</b>	<b>454,198</b>
Secured Loans	26,251	88,273	128,546	221,546	281,546
Unsecured Loans	60,654	88,106	84,056	84,056	84,056
<b>Total Loans</b>	<b>86,905</b>	<b>176,378</b>	<b>212,601</b>	<b>305,601</b>	<b>365,601</b>
Deferred Tax Liability	13,252	14,301	15,567	15,567	15,567
Minority Interest	7	10	131	131	131
<b>TOTAL</b>	<b>384,614</b>	<b>528,124</b>	<b>604,343</b>	<b>731,041</b>	<b>835,498</b>

### Application of Funds

Net Fixed Assets	205,539	304,182	392,144	526,504	705,928
Investment	370	447	608	608	608
Current Assets	353,047	400,351	388,335	388,415	322,165
Current Liabilities	174,342	176,860	176,757	184,495	193,212
<b>Net Current Assets</b>	<b>178,705</b>	<b>223,491</b>	<b>211,578</b>	<b>203,920</b>	<b>128,953</b>
Misc Expense not w/o	1	4	13	9	9
<b>TOTAL</b>	<b>384,615</b>	<b>528,124</b>	<b>604,343</b>	<b>731,041</b>	<b>835,498</b>

**Cash Flows**

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Internal accruals	118,863	72,855	80,642	67,404	102,227
(Inc)/Dec in Net Current Assets	-25,177	14,313	-32,647	4,506	8,161
<b>Cash flow from Operations</b>	<b>61,815</b>	<b>50,973</b>	<b>24,963</b>	<b>53,901</b>	<b>81,381</b>
Inc/(Dec) in Debt	48,192	88,857	36,095	93,000	60,000
Inc/(Dec) in Equity	0	0	119	0	0
<b>Cash flow from Financing</b>	<b>30,450</b>	<b>73,587</b>	<b>16,932</b>	<b>75,558</b>	<b>37,830</b>
Fixed Asset formation	-58,324	-104,254	-108,950	-150,000	-200,000
Inc/(Dec) in Investment	-10	-75	-161	0	0
<b>Cash flow from Investment</b>	<b>-46,372</b>	<b>-82,571</b>	<b>-91,624</b>	<b>-132,614</b>	<b>-186,017</b>
<b>Net Change in Cash</b>	<b>45,893</b>	<b>41,988</b>	<b>-49,730</b>	<b>-3,156</b>	<b>-66,806</b>

**Ratios**

Valuation Ratio	2009	2010	2010P	2012P	2013P
P/E	7.2	6.6	9.0	10.4	8.0
P/BV	1.6	1.3	1.2	1.1	1.0
EV/EBIDTA	4.1	4.3	6.7	8.7	6.9
EV/Sales	0.8	1.0	1.1	1.3	1.4
Dividend Yield (%)	2.39%	3.03%	2.20%	1.83%	2.29%
EPS	15.1	16.6	12.1	10.5	13.7
DPS	2.6	3.3	2.4	2.0	2.5
Book Value	69	82	91	99	110
ROCE	12.7%	10.3%	6.5%	5.0%	6.6%
ROE	22.0%	20.3%	13.3%	10.6%	12.4%

**Solvency Ratio (x)**

Debt/Equity	0.31	0.52	0.57	0.75	0.80
Net Debt/EBIDTA	1.02	1.88	2.93	4.59	3.58

**Turnover Ratio (x)**

Asset Turnover	1.3	1.2	1.1	1.0	0.9
Fixed Asset Turnover	3.3	3.2	2.6	2.3	1.9
Current Ratio	2.03	2.26	2.20	2.11	1.67
Inventory (days)	164	131	157	150	145
Debtors (days)	27	32	37	35	32
Creditors (days)	125	160	158	160	165

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**Key ratings:**

Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
Hold	-5 to 5%
Sell	< -5%
Not Rated	-

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