

## EARNINGS REVIEW

## Steel Authority of India (SAIL.BO)

Neutral

Equity Research

## Above expectations: Strong operating performance, MTM Fx losses

## What surprised us

SAIL reported 3QFY12 net income of Rs6.3bn that included Rs4.6bn in MTM forex losses. Adjusting for this, net income came in at Rs10.9bn (-1% yoy, +122% qoq), 32% ahead of GS and 42% ahead of Bloomberg consensus estimates. At the operating level, EBITDA came in at Rs15.8bn (-12% yoy, +19% qoq), 17% ahead of our estimates mainly on better than expected cost controls. Sales volumes came in at 2.62mn tons (-19% yoy vs. GSe 2.9mn ton). This is the worst volume growth reported in our coverage universe – indicating that SAIL has lost market share to its peers in 3Q. Despite lower volumes, revenue came in 4% below our estimates on better average realizations, which increased 6% qoq on better product mix and higher pricing in Dec. The company was able to exercise strong cost controls as the damaged coke oven battery at Bokaro was restored in 3Q. Input costs were up only 7% qoq, staff costs down 6%, while stores and spares and energy remained flat on a qoq basis. The company in its press release stated that ongoing projects are on course for phased commissioning in 2012, and it expects industry demand to improve in 4QFY12. It expects steel prices to stabilize in 2HFY12. Total borrowing stood at Rs199bn (with Fx loans of Rs83bn) and cash stood at Rs86bn. The Board has approved an interim dividend of Rs1.2 per share (12% per face value).

## What to do with the stock

We revise our FY12E-14E EPS by +16%/-0.2%/-14% as we lower our cost assumptions in FY12, keeping FY13 flat, while lowering our volumes and increasing our cost assumptions for FY14. We keep our Neutral rating and raise our 12-m P/B-based TP to Rs116 (from Rs115) on slightly higher FY13 BVPS. Our TP implies 5% upside from current levels. The stock is trading at 1.1X FY13E P/B with 11.6% ROE and 7.4X EV/EBITDA. Key risks: Delays in project execution, lower costs.

## SAIL's 3QFY12 earnings summary

(Rs mn)	3QFY12E				Consensus	Y-o-Y %	Q-o-Q %	vs GS	vs Cons
	3QFY12A	2QFY12A	3QFY11A	3QFY12E					
Sales	105,938	108,367	111,432	110,268	114,030	-4.9%	-2.2%	-3.9%	-7.1%
EBITDA	15,811	13,271	17,957	13,504	13,290	-12.0%	19.1%	17.1%	19.0%
EBITDA margin	14.9%	12.2%	16.1%	12.2%	11.7%	(-119 bps)	+268 bps	+268 bps	+327 bps
Adjusted Net Income	10,984	4,946	11,075	8,355	7,722	-0.8%	122.1%	31.5%	42.2%
Adj. Net income margin	10.4%	4.6%	9.9%	7.6%	6.8%	+43 bps	+580 bps	+279 bps	+360 bps

Source: Company data, Bloomberg, Goldman Sachs Research estimates

## INVESTMENT LIST MEMBERSHIP

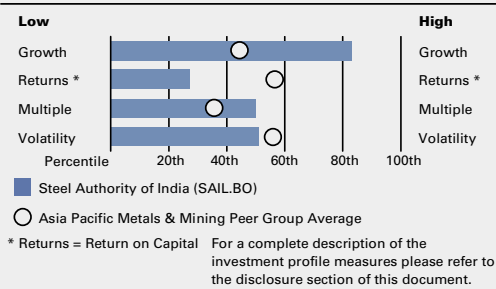
Neutral

## Coverage View: Neutral

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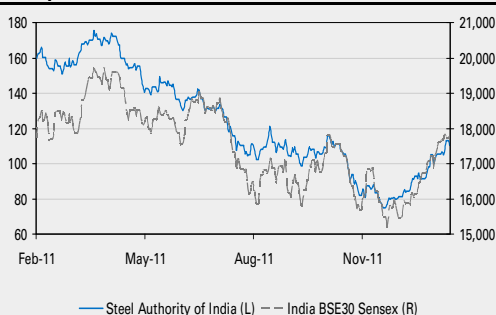
## Investment Profile



Key data	Current
Price (Rs)	110.35
12 month price target (Rs)	116.00
Market cap (Rs mn / US\$ mn)	455,789.7 / 9,225.6
Foreign ownership (%)	5.4

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	11.87	9.33	11.65	14.59
EPS revision (%)	0.0	15.8	(0.2)	(14.1)
EPS growth (%)	(27.4)	(21.4)	24.8	25.3
EPS (dil) (Rs) New	11.87	9.33	11.65	14.59
P/E (X)	9.3	11.8	9.5	7.6
P/B (X)	1.2	1.1	1.1	0.9
EV/EBITDA (X)	10.6	8.3	7.4	6.5
Dividend yield (%)	2.2	2.7	2.7	2.7
ROE (%)	13.9	10.0	11.6	13.2
CROCI (%)	8.3	7.4	8.0	8.8

## Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	4.8	(0.0)	(30.9)
Rel. to India BSE30 Sensex	1.4	(5.3)	(31.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/13/2012 close.

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# Steel Authority of India: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E	Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
<b>Total revenue</b>	<b>427,187.1</b>	<b>479,676.7</b>	<b>496,183.8</b>	<b>596,883.7</b>	Cash & equivalents	174,788.6	132,473.0	96,720.8	48,366.2
Cost of goods sold	(297,905.8)	(328,897.1)	(327,874.6)	(401,472.4)	Accounts receivable	41,613.0	47,310.6	48,938.7	58,870.7
SG&A	(83,286.6)	(91,426.5)	(94,886.9)	(100,536.2)	Inventory	113,027.9	109,632.4	109,291.5	133,824.1
R&D	0.0	0.0	0.0	0.0	Other current assets	51,474.1	46,724.1	46,724.1	46,724.1
Other operating profit/(expense)	16,886.2	(6,485.6)	(7,177.5)	(5,383.7)	<b>Total current assets</b>	<b>380,903.6</b>	<b>336,140.0</b>	<b>301,675.2</b>	<b>287,785.2</b>
<b>EBITDA</b>	<b>77,738.9</b>	<b>69,069.1</b>	<b>89,611.9</b>	<b>117,933.5</b>	Net PP&E	373,084.9	496,883.3	618,516.2	735,074.1
Depreciation & amortization	(14,858.0)	(16,201.6)	(23,367.1)	(28,442.1)	Net intangibles	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>62,880.9</b>	<b>52,867.5</b>	<b>66,244.8</b>	<b>89,491.4</b>	Total investments	6,841.4	6,841.4	6,841.4	6,841.4
Interest income	13,811.7	17,478.9	13,247.3	9,672.1	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(4,749.5)	(7,496.1)	(8,344.6)	(9,874.6)	<b>Total assets</b>	<b>760,829.9</b>	<b>839,864.7</b>	<b>927,032.8</b>	<b>1,029,700.7</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	16,973.2	19,058.7	19,714.6	23,715.7
Others	0.0	650.7	650.7	650.7	Short-term debt	110,642.1	131,642.1	132,642.1	133,642.1
<b>Pretax profits</b>	<b>71,943.1</b>	<b>63,501.0</b>	<b>71,798.2</b>	<b>89,939.6</b>	Other current liabilities	156,596.4	156,596.4	156,596.4	156,596.4
Income tax	(22,895.7)	(20,209.0)	(23,693.4)	(29,680.1)	<b>Total current liabilities</b>	<b>284,211.7</b>	<b>307,297.2</b>	<b>308,953.1</b>	<b>313,954.2</b>
Minorities	0.0	0.0	0.0	0.0	Long-term debt	91,012.8	121,012.8	171,012.8	221,012.8
<b>Net income pre-preferred dividends</b>	<b>49,047.4</b>	<b>43,291.9</b>	<b>48,104.8</b>	<b>60,259.5</b>	Other long-term liabilities	14,910.7	14,910.7	14,910.7	14,910.7
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	105,923.5	135,923.5	185,923.5	235,923.5
<b>Net income (pre-exceptionals)</b>	<b>49,047.4</b>	<b>43,291.9</b>	<b>48,104.8</b>	<b>60,259.5</b>	<b>Total liabilities</b>	<b>390,135.2</b>	<b>443,220.7</b>	<b>494,876.6</b>	<b>549,877.7</b>
Post-tax exceptionals	0.0	(4,750.0)	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
<b>Net income</b>	<b>49,047.4</b>	<b>38,541.9</b>	<b>48,104.8</b>	<b>60,259.5</b>	<b>Total common equity</b>	<b>370,694.7</b>	<b>396,644.0</b>	<b>432,156.1</b>	<b>479,823.0</b>
EPS (basic, pre-exception) (Rs)	11.87	10.48	11.65	14.59	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (Rs)	11.87	9.33	11.65	14.59	<b>Total liabilities &amp; equity</b>	<b>760,829.9</b>	<b>839,864.7</b>	<b>927,032.8</b>	<b>1,029,700.7</b>
EPS (diluted, post-exception) (Rs)	11.87	9.33	11.65	14.59	<b>BVPS (Rs)</b>	<b>89.75</b>	<b>96.03</b>	<b>104.63</b>	<b>116.17</b>
DPS (Rs)	2.40	3.00	3.00	3.00					
Dividend payout ratio (%)	20.2	32.1	25.8	20.6					
Free cash flow yield (%)	(9.1)	(17.7)	(16.3)	(19.0)					
<b>Growth &amp; margins (%)</b>	<b>3/11</b>	<b>3/12E</b>	<b>3/13E</b>	<b>3/14E</b>	<b>Ratios</b>	<b>3/11</b>	<b>3/12E</b>	<b>3/13E</b>	<b>3/14E</b>
Sales growth	5.3	12.3	3.4	20.3	CROCI (%)	8.3	7.4	8.0	8.8
EBITDA growth	(22.3)	(11.2)	29.7	31.6	ROE (%)	13.9	10.0	11.6	13.2
EBIT growth	(27.5)	(15.9)	25.3	35.1	ROA (%)	6.8	4.8	5.4	6.2
Net income growth	(27.4)	(21.4)	24.8	25.3	ROACE (%)	12.8	8.0	7.8	8.5
EPS growth	(27.4)	(21.4)	24.8	25.3	Inventory days	124.5	123.6	121.9	110.5
Gross margin	30.3	31.4	33.9	32.7	Receivables days	32.7	33.8	35.4	33.0
EBITDA margin	18.2	14.4	18.1	19.8	Payable days	35.5	20.0	21.6	19.7
EBIT margin	14.7	11.0	13.4	15.0	Net debt/equity (%)	7.2	30.3	47.9	63.8
					Interest cover - EBIT (X)	NM	NM	NM	441.8
<b>Cash flow statement (Rs mn)</b>	<b>3/11</b>	<b>3/12E</b>	<b>3/13E</b>	<b>3/14E</b>	<b>Valuation</b>	<b>3/11</b>	<b>3/12E</b>	<b>3/13E</b>	<b>3/14E</b>
Net income pre-preferred dividends	49,047.4	43,291.9	48,104.8	60,259.5	P/E (analyst) (X)	9.3	11.8	9.5	7.6
D&A add-back	14,858.0	16,201.6	23,367.1	28,442.1	P/B (X)	1.2	1.1	1.1	0.9
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	10.6	8.3	7.4	6.5
Net (inc)/dec working capital	(20,159.7)	(216.5)	(631.4)	(30,463.6)	EV/GCI (X)	1.3	0.7	0.7	0.7
Other operating cash flow	(10,237.8)	0.0	0.0	0.0	Dividend yield (%)	2.2	2.7	2.7	2.7
<b>Cash flow from operations</b>	<b>33,507.9</b>	<b>59,277.0</b>	<b>70,840.5</b>	<b>58,238.0</b>					
Capital expenditures	(106,207.9)	(140,000.0)	(145,000.0)	(145,000.0)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	177.9	0.0	0.0	0.0					
<b>Cash flow from investments</b>	<b>(106,030.0)</b>	<b>(140,000.0)</b>	<b>(145,000.0)</b>	<b>(145,000.0)</b>					
Dividends paid (common & pref)	(13,951.6)	(12,592.6)	(12,592.6)	(12,592.6)					
Inc/(dec) in debt	36,413.9	51,000.0	51,000.0	51,000.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	458.4	0.0	0.0	0.0					
<b>Cash flow from financing</b>	<b>22,920.7</b>	<b>38,407.4</b>	<b>38,407.4</b>	<b>38,407.4</b>					
<b>Total cash flow</b>	<b>(49,601.4)</b>	<b>(42,315.6)</b>	<b>(35,752.2)</b>	<b>(48,354.6)</b>					

Note: Last actual year may include reported and estimated data.  
Source: Company data, Goldman Sachs Research estimates.

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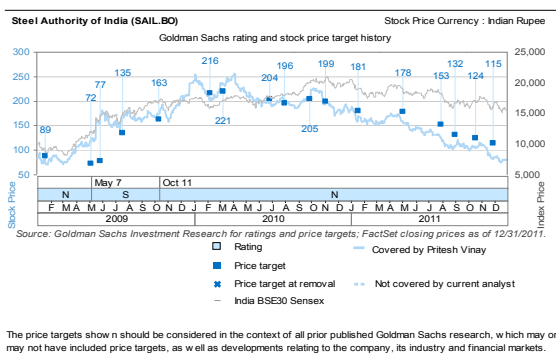
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