

SAIL

Expensive valuation

Company background: Incorporated in 1973, SAIL is one of the leading steel-making companies in India with an annual saleable steel production capacity of 12.4mn tonne. Major plants owned by SAIL are located at Bhilai, Bokaro, Durgapur, Rourkela, Burnpur and Salem. The company's steel plants are fully backed by captive iron ore mines. SAIL has a Navratna status; thus, it enjoys significant operational and financial autonomy.

Slow progress on capacity continues: SAIL is increasing its saleable steel production capacity from 12.4mn tonne to 20.2mn tonne by FY2015 at a capex of ₹72,000cr. We expect robust profitability from these plants, with captive iron ore backing the upcoming steel expansion. Also, we expect SAIL's older loss-making plants to be modernized as part of its modernization program. However, the company has reported delays in its expansion projects over the last few quarters. Going forward, we do not rule out further delays and cost over-runs in its expansion plans.

Sales volumes continue to disappoint: SAIL reported disappointing sales volumes for 9MFY2013 in the midst of lower steel demand. Lower-than-expected volumes reflect lower demand in India as well as lack of focus on marketing by SAIL, in our view. Given the slowdown in steel demand in India, and rising imports from FTA countries (which attract lower import duty), we remain skeptical over SAIL's sales volume growth during FY2014.

Outlook and valuation: We expect SAIL's operational and financial performance to remain weak during FY2014 due to its: 1) inability to maintain/raise sales volumes amidst slower steel demand in India; 2) higher fixed costs, and 3) delays/cost overruns in its brownfield expansion projects. SAIL is on the verge of expanding its saleable steel production capacity from 12.5mn tonne to 24.0mn tonne by FY2015. However, we believe that there is still time to play the volume growth story of SAIL. Moreover, it is expensively valued at the offer-for-sale (OFS) floor price of ₹63 (7.2x FY2015E EV/EBITDA). **Hence, we recommend investors to Avoid subscribing to SAIL OFS.**

Key financials (Standalone)

Y/E March (₹ cr)	FY12	FY13E	FY14E	FY15E
Net sales	45,665	43,438	53,685	63,235
% chg	6.8	(4.9)	23.6	17.8
Net profit	3,545	2,695	2,260	2,939
% chg	(28.2)	(24.0)	(16.1)	30.0
FDEPS (₹)	8.6	6.5	5.5	7.1
OPM (%)	13.3	12.0	9.3	11.3
P/E (x)	6.8	9.7	11.5	8.9
P/BV (x)	0.7	0.6	0.6	0.6
RoE (%)	9.2	6.6	5.4	6.7
RoCE (%)	7.8	5.9	4.6	6.8
EV/Sales (x)	0.8	0.7	0.8	0.8
EV/EBITDA (x)	5.8	6.1	8.3	7.2

Source: Company, Angel Research

AVOID

Issue Open: March 22, 2013

Issue Close: March 22, 2013

Issue Details

Face Value: ₹10

Present Eq. Paid-up Capital: ₹4,130cr

Offer Size: 24.03cr Shares

Post Eq. Paid-up Capital: ₹4,130cr

Issue size (amount): ₹1,514cr

OFS Floor Price: ₹63

Post-issue implied mkt cap: ₹26,022cr

Promoters holding Pre-Issue: 85.8%

Promoters holding Post-Issue: 80.0%

Post Issue Shareholding Pattern

Promoters Group	80.0
MF/Banks/Indian Fls/FILs/Public & Others	20.0

Bhavesh Chauhan

Tel: 022- 39357600 Ext: 6821

bhaveshu.chauhan@angelbroking.com

Vinay Rachh

Tel: 022- 39357600 Ext: 6841

vinay.rachh@angelbroking.com

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Issue Details

The Promoter (Government of India), proposes to sell 24,03,96,572 equity shares of face value of ₹10 each representing 5.8% of the total paid up equity share capital of the company. SAIL has fixed the OFS floor price at ₹63 per share (at a 1.4% discount to its closing price as on March 21, 2013).

Exhibit 1: Shareholding Pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter and promoter group	3,54,48,16,803	85.8	3,30,44,20,231	80.0
Total public holding	58,57,08,486	14.2	82,61,05,058	20.0
Total	4,13,05,25,289	100	4,13,05,25,289	100

Source: Company, Angel Research

Investment rationale

Slow progress on capacity continues

SAIL is increasing its saleable steel production capacity from 12.4mn tonne to 20.2mn tonne by FY2015 at a capex of ₹72,000cr. We expect robust profitability from these plants, with captive iron ore backing the upcoming steel capacity expansion. Also, we expect SAIL's older loss-making plants to be modernized as part of its modernization program. However, the company has reported delays in its expansion projects over the last few quarters. Going forward, we do not rule out further delays and cost over-runs in expansion plans.

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Outlook and valuation

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Profit & loss statement (Standalone)

Y/E March (₹ cr)	FY10	FY11	FY12	FY13E	FY14E	FY15E
Gross sales	44,002	47,103	50,361	47,905	59,206	69,737
Less: excise duty	3,425	4,353	4,696	4,467	5,521	6,503
Net sales	40,551	42,750	45,665	43,438	53,685	63,235
Other operating income	0	590	688	625	368	386
Total operating income	40,551	43,339	46,353	44,063	54,053	63,621
% chg	(7.2)	6.9	7.0	(4.9)	22.7	17.7
Total expenditure	31,157	35,742	40,267	38,866	49,070	56,489
Net raw materials	18,601	18,686	21,662	19,145	26,314	30,869
Other mfg costs	6,305	3,720	4,470	7,254	8,965	10,560
Personnel	5,527	7,678	7,936	8,253	8,583	8,926
Other	3,619	5,657	6,199	4,213	5,207	6,134
EBITDA	9,395	7,598	6,086	5,198	4,983	7,132
% chg	10.1	(19.1)	(19.9)	(14.6)	(4.1)	43.1
(% of net sales)	23.2	17.8	13.3	12.0	9.3	11.3
Depreciation	1,430	1,488	1,567	1,629	1,879	2,213
EBIT	7,965	6,109	4,518	3,569	3,104	4,918
% chg	9.9	(23.3)	(26.0)	(21.0)	(13.0)	58.5
(% of net sales)	19.6	14.3	9.9	8.2	5.8	7.8
Interest expenses	474	475	678	732	805	1,594
Other income	2,782	1,481	1,576	970	894	827
(% of PBT)	27.1	20.8	29.1	25.5	28.0	19.9
Share in profit of associates	-	-	-	-	-	-
Recurring PBT	10,273	7,115	5,416	3,806	3,193	4,152
% chg	9.3	(30.7)	(23.9)	(29.7)	(16.1)	30.0
Extraordinary inc/(expense)	-	125	(262)	-	-	-
PBT (reported)	10,299	7,240	5,154	3,806	3,193	4,152
Tax	3,448	2,302	1,609	1,111	932	1,212
(% of PBT)	33.5	31.8	31.2	29.2	29.2	29.2
PAT (reported)	6,851	4,938	3,545	2,695	2,260	2,939
Add: Share of earnings of asso.	-	-	-	-	-	-
Less: Minority interest	-	-	-	-	-	-
Extraordinary expense/(inc.)	-	-	-	-	-	-
Net income (reported)	6,851	4,938	3,545	2,695	2,260	2,939
Adj. PAT	6,851	4,812	3,807	2,695	2,260	2,939
% chg	10.9	(29.8)	(20.9)	(29.2)	(16.1)	30.0
(% of net sales)	16.9	11.3	8.3	6.2	4.2	4.6
Basic EPS (₹)	16.6	12.0	8.6	6.5	5.5	7.1
FDEPS (₹)	16.6	12.0	8.6	6.5	5.5	7.1
% chg	10.9	(27.9)	(28.2)	(24.0)	(16.1)	30.0

Balance sheet (Standalone)

Y/E March (₹ cr)	FY10	FY11	FY12	FY13E	FY14E	FY15E
SOURCES OF FUNDS						
Equity Share Capital	4,130	4,130	4,130	4,130	4,130	4,130
Reserves & Surplus	29,613	32,939	35,681	37,410	38,705	40,679
Shareholders Funds	33,743	37,069	39,811	41,541	42,835	44,809
Minority Interest	1	-	-	-	-	-
Total Loans	17,638	19,056	16,097	21,097	25,097	29,097
Deferred Tax Liability	1,430	1,491	1,644	1,644	1,644	1,644
Other Long term liabilities	-	1,097	1,090	1,090	1,090	1,090
Long Term Provisions	-	3,192	3,513	3,513	3,513	3,513
Total Liabilities	52,812	61,905	62,156	68,886	74,180	80,154
APPLICATION OF FUNDS						
Gross Block	37,419	38,077	41,728	53,728	71,228	93,728
Less: Acc. Depreciation	22,310	23,018	24,601	26,230	28,109	30,322
Net Block	15,109	15,059	17,127	27,498	43,119	63,406
Capital Work-in-Progress	15,309	22,075	28,049	24,549	17,049	6,549
Goodwill	-	-	-	-	-	-
Investments	45	684	685	685	685	685
Long Term loans and adv.	-	1,692	2,003	2,003	2,003	2,003
Other non- current assets	-	30	41	41	41	41
Current Assets	40,035	36,544	28,431	32,490	31,683	29,152
Cash	22,719	17,480	6,416	14,511	8,838	2,938
Loans & Advances	3,736	1,246	1,386	1,386	1,386	1,386
Other	13,580	17,817	20,630	16,593	21,459	24,829
Current liabilities	17,686	14,178	14,181	18,381	20,400	21,682
Net Current Assets	22,350	22,365	14,250	14,109	11,283	7,470
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	52,812	61,905	62,156	68,886	74,180	80,154

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY10	FY11	FY12	FY13E	FY14E	FY15E
Profit before tax	10,299	7,194	5,151	3,806	3,193	4,152
Depreciation	1,426	1,483	1,574	1,629	1,879	2,213
Change in Working Capital	1,427	(3,263)	(3,086)	8,237	(2,848)	(2,087)
Less: Other income	(4,435)	(1,043)	(656)	-	-	-
Direct taxes paid	3,619	2,215	1,456	1,111	932	1,212
Cash Flow from Operations	5,097	2,157	1,170	12,561	1,292	3,065
(Inc.)/ Dec. in Fixed Assets	(10,371)	(10,621)	(9,487)	(8,500)	(10,000)	(12,000)
(Inc.)/ Dec. in Investments	15	(9)	5	-	-	-
(Inc.)/ Dec. in loans and adv.	-	-	-	-	-	-
Other income	(2,112)	(1,697)	(1,948)	-	-	-
Cash Flow from Investing	(8,257)	8,933	(7,535)	(8,500)	(10,000)	(12,000)
Issue of Equity	45	-	159	-	-	-
Inc./(Dec.) in loans	8,886	3,641	(3,086)	5,000	4,000	4,000
Dividend Paid (Incl. Tax)	1,402	1,395	1,152	965	965	965
Others	169.4	429	620	-	-	-
Cash Flow from Financing	7,359	1,818	4,699	4,035	3,035	3,035
Inc./(Dec.) in Cash	4,199	12,908	(11,064)	8,096	(5,674)	(5,900)
Opening Cash balances	18,522	22,439	17,480	6,416	14,512	8,838
Closing Cash balances	22,721	17,480	6,416	14,512	8,838	2,938

Key ratios

Y/E March	FY10	FY11	FY12	FY13E	FY14E	FY15E
Valuation Ratio (x)						
P/E (on FDEPS)	3.8	5.4	6.8	9.7	11.5	8.9
P/CEPS	3.1	4.0	5.1	6.0	6.3	5.1
P/BV	0.8	0.7	0.7	0.6	0.6	0.6
Dividend yield (%)	5.2	4.1	1.6	3.2	3.2	3.2
EV/Sales	0.5	0.6	0.8	0.7	0.8	0.8
EV/EBITDA	2.2	3.5	5.8	6.1	8.3	7.2
EV / Total Assets	0.4	0.4	0.6	0.5	0.6	0.6
Per Share Data (₹)						
EPS (Basic)	16.6	11.7	9.2	6.5	5.5	7.1
EPS (fully diluted)	16.6	11.7	9.2	6.5	5.5	7.1
Cash EPS	20.0	15.6	12.4	10.5	10.0	12.5
DPS	3.3	2.6	1.0	2.0	2.0	2.0
Book Value	81.7	89.7	96.4	100.6	103.7	108.5
Dupont Analysis						
EBIT margin	19.6	14.3	9.9	8.2	5.8	7.8
Tax retention ratio (%)	66.5	68.2	68.8	70.8	70.8	70.8
Asset turnover (x)	1.7	1.2	1.0	0.9	1.0	1.0
ROIC (Post-tax)	22.1	12.2	7.0	5.1	4.1	5.3
Cost of Debt (Post Tax)	-	1.7	2.9	2.5	2.3	3.9
Leverage (x)	-	0.0	0.2	0.1	0.4	0.6
Operating RoE	22.1	12.4	7.9	5.5	4.7	6.1
Returns (%)						
RoCE (Pre-tax)	17.8	11.1	7.8	5.9	4.6	6.8
Angel RoIC (Pre-tax)	60.9	38.0	22.7	15.2	9.2	9.1
RoE	22.2	13.9	9.2	6.6	5.4	6.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.2	1.1	1.2	0.9	0.9	0.8
Inventory / Sales (days)	180	225	194	200	200	200
Receivables (days)	33	36	33	33	33	33
Payables (days)	122	119	103	103	103	103
WC cycle (ex-cash) (days)	70	69	77	78	71	75
Solvency ratios (x)						
Net debt to equity	(0.2)	0.0	0.2	0.1	0.4	0.6
Net debt to EBITDA	(0.5)	0.1	1.5	1.1	3.1	3.6
Interest Coverage (EBIT / Int.)	16.8	12.9	6.7	4.9	3.9	3.1

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement	SAIL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

6th Floor, Ackruti Star, Central Road, MIDC, Andheri (E), Mumbai- 400 093. Tel: (022) 39357800

Research Team

Fundamental:

Sarabjit Kour Nangra	VP-Research, Pharmaceutical	sarabjit@angelbroking.com
Vaibhav Agrawal	VP-Research, Banking	vaibhav.agrawal@angelbroking.com
Bhavesh Chauhan	Sr. Analyst (Metals & Mining)	bhaveshu.chauhan@angelbroking.com
Viral Shah	Sr. Analyst (Infrastructure)	viralk.shah@angelbroking.com
Sharan Lillaney	Analyst (Mid-cap)	sharanb.lillaney@angelbroking.com
V Srinivasan	Analyst (Cement, Power, FMCG)	v.srinivasan@angelbroking.com
Yaresh Kothari	Analyst (Automobile)	yareshb.kothari@angelbroking.com
Ankita Somani	Analyst (IT, Telecom)	ankita.somani@angelbroking.com
Sourabh Taparia	Analyst (Banking)	sourabh.taparia@angelbroking.com
Bhupali Gursale	Economist	bhupali.gursale@angelbroking.com
Vinay Rachh	Research Associate	vinay.rachh@angelbroking.com
Amit Patil	Research Associate	amit.patil@angelbroking.com
Shareen Batatawala	Research Associate	shareen.batatawala@angelbroking.com
Twinkle Gosar	Research Associate	gosar.twinkle@angelbroking.com
Tejashwini Kumari	Research Associate	tejashwini.kumari@angelbroking.com

Technical:

Shardul Kulkarni	Sr. Technical Analyst	shardul.kulkarni@angelbroking.com
Sameet Chavan	Technical Analyst	sameet.chavan@angelbroking.com
Sacchitanand Uttekar	Technical Analyst	sacchitanand.uttekar@angelbroking.com

Derivatives:

Siddarth Bhamre	Head - Derivatives	siddarth.bhamre@angelbroking.com
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Institutional Sales Team:

Mayuresh Joshi	VP - Institutional Sales	mayuresh.joshi@angelbroking.com
Hiten Sampat	Sr. A.V.P- Institution sales	hiten.sampat@angelbroking.com
Meenakshi Chavan	Dealer	meenakshis.chavan@angelbroking.com
Gaurang Tisani	Dealer	gaurangp.tisani@angelbroking.com
Akshay Shah	Sr. Executive	akshayr.shah@angelbroking.com

Production Team:

Tejas Vahalia	Research Editor	tejas.vahalia@angelbroking.com
Dilip Patel	Production Incharge	dilipm.patel@angelbroking.com