

Risk-Reward Turning Favorable; Upgrade to BUY

India remained a net importer of steel from Apr'24, and net imports peaked at 0.7 MT in Aug'24. China's steel exports grew by 22% YoY to 111MT in CY24, a level last seen in CY15 (112 MT in CY15), leading to lower regional steel prices and higher Indian imports. Steel net imports, however, have now declined to 0.2 MT in Feb'25 on account of the DGTR probe for the imposition of safeguard duties. Yesterday, on 18th Mar'25, DGTR proposed a 12% safeguard duty on select steel imports for 200 days to protect domestic producers. Anticipation of this news was already reflected in the recent price hikes taken by Indian steel mills in the first week of Mar'25. Speculation of implementation of the safeguard duty along with cooling imports led to price hikes by the leading steel mills in early March for HRCs and CRCs up to Rs 1,100-1,500/t for Mar'25 sales.

As per our calculation, the Spot spreads have bottomed out and are currently up by 19% from the lows in Jan'25. This is led by the recent HRC price hikes taken by steel mills, which led to an increase in ex-Mumbai HRC prices by 6.4% from Rs 47,000/t in 1st week of Jan'25 to the current spot price at Rs 50,000/t in Mar'25. Coking coal and iron ore prices on the other hand remained soft with spot prices at \$176/t (down 11% from Jan'25) and at \$103/t (up marginally by 3% from 1st week of Jan'25 level). **With the steel spreads bottoming out, we foresee the risk-reward turning lucrative for SAIL. SAIL is currently trading at 0.72x 12MF P/B, higher than its LT average of 0.6x but still much lower than the recent peak of 1.24x in May'24. We upgrade SAIL from HOLD to BUY with a revised target price of Rs 130/share from Rs 115/share.**

- **Spreads likely to improve slightly in Q4FY25:** Management in the Q3FY25 concall highlighted that the blended Coking coal costs could come down by ~Rs 1,000/t QoQ in Q4FY25, led by declining imported coking coal prices. Average blended NSR in Jan'25 was down by ~Rs 1,000/t at Rs 48,500/t; however, with the recent increase in HRC prices, blended NSR could find some support. This could improve spreads slightly QoQ in Q4FY25. If the HRC prices sustain at current levels, then steel spreads on a consumption basis will improve margins in Q1FY26.
- **SAIL has higher sensitivity to steel and coking coal prices:** Every Rs 1,000/t increase in HRC prices increases SAIL's EBITDA by ~15% (4% for Tata Steel) and every \$10/t decline in coking coal prices increases EBITDA by 10%. With the softness in the coking coal prices, we reduce our FY27 coking coal prices assumption by 4% (~\$9/t). We marginally increase our HRC prices for FY26/27 by 0.4%/0.2%, resulting in a 4% and 13% increase in EBITDA for FY26/27E.
- **Next leg of expansion accompanied by probability of higher leverage risk - remains the key overhang and caps material upside:** SAIL will raise its capacity to 35 MT from 20 MT currently in phases with a total capex of Rs 1.1-1.2 Lc Cr. In Phase I it will add 7.5 MT capacity by FY31 where it has got stage I approval for the IISCO greenfield steel plant, Bokaro and Durgapur expansion and for phase II it is in the process of getting the stage-I approval for the Rourkela and Durgapur steel plant which will add another 7.5 MT capacity. SAIL's next phase of the Capex wave will continue to keep the street cautious on the stock as it completed its earlier hot metal expansion plan from 14.6 MT to 25 MT after significant delays and Capex overruns. **However, as the Capex for the next phase of the expansion plan will start only from H2FY26/FY27 onwards and could peak in FY28/29, we foresee steel spreads will determine the stock trajectory in the interim.** We foresee risk reward turning favourable for the stock with the recent moderation in the valuation multiples.
- **Borrowings are down QoQ, but the risk of increasing leverage remains:** Total borrowings currently stand at Rs 32,600 Cr, down from Rs 35,596 Cr as of the end of Q2FY25. The company has guided to reduce the borrowings to ~Rs 30,500 Cr, which will be similar to the level seen at the end of FY24. During the expansion phase, it will target D: E of 1:1; however, execution risk remains as expansion capex kicks in from FY27 onwards.

Valuation & Recommendation: We value the company at 6.0x Mar'27E EBITDA (from Dec'26E) to arrive at a target price of Rs 130/share (from Rs 115/share). The TP implies an upside of 19% from the CMP. We upgrade from a HOLD to a **BUY** rating on the stock.

Key Financials (Consolidated)

(Rs Cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	1,04,448	1,05,378	98,611	99,964	1,09,749
EBITDA	8,039	11,149	7,680	10,441	14,318
Net Profit	2,177	3,067	126	2,235	5,134
EPS (Rs.)	5.3	7.4	0.3	5.4	8.5
PER (x)	20.7	14.7	357.3	20.1	12.8
P/BV (x)	0.8	0.8	0.8	0.8	0.7
EV/EBITDA (x)	9.5	7.4	10.1	7.4	5.4
ROE (%)	4.0	5.5	0.2	3.9	8.4

Source: Company, Axis Securities.

(CMP as of 18th March 2025)

CMP (Rs)	109
Upside /Downside (%)	19%
High/Low (Rs)	176/99
Market cap (Cr)	44,981
Avg. daily vol. (6m) Shrs.	2,09,54,105
No. of shares (Cr)	413

Shareholding (%)

	Jun-24	Sep-24	Dec-24
Promoter	65.00	65.00	65.00
FII	3.01	2.82	2.59
Mutual Funds / UTI	6.37	5.92	5.08
Financial Institutions	0.02	0.01	0.01
Others	25.60	26.25	27.32

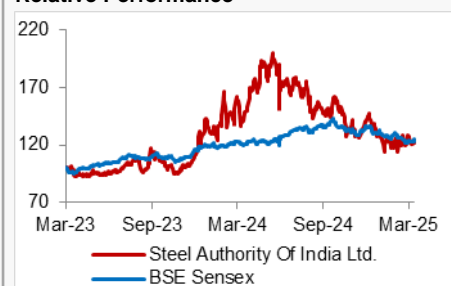
Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	98,611	99,964	1,09,749
EBITDA	7,680	10,441	14,318
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PER (x)	357.3	20.1	12.8
P/BV (x)	0.8	0.8	0.7
EV/EBITDA (x)	10.1	7.4	5.4
ROE (%)	0.2	3.9	8.4

Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales		0.4%	0.2%
EBITDA		3.9%	12.8%
PAT		15.3%	31.1%

Relative Performance



Aditya Welekar

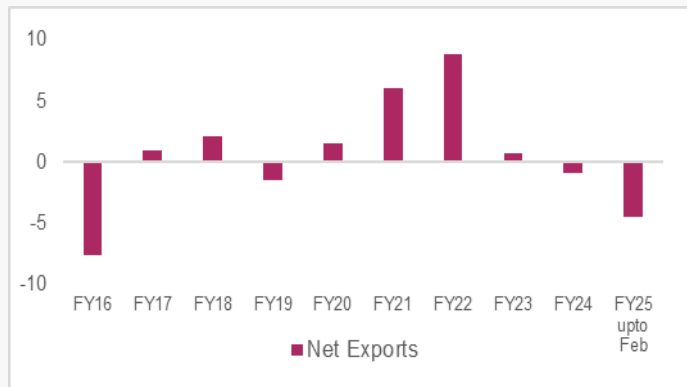
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Sector Update

India remained a net importer of steel in FY25 (YTD up to Feb'25), a situation last seen in FY16. This coincides with higher steel exports from China in similar periods in CY15 and CY24 when the steel exports quantum jumped above 100 MT. (see Exhibit 7)

Exhibit 1: India's Net Exports – Turned net importer in FY25



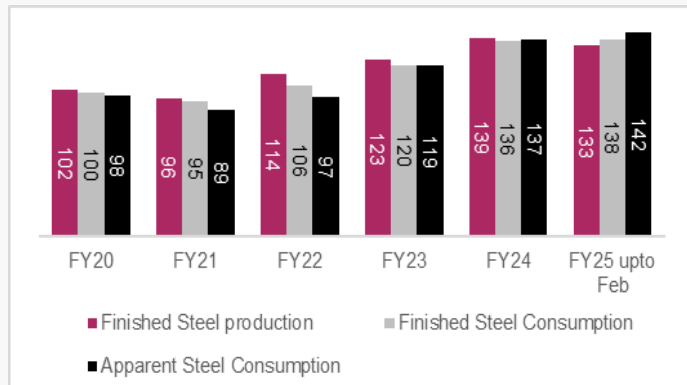
Source: JPC

Exhibit 2: India's exports and imports



India's apparent steel consumption exceeded production as exports declined while imports increased. Lower HRC prices in China, along with the EU safeguard duty investigation, led to higher competitive intensity in export markets.

Exhibit 3: India's finished steel consumption remains strong



Source: JPC

Exhibit 4: India's monthly exports weakened while imports increased recently

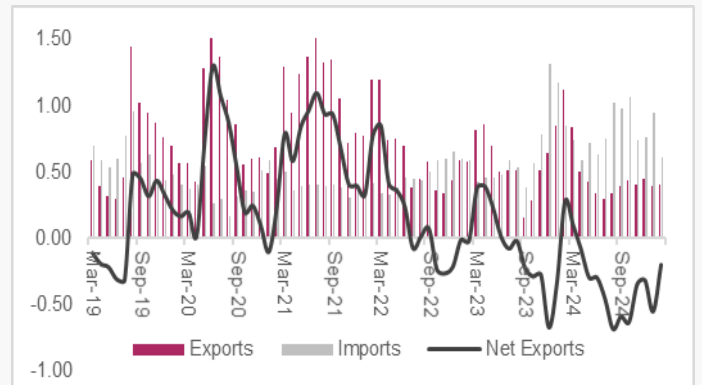


Exhibit 5: Exports as % of total sales

Tata Steel		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Exports Volume	MT	1.50	3.66	2.64	1.61	1.04
Total Sales Volume (India)	MT	16.96	17.31	18.27	17.39	18.16
Total Sales Volume (Consolidated)	MT	27.69	27.42	28.59	28.79	29.39
Export %	%	9%	21%	14%	9%	6%

JSW Steel		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Exports Volume	MT	3.13	4.19	4.95	2.84	3.35
Total Sales Volume	MT	14.90	14.95	17.69	21.86	23.96
Export %	%	21%	28%	28%	13%	14%

SAIL		FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Exports Volume	MT	0.63	0.91	1.46	0.44	0.33
Total Sales Volume	MT	14.23	14.94	16.15	15.76	17.02
Export as % of total Revenue	%	4%	6%	9%	3%	2%

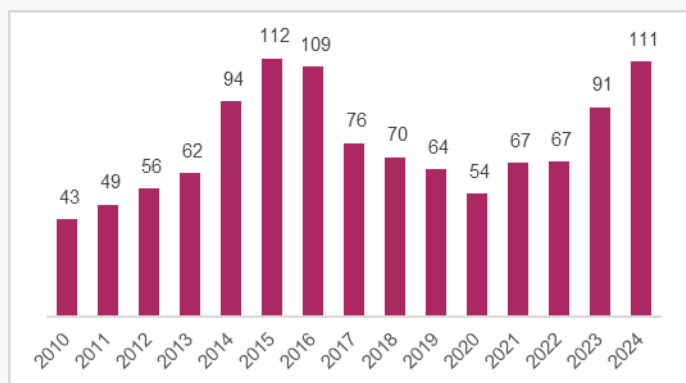
JSPL		FY 2019	FY 2020	FY 2021	FY 2023	FY 2024
Exports Volume	MT		0.76	2.53	1.00	0.69
Total Sales Volume	MT		5.82	7.28	7.68	7.67
Export %	%		13%	35%	13%	9%

Source: Company reports

Exhibit 6: Import parity with and without 12% safeguard duty

India (Import Parity)		Japan	China	India (Import Parity)		Japan	China
HRC (FoB)	US\$/t	500	480	HRC (FoB)	US\$/t	500	480
Sea Freight	US\$/t	50	30	Sea Freight	US\$/t	50	30
Import duty	%	0.0%	7.5%	Import duty	%	0.0%	7.5%
Safeguard Duty	%	12%	12%	Safeguard Duty	%	0%	0%
Export HRC (CFR)	US\$/t	610	604	Export HRC (CFR)	US\$/t	550	546
Port Handling	US\$/t	10	10	Port Handling	US\$/t	10	10
Miscellaneous charges	US\$/t	8	8	Miscellaneous charges	US\$/t	8	8
Landed HRC price	US\$/t	628	622	Landed HRC price	US\$/t	568	564
USD/INR conversion	x	87.31	87.31	USD/INR conversion	x	87.31	87.31
Landed HRC price	Rs/t	54,828	54,269	Landed HRC price	Rs/t	49,589	49,240
Domestic HRC price (ex-Mumbai)	Rs/t	49,500	49,500	Domestic HRC price (ex-Mumbai)	Rs/t	49,500	49,500
Premium/(Discount) to import prices	Rs/t	-5,328	-4,769	Premium/(Discount) to import prices	Rs/t	-89	260

Source: Bloomberg, Axis Securities, prices as of 17th Mar'25

Exhibit 7: China Steel Exports – at a multiyear high


Source: Bloomberg

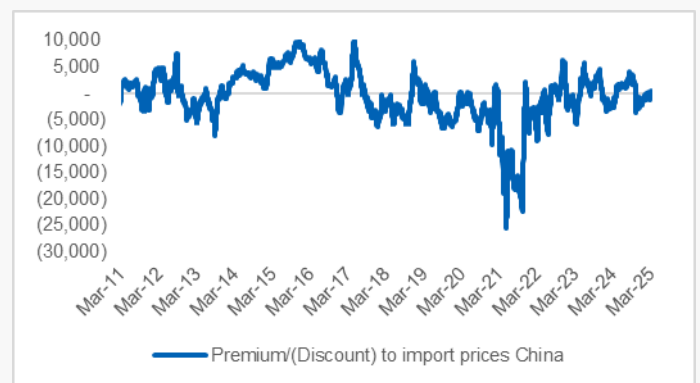
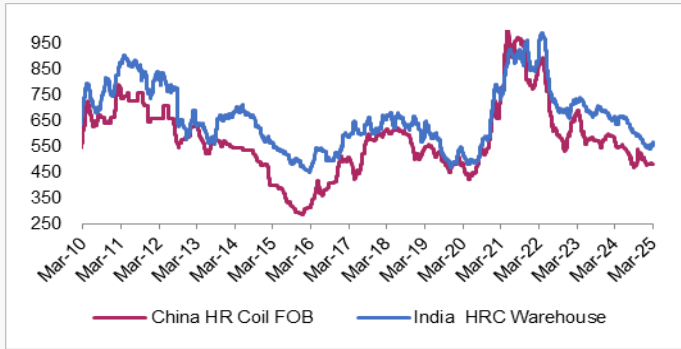
Exhibit 8: Import parity Premium/Discount vs China HRC prices


Exhibit 9: Gap between China and India HRC prices widened as was in CY15



Source: Bloomberg

Exhibit 10: US and EU regional steel prices higher due to protectionist measures

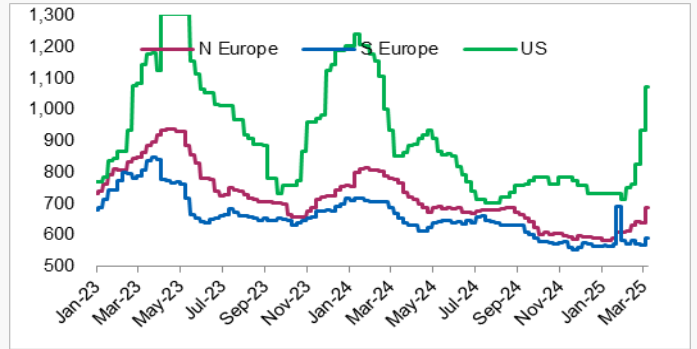
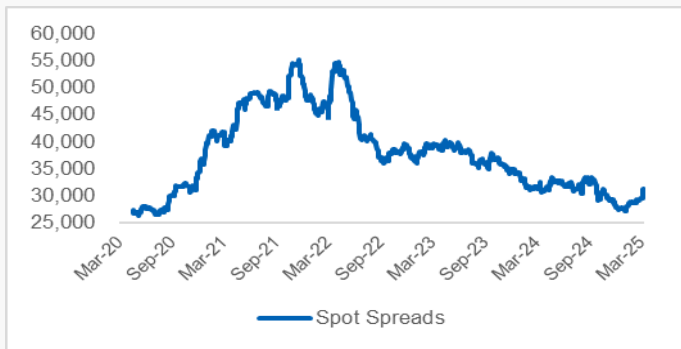


Exhibit 11: Spot spreads are bottoming out



Source: Bloomberg, Axis Securities research

Exhibit 12: Spreads on a consumption basis could improve in Q1FY26 if the steel prices sustain at current spot level

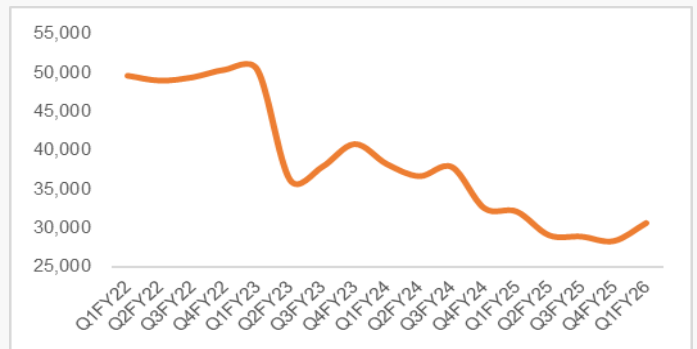
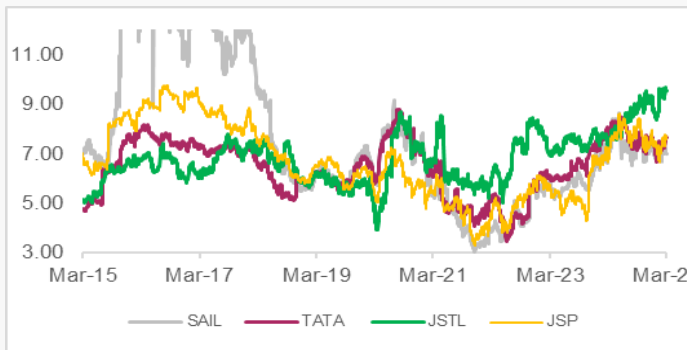


Exhibit 13: 12MF EV/EBITDA – valuations not very cheap



Source: Bloomberg

Exhibit 14: but off the recent peak (12MF P/B)

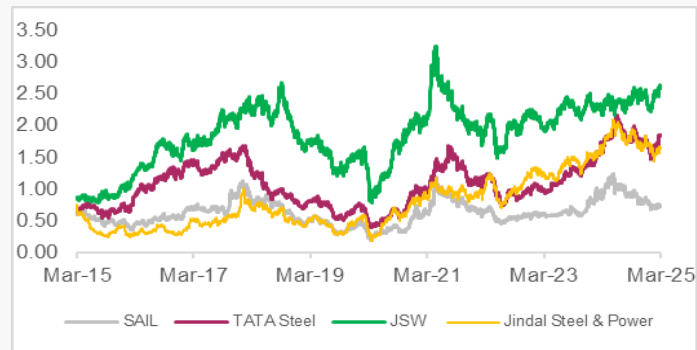
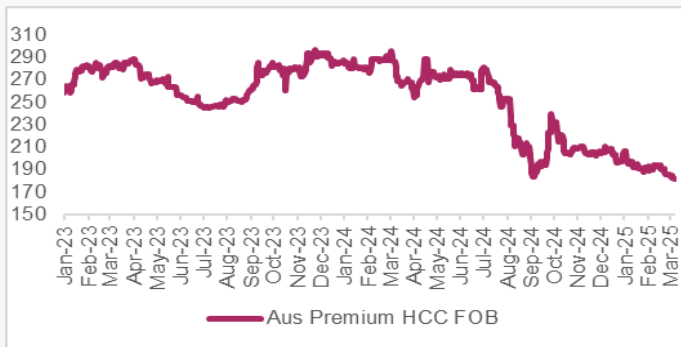
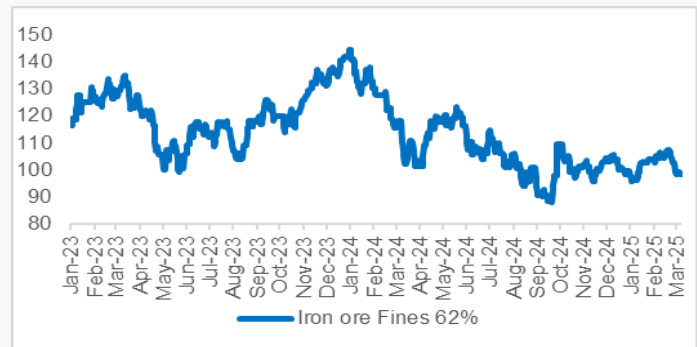


Exhibit 15: Coking coal prices remain soft



Source: Bloomberg

Exhibit 16: Iron ore remains soft on speculation of steel production cut in China



Key Risks to Our Estimates and TP

- The key risk to our **BUY** rating is the decrease in HRC prices and the increase in coking coal prices as compared to our assumptions.
- Lower than expected sales volume.

Change in Estimates

	New			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	98,611	99,964	1,09,749	98,611	99,573	1,09,548	0.0%	0.4%	0.2%
EBITDA	7,680	10,441	14,318	8,083	10,050	12,697	-5.0%	3.9%	12.8%
PAT	126	2,235	5,134	428	1,938	3,917	-70.6%	15.3%	31.1%
Sales volume (mt)	17.49	18.24	19.05	17.49	18.24	19.05	0.0%	0.0%	0.0%
HRC Prices (\$/t)	601	580	610	601	578	609	0.0%	0.4%	0.2%
Coking Coal (\$/t)	231	210	227	229	210	236	0.9%	0.0%	-3.6%

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E
Total Operating income	1,04,448	1,05,378	98,611	99,964
Consumption of Raw Materials	62,180	57,709	52,523	48,072
Increase/Decrease in Stocks	(5,155)	(3,355)	(1,701)	(682)
Employees Cost	12,072	11,766	11,286	11,512
Other Expenses	27,312	28,109	28,822	30,620
Total Expenditure	96,408	94,229	90,931	89,523
EBITDA	8,039	11,149	7,680	10,441
Depreciation and Amortization	4,964	5,278	5,488	5,597
EBIT	3,076	5,871	2,192	4,845
Other Income	950	1,067	730	600
Share Of P/L Of Associates (Net of Tax)	646	439	530	536
Less: Interest & Fin Chg.	2,037	2,474	2,946	3,179
Less: Exceptional Items	(258)	841	283	-
Profit before tax	2,892	4,062	222	2,802
Provision for Tax	716	995	96	566
Reported PAT	2,177	3,067	126	2,235
EPS (Rs/sh)	5.3	7.4	0.3	5.4
DPS (Rs/sh)	1.5	2.0	0.1	1.5

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23A	FY24A	FY25E	FY26E
Net Block	67,111	65,415	63,917	63,570
Other Tangible assets	4,911	5,522	5,522	5,522
CWIP	4,891	6,141	7,851	10,101
Intangible assets	1,521	1,489	1,489	1,489
Investments	4,185	4,589	4,589	4,589
Inventories	32,400	37,347	32,420	32,865
Trade Receivables	5,390	8,355	7,835	7,942
Cash / Bank balance	551	673	3,832	3,348
Misc. Assets	9,521	11,178	11,178	11,178
Total assets	1,30,481	1,40,709	1,38,632	1,40,603
Equity capital	4,131	4,131	4,131	4,131
Reserves	50,616	52,971	52,271	54,472
Minority Interests	0	0	0	0
Borrowings	30,773	36,323	35,323	34,323
Def Tax Liabilities	5,821	6,286	6,382	6,948
Other Liabilities and Provision	17,800	18,635	18,635	18,635
Provisions	6,998	7,032	7,032	7,032
Trade Payables	14,342	15,332	14,859	15,063
Capital employed	1,30,481	1,40,709	1,38,632	1,40,603

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY24A	FY25E	FY26E	FY27E
Profit before tax	4,062	(307)	2,265	6,061
Depreciation	5,278	5,488	5,597	5,827
Interest Expenses	2,474	2,946	3,179	3,089
Non-operating / EO item	(1,150)	530	536	589
Change in W/C	(7,650)	4,974	(349)	(2,520)
Income Tax	(104)	-	-	-
Operating Cash Flow	2,911	13,631	11,229	13,045
Capital Expenditure	(4,711)	(5,700)	(7,500)	(10,000)
Free cash Flow	(1,800)	7,931	3,729	3,045
Other Investments	450	-	-	-
Investing Cash Flow	(4,261)	(5,700)	(7,500)	(10,000)
Proceeds / (Repayment) of Borrowings	4,138	(1,000)	(1,000)	-
Finance cost paid	(2,157)	(2,946)	(3,179)	(3,089)
Dividend paid	(620)	(826)	(34)	(602)
Financing Cash Flow	1,362	(4,772)	(4,213)	(3,691)
Change in Cash	12	3,159	(484)	(646)
Opening Cash	57	673	3,832	3,348
Closing Cash	69	3,832	3,348	2,702

Source: Company, Axis Securities

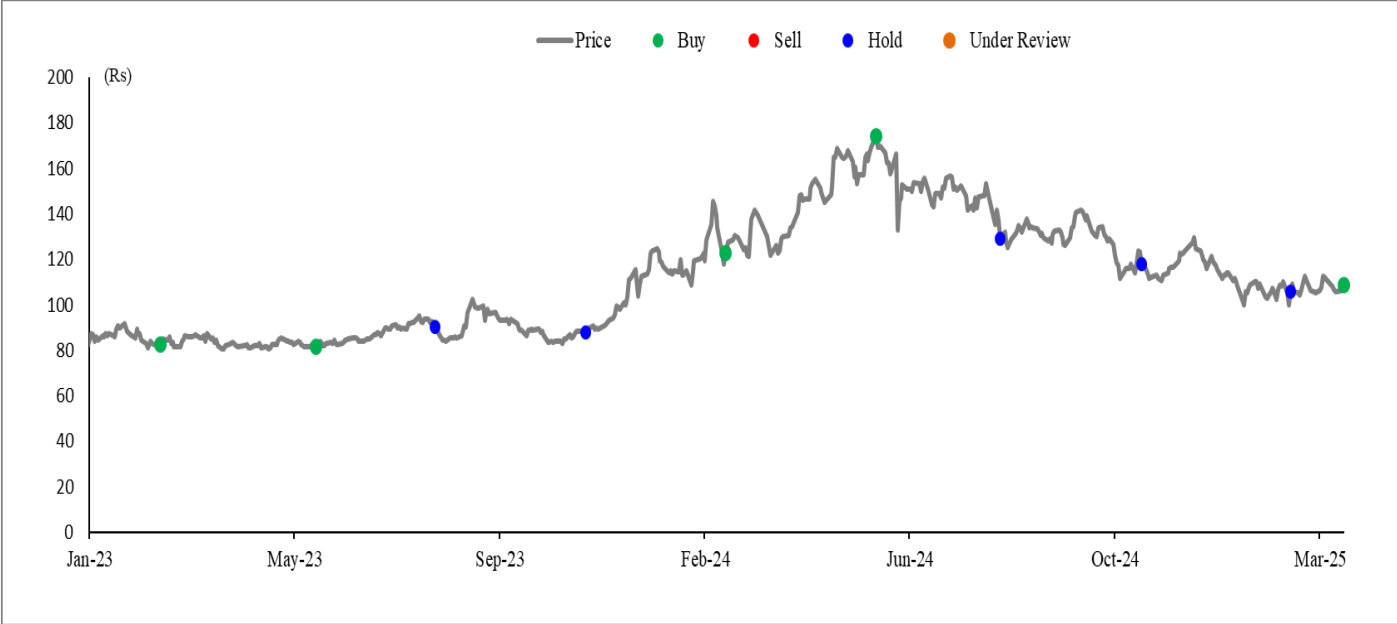
Ratio Analysis

(%)

Y/E March	FY24A	FY25E	FY26E	FY27E
Operational Ratios				
Sales growth (% YoY)	1%	-6%	1%	10%
EBITDA growth (% YoY)	39%	-31%	36%	37%
Op. profit growth (% YoY)	91%	-63%	121%	75%
Net Profit growth (% YoY)	41%	-96%	1674%	130%
EBITDA Margin %	11%	8%	10%	13%
Net profit Margin %	3%	0%	2%	5%
EBITDA/t (Rs/tonne)	6,047	4,228	5,637	7,287
Tax Rate %	27%	-31%	25%	25%
Efficiency Ratios				
Total Asset Turnover (x)	0.8	0.7	0.7	0.8
Sales/Gross block (x)	0.9	0.8	0.8	0.8
Sales/Net block(x)	1.6	1.5	1.6	1.7
Working capital/Sales (x)	0.3	0.3	0.3	0.3
Valuation Ratios				
PER (x)	14.7	357.3	20.1	12.8
P/BV (x)	0.8	0.8	0.8	0.7
EV/Ebitda (x)	7.4	10.1	7.4	5.4
EV/Sales (x)	0.8	0.8	0.8	0.7
Dividend Yield (%)	2%	0%	1%	2%
Return Ratios				
ROE	5.5%	0.2%	3.9%	8.4%
ROCE	7.0%	2.5%	5.5%	9.2%
ROIC	4.5%	3.2%	4.0%	6.6%
Leverage Ratios				
Debt/equity (x)	0.7	0.7	0.6	0.6
Net debt/ Equity (x)	0.6	0.6	0.6	0.5
Net debt/Ebitda (x)	3.3	4.3	3.1	2.3
Interest Coverage ratio (x)	4.5	2.6	3.3	4.6

Source: Company, Axis Securities

Steel Authority Of India Price Chart and Recommendation History



Date	Reco	TP	Research
16-Feb-23	BUY	95	Result Update
29-May-23	BUY	93	Result Update
14-Aug-23	HOLD	95	Result Update
17-Nov-23	HOLD	95	Result Update
15-Feb-24	BUY	135	Result Update
22-May-24	BUY	195	Result Update
12-Aug-24	HOLD	130	Result Update
11-Nov-24	HOLD	130	Result Update
13-Feb-25	HOLD	115	Result Update
19-Mar-25	BUY	130	Company Update

Source: Axis Securities Research

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