

Rating: REDUCE | CMP: Rs37 | TP: Rs32

August 14, 2019

Q1FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	REDUCE		REDUCE	
Target Price	32		35	
Sales (Rs. m)	694,573	757,124	704,074	757,411
% Chng.	(1.3)	-		
EBITDA (Rs. m)	78,088	95,163	87,401	95,326
% Chng.	(10.7)	(0.2)		
EPS (Rs.)	1.9	3.8	2.8	3.2
% Chng.	(30.4)	19.7		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	576	670	695	757
EBITDA (Rs. bn)	46	97	78	95
Margin (%)	8.0	14.5	11.2	12.6
PAT (Rs. bn)	(5)	24	8	16
EPS (Rs.)	(1.2)	5.9	1.9	3.8
Gr. (%)	(81.6)	(588.7)	(67.3)	96.6
DPS (Rs.)	-	0.5	0.5	0.5
Yield (%)	-	1.4	1.4	1.4
RoE (%)	(1.4)	6.6	2.1	4.0
RoCE (%)	2.0	7.7	5.1	6.8
EV/Sales (x)	1.0	0.9	0.9	0.8
EV/EBITDA (x)	13.1	6.2	7.7	6.3
PE (x)	(30.6)	6.3	19.1	9.7
P/BV (x)	0.4	0.4	0.4	0.4

Key Data

SAIL.BO | SAIL IN

52-W High / Low	Rs.82 / Rs.36
Sensex / Nifty	37,312 / 11,029
Market Cap	Rs.152bn/ \$ 2,137m
Shares Outstanding	4,131m
3M Avg. Daily Value	Rs.2212.15m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	3.87
Domestic Institution	15.35
Public & Others	5.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(21.8)	(20.2)	(52.3)
Relative	(18.8)	(23.3)	(51.6)

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Sharp fall in prices to affect Q2 earnings; Maintain Reduce

SAIL posted Q1FY20 earnings above our estimates due to higher than expected realisations. However, disappointment continues on volumes and cost front in spite of increased capacity availability. Company used weak demand as shield for weakness in volumes against better performance posted by its peers despite facing capacity constraints. We do not expect material improvement in company's operational performance due to weak outlook on demand (affecting its scale benefit), aggravating competition intensity and sluggish prices. Owing to weak prices and sluggish demand, we cut our EBITDA estimate by 11% for FY20E. Due to high dependence on steel prices and inefficient operations, we maintain Reduce rating with TP of Rs32, EV/EBITDA of 5.5x FY21E.

- Higher realisations led the beat:** Volumes fell 21% QoQ (↓0.7% YoY) to 3.2mn (PLe: 3.4mn) t. Realisations rose 1.7% QoQ/Rs740 (↓6% YoY/Rs3,050) to Rs45,075 above our estimate of Rs44,210. Cost/t rose 3% QoQ/Rs1,325 (flat YoY) at Rs40,745 (PLe:Rs40,630). Impacted by lower scale, EBITDA/t fell 9% QoQ (↓38% YoY) to Rs4,870 (PLe:Rs4,030). Hence, EBITDA fell 29% QoQ (↓39% YoY) to Rs15.8bn, ahead of our estimates of Rs13.6bn. Due to better than expected margins, PAT came above our estimate at Rs688mn (PLe: loss Rs1.4bn), down 86% QoQ/90% YoY.
- Key earnings call highlights:** 1) Net Plant Realisations (NPR) rose marginally in Q1FY20 by 1.3%/Rs520 QoQ to Rs40,828/t 2) Realisations fell by 9% or Rs3,600 in July over Q1FY20 average 3) Coking coal prices fell USD20-25/t; benefit would be visible with a lag of a quarter 4) Techno-economic parameters deteriorated QoQ/YoY due to low production 5) 3) Debt rose 7% QoQ/4% YoY to Rs485bn due to subdued collections 6) Guided Saleable steel volume guidance for FY20e at 16mnt (+13.5% YoY) 7) Reiterated capex guidance of Rs40bn for FY20 (Q1FY20:Rs9bn) 8) Employee headcount reduced by 1.3% QoQ to 71,419

Exhibit 1: Q1FY20 Result Overview

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	146,452	157,432	(7.0)	183,230	687,279	662,673	3.7
Other operating income	1,748	1,640	6.6	1,833	7,294	7,000	4.2
Net sales including other operating income	148,200	159,072	(6.8)	185,063	694,573	669,673	3.7
Raw Material	67,490	64,237	5.1	93,533	331,032	295,743	11.9
<i>% of Net Sales</i>	<i>46.1</i>	<i>40.8</i>		<i>51.0</i>	<i>48.2</i>	<i>44.6</i>	
Staff Costs	20,461	22,229	(8.0)	23,075	88,303	88,303	-
<i>% of Net Sales</i>	<i>14.0</i>	<i>14.1</i>		<i>12.6</i>	<i>12.8</i>	<i>13.3</i>	
Other Expenses	44,430	46,842	(5.1)	46,309	197,150	188,286	4.7
<i>% of Net Sales</i>	<i>30.3</i>	<i>29.8</i>		<i>25.3</i>	<i>28.7</i>	<i>28.4</i>	
Total Expenditure	132,381	133,308	(0.7)	162,918	616,485	572,332	7.7
EBITDA	15,819	25,764	(38.6)	22,145	78,088	97,341	(19.8)
<i>Margin (%)</i>	<i>10.8</i>	<i>16.4</i>		<i>12.1</i>	<i>11.4</i>	<i>14.7</i>	
Depreciation	8,725	8,136	7.2	8,903	35,328	33,847	4.4
Other income	1,828	978	87.0	2,461	5,019	5,328	(5.8)
EBIT	8,923	18,606	(52.0)	15,703	47,779	68,822	(30.6)
Interest	7,884	7,554	4.4	8,034	35,607	31,549	12.9
PBT	1,039	11,052	(90.6)	7,669	12,172	37,273	(67.3)
Extraordinary income/(expense)	-	(2,774)	-	(546)	-	(3,894)	
PBT (After EO)	1,039	8,278	(87.4)	7,123	12,172	33,379	(63.5)
Tax	351	2,874	-	2,439	4,211	11,591	(63.7)
<i>% PBT</i>	<i>33.8</i>	<i>34.7</i>		<i>34.2</i>	<i>34.6</i>	<i>34.7</i>	
Reported PAT	688	5,404	(87.3)	4,684	7,960	21,788	(63.5)
Adjusted PAT	688	7,215	(90.5)	5,082	7,960	24,330	(67.3)

Source: Company, PL

Exhibit 2: Key Operating Metrics

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Sales Volume (Mn Tonnes)	3.2	3.3	(0.7)	4.1	15.3	14.1	8.2
Realisation per tonne	45,076	48,130	(6.3)	44,333	44,977	46,945	(4.2)
EBITDA per tonne	4,869	7,877	(38.2)	5,358	5,110	6,896	(25.9)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	575,585	669,673	694,573	757,124
YoY gr. (%)	29.5	16.3	3.7	9.0
Cost of Goods Sold	278,143	295,743	331,032	363,554
Gross Profit	297,442	373,930	363,541	393,569
Margin (%)	51.7	55.8	52.3	52.0
Employee Cost	88,501	88,303	88,303	88,303
Other Expenses	104,664	127,761	131,810	137,738
EBITDA	46,179	97,341	78,088	95,163
YoY gr. (%)	12,039.5	110.8	(19.8)	21.9
Margin (%)	8.0	14.5	11.2	12.6
Depreciation and Amortization	30,649	33,847	35,328	38,008
EBIT	15,529	63,494	42,760	57,155
Margin (%)	2.7	9.5	6.2	7.5
Net Interest	28,228	31,549	35,607	38,465
Other Income	4,845	5,328	5,019	5,234
Profit Before Tax	(7,589)	33,379	12,172	23,923
Margin (%)	(1.3)	5.0	1.8	3.2
Total Tax	(2,772)	11,591	4,211	8,277
Effective tax rate (%)	36.5	34.7	34.6	34.6
Profit after tax	(4,817)	21,788	7,960	15,646
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	(4,985)	24,359	7,960	15,646
YoY gr. (%)	(81.6)	(588.7)	(67.3)	96.6
Margin (%)	(0.9)	3.6	1.1	2.1
Extra Ord. Income / (Exp)	168	(2,570)	-	-
Reported PAT	(4,817)	21,788	7,960	15,646
YoY gr. (%)	(83.0)	(552.3)	(63.5)	96.6
Margin (%)	(0.8)	3.3	1.1	2.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(4,817)	21,788	7,960	15,646
Equity Shares O/s (m)	4,131	4,131	4,131	4,131
EPS (Rs)	(1.2)	5.9	1.9	3.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	955,194	1,014,566	1,094,566	1,174,566
Tangibles	955,194	1,014,566	1,094,566	1,174,566
Intangibles	-	-	-	-
Acc: Dep / Amortization	369,079	400,974	436,302	474,310
Tangibles	369,079	400,974	436,302	474,310
Intangibles	-	-	-	-
Net fixed assets	586,116	613,592	658,264	700,256
Tangibles	586,116	613,592	658,264	700,256
Intangibles	-	-	-	-
Capital Work In Progress	185,180	162,112	122,112	82,112
Goodwill	-	-	-	-
Non-Current Investments	21,058	24,071	24,435	24,834
Net Deferred tax assets	41,853	28,984	24,772	16,495
Other Non-Current Assets	11,463	13,126	13,582	14,084
Current Assets				
Investments	-	-	-	-
Inventories	169,967	194,418	203,248	219,991
Trade receivables	38,699	44,951	47,074	51,337
Cash & Bank Balance	2,541	2,194	1,540	1,110
Other Current Assets	56,344	58,674	59,855	61,615
Total Assets	1,141,898	1,164,377	1,177,523	1,194,899
Equity				
Equity Share Capital	41,305	41,305	41,305	41,305
Other Equity	315,831	340,210	345,673	358,822
Total Networkth	357,137	381,516	386,979	400,127
Non-Current Liabilities				
Long Term borrowings	454,087	451,700	451,700	443,700
Provisions	39,733	42,954	42,954	42,954
Other non current liabilities	1,383	2,532	2,532	2,532
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	75,469	72,648	75,387	82,208
Other current liabilities	202,296	199,721	204,665	210,072
Total Equity & Liabilities	1,141,898	1,164,377	1,177,523	1,194,899

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	(7,589)	33,379	12,172	23,923
Add. Depreciation	30,649	33,847	35,328	38,008
Add. Interest	28,228	31,549	35,607	38,465
Less Financial Other Income	4,845	5,328	5,019	5,234
Add. Other	(1,260)	142	(2,567)	(2,779)
Op. profit before WC changes	50,028	98,917	80,540	97,617
Net Changes-WC	11,141	(26,258)	(5,656)	(11,864)
Direct tax	410	357	-	-
Net cash from Op. activities	61,578	73,016	74,883	85,753
Capital expenditures	(66,044)	(38,783)	(40,000)	(40,000)
Interest / Dividend Income	2,423	1,684	2,567	2,779
Others	(1,066)	(457)	-	-
Net Cash from Inv. activities	(64,687)	(37,557)	(37,433)	(37,221)
Issue of share cap. / premium	-	-	-	-
Debt changes	31,210	(2,387)	-	(8,000)
Dividend paid	-	-	(2,497)	(2,497)
Interest paid	(28,515)	(33,521)	(35,607)	(38,465)
Others	-	-	-	-
Net cash from Fin. activities	2,694	(35,908)	(38,105)	(48,962)
Net change in cash	(415)	(449)	(654)	(430)
Free Cash Flow	(5,997)	33,225	34,883	45,753

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	167,180	158,358	185,063	150,508
YoY gr. (%)	22.8	3.3	8.6	(5.4)
Raw Material Expenses	75,435	62,537	93,533	74,493
Gross Profit	91,745	95,821	91,530	76,015
Margin (%)	54.9	60.5	49.5	50.5
EBITDA	23,650	25,782	22,145	13,575
YoY gr. (%)	158.7	79.0	(5.7)	(47.3)
Margin (%)	14.1	16.3	12.0	9.0
Depreciation / Depletion	8,261	8,547	8,903	8,600
EBIT	15,389	17,234	13,242	4,975
Margin (%)	9.2	10.9	7.2	3.3
Net Interest	7,711	8,251	8,034	8,100
Other Income	1,143	747	2,461	1,000
Profit before Tax	8,480	9,497	7,123	(2,125)
Margin (%)	5.1	6.0	3.8	(1.4)
Total Tax	2,943	3,334	2,439	(723)
Effective tax rate (%)	34.7	35.1	34.2	34.0
Profit after Tax	5,537	6,163	4,684	(1,403)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,760	6,324	5,082	(1,403)
YoY gr. (%)	(268.1)	417.3	16.0	(119.4)
Margin (%)	3.4	4.0	2.7	(0.9)
Extra Ord. Income / (Exp)	(223)	(161)	(398)	-
Reported PAT	5,537	6,163	4,684	(1,403)
YoY gr. (%)	(202.7)	1,327.6	(42.6)	(126.0)
Margin (%)	3.3	3.9	2.5	(0.9)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,537	6,163	4,684	(1,403)
Avg. Shares O/s (m)	4,130	4,130	4,130	4,130
EPS (Rs)	1.4	1.5	1.2	(0.3)

Source: Company Data, PL Research

Key Financial Metrics

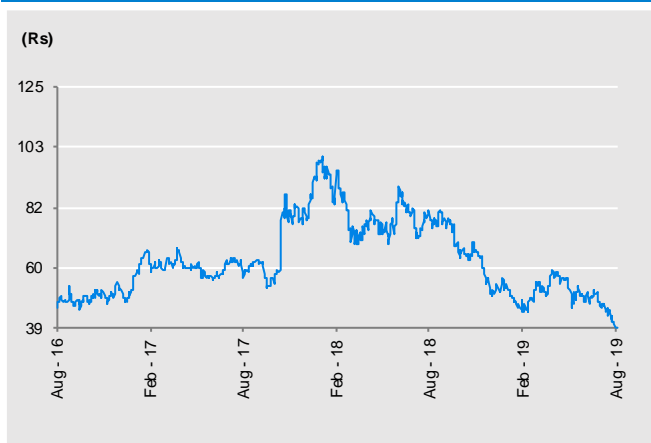
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	(1.2)	5.9	1.9	3.8
CEPS	6.2	14.1	10.5	13.0
BVPS	86.5	92.4	93.7	96.9
FCF	(1.5)	8.0	8.4	11.1
DPS	-	0.5	0.5	0.5
Return Ratio(%)				
RoCE	2.0	7.7	5.1	6.8
ROIC	1.2	5.1	3.4	4.4
RoE	(1.4)	6.6	2.1	4.0
Balance Sheet				
Net Debt : Equity (x)	1.3	1.2	1.2	1.1
Net Working Capital (Days)	84	91	92	91
Valuation(x)				
PER	(30.6)	6.3	19.1	9.7
P/B	0.4	0.4	0.4	0.4
P/CEPS	6.2	14.1	10.5	13.0
EV/EBITDA	13.1	6.2	7.7	6.3
EV/Sales	1.0	0.9	0.9	0.8
Dividend Yield (%)	-	1.4	1.4	1.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales Vol. (mt)	14	14	15	17
Real./Tonne (Rs)	40,407	46,945	44,977	44,549
EBITDA/Tonne (Rs)	3,280	6,896	5,110	5,656
Cost/Tonne of Iron Ore (Rs)	1,470	1,791	1,666	1,582
Cost/Tonne of coking coal	13,943	17,704	15,534	15,635

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Reduce	45	52
2	5-Apr-19	Hold	50	59
3	7-Jan-19	Hold	50	53
4	5-Oct-18	Hold	81	69

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ACC	BUY	1,800	1,567
2	Ambuja Cement	Hold	225	213
3	Coal India	Accumulate	235	204
4	Heidelberg Cement India	Accumulate	220	194
5	Hindalco Industries	Accumulate	210	177
6	Hindustan Zinc	Hold	225	220
7	Jindal Steel & Power	BUY	170	142
8	JK Lakshmi Cement	Accumulate	380	330
9	JSW Steel	Reduce	250	250
10	NMDC	Reduce	112	117
11	Shree Cement	Reduce	19,550	20,280
12	Steel Authority of India	Reduce	45	52
13	Tata Steel	Reduce	350	382
14	The Ramco Cements	Hold	750	738
15	Ultratech Cement	BUY	5,175	4,243

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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