



## India

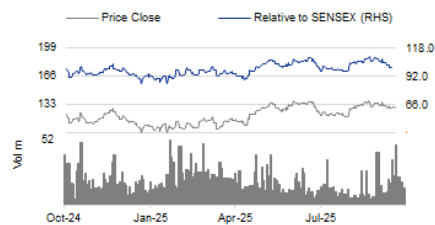
**ADD** (previously **REDUCE**)

Consensus ratings\*: Buy 3 Hold 13 Sell 12

Current price: Rs129  
 Target price: ▲ Rs158  
 Previous target: Rs77  
 Up/downside: 22.5%  
 InCred Research / Consensus: 26.7%

Reuters: SAIL.NS  
 Bloomberg: SAIL IN  
 Market cap: US\$6,086m  
 Rs534,682m  
 Average daily turnover: US\$20.6m  
 Rs1808.5m  
 Current shares o/s: 4,130.5m  
 Free float: 25.0%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.2)	(0.9)	16.1
Relative (%)	(9.4)	(4.2)	9.5

Major shareholders	% held
President Of India	65.0
Life Ins. Corp. of India	9.3
Nippon India	1.1

## Steel Authority of India

## Protectionism to help; upgrade to ADD

- We upgrade **SAIL's** rating to **ADD** with a target price of Rs158, implying a 20–25% upside, driven by stable steel prices under a protectionist regime.
- The company's **captive iron ore advantage** ensures long-term cost competitiveness, shielding margins from raw material volatility.
- Earnings recovery to be led by **volume growth & operating leverage**. We value the stock at 1x P/BV to arrive at a new TP of Rs158. Upgrade to ADD.

## We upgrade SAIL's rating to ADD

We upgrade **Steel Authority of India or SAIL's** rating to **ADD** (from **REDUCE**), with a revised target price of Rs158 (Rs77 earlier), implying a 20–25% upside from current levels. Although we continue to believe that the global steel industry lacks structural pricing power, the current wave of **protectionism** across key markets—especially in India, Europe, and the US—has removed the downside risk to earnings. Steel prices are unlikely to fall meaningfully, and the modest recovery in global demand, led by Europe, should support a stable pricing environment. In this setting, SAIL stands out as a tactical play on protectionist stability rather than a cyclical upswing.

## Fully integrated iron ore remains a big advantage

SAIL's biggest competitive advantage remains its **fully integrated raw material base**. Unlike private steelmakers such as Tata Steel or Jindal Steel and Power (JSPL), which will be affected by the mandatory **auction of captive mines under the MMDR Act, 2015**, SAIL's public sector undertaking (PSU) status allows it to retain legacy iron ore mines beyond FY30. This ensures long-term security of supply and a sustained cost advantage, especially as iron ore and coking-coal prices remain volatile globally. With volumes improving, a higher share of finished steel, and staff costs rising only moderately, we expect the operating leverage to drive earnings recovery even without major price gains.

## We don't build in major price revival; value at 1x P/BV for Rs158 TP

We estimate SAIL's **EBITDA/t** to remain steady at Rs7,000–8,000 over FY24–26F, with EPS growing around 8% annually. The valuation remains reasonable at ~1x P/BV, close to the long-term average, and below peak-cycle multiples. Given its strong balance sheet, declining leverage, and policy-driven insulation, SAIL offers limited downside and a visible near-term upside. We thus retain our **constructive stance**, valuing the stock at 1x FY27F BV of Rs158 (Rs77 earlier), upgrading our rating to **ADD** (from **REDUCE** earlier) with a defensive yet opportunistic risk-reward set-up. Downside risks- A global slowdown led price decline is a downside risk to out TP

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## Financial Summary

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	May-28F
Revenue (Rsm)	1,053,746	1,024,782	1,062,483	1,137,281	1,192,455
Operating EBITDA (Rsm)	111,317	106,294	137,317	155,111	177,181
Net Profit (Rsm)	27,331	21,480	43,343	52,885	66,148
Core EPS (Rs)	8.1	5.7	10.5	12.8	16.0
Core EPS Growth	95.5%	(29.4%)	82.8%	22.0%	25.1%
FD Core P/E (x)	19.56	24.89	12.34	10.11	8.08
DPS (Rs)	6.5	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	7.50	7.75	5.86	4.77	3.69
P/FCFE (x)	14.92	13.81	7.97	4.60	3.86
Net Gearing	55.5%	51.9%	45.1%	31.3%	16.5%
P/BV (x)	0.99	0.96	0.89	0.82	0.74
ROE	6.3%	4.3%	7.5%	8.4%	9.6%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Protectionism to help; upgrade to ADD

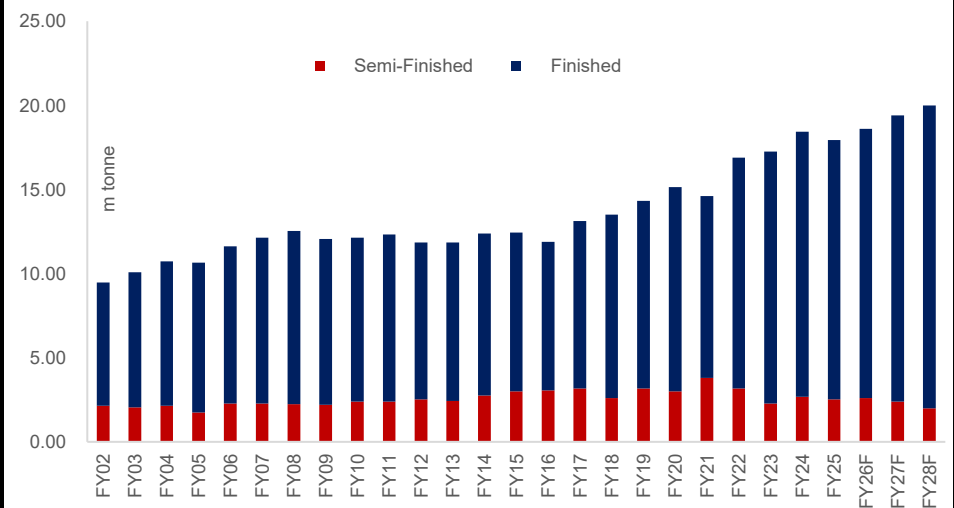
While we don't believe that steel can outperform in the long run, as the industry lacks basic pricing power, protectionism has ruled out a deep drawdown in earnings. Hence, the valuation can remain around the historical average or even exceed them. In our view, SAIL is poised to deliver around a 20–25% return in the short term. In the near term, driven by protectionism and some recovery in global steel demand—primarily led by Europe—steel prices could see a modest rally, which should be sufficient to trigger a 20–25% upside in SAIL.

### Earnings to witness a mild recovery led by volume

While we don't expect any major spike in steel prices, it is equally unlikely that they will decline meaningfully. The market is entering a phase of stable pricing, with the downside likely protected by government support and protectionist measures. Hence, as volume ramps up, SAIL's earnings are likely to recover.

### Sales volume is likely to increase going ahead and semi-finished steel sales to decline ➤

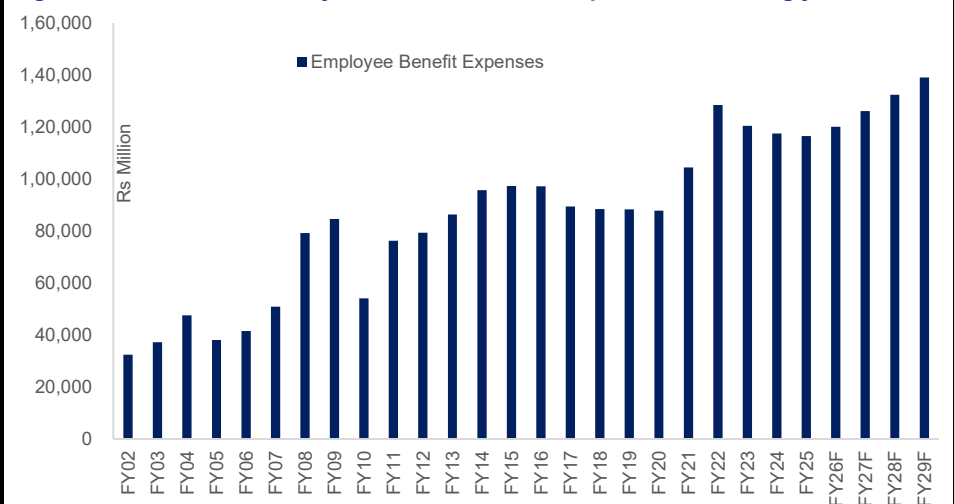
**Figure 1: Overall sales volume is likely to increase; falling semi-finished steel sales will provide a cushion to realization**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Staff costs are likely to increase at a sedate pace ➤

**Figure 2: Staff costs are likely to increase at a sedate pace in the coming years**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

## The rise in iron ore prices could pose a challenge for several Indian steelmakers, but not for SAIL, given its full integration and captive iron ore resources ➤

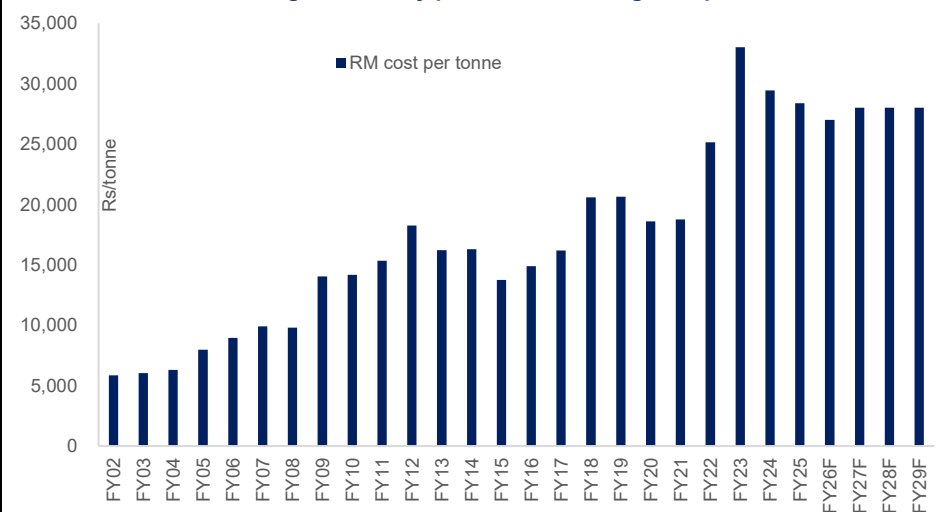
A mandatory auction of all mining leases by 2030 was established under the 2015 amendments to India's Mines and Minerals (Development and Regulation) (MMDR) Act. This provision was mainly for captive mines, with merchant mines having an earlier deadline. Key provisions for mineral lease auctions are as follows:

1. **Abolition of discretionary renewals:** The MMDR Amendment Act of 2015 made competitive bidding through e-auction as the sole method for granting mineral concessions. The previous system of granting extensions on expired leases was eliminated.
2. **Lease period extension:** For major mineral leases granted before 2015, the MMDR Act provided specific expiration deadlines.
  - a. **Captive mines:** Leases for mines used for a specific end-use were extended until 31 Mar 2030.
  - b. **Merchant mines:** Leases for mines with general-purpose use were extended until 31 Mar 2020.
3. **Auctions after expiration:** Upon the expiration of these extended leases, the mines must be put up for auction rather than being renewed.
4. **Extended lease duration for new grants:** For all new mining leases, the MMDR Act set a uniform tenure of 50 years, replacing the shorter, renewable terms that existed before 2015.

While non-PSU steel producers such as Tata Steel will be affected by the MMDR auction provisions, SAIL, being a public sector undertaking, continues to enjoy the benefit of captive iron ore mines. Its legacy mining leases are unlikely to come up for auction even after FY30, providing a sustained cost and supply advantage over private peers.

## Hence, SAIL's raw material cost advantage is likely to sustain over the long term ➤

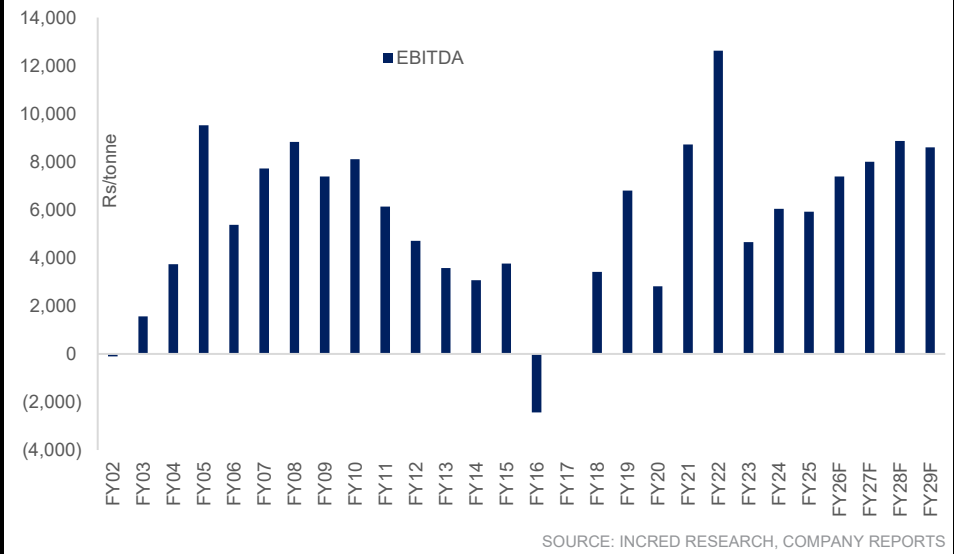
**Figure 3: Raw material costs should remain under control, aided by China's slowdown, which is easing inflationary pressure on coking-coal prices**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

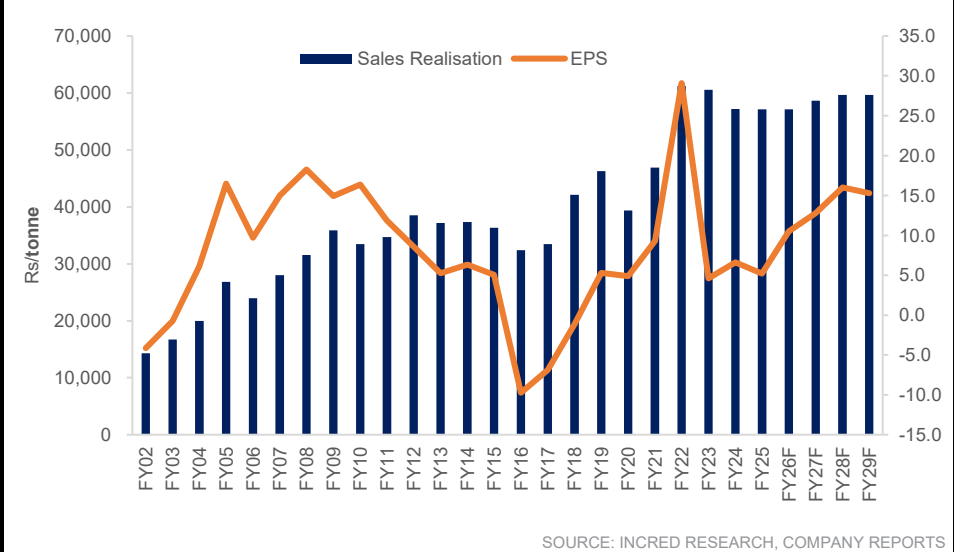
**We expect SAIL's EBITDA to remain in the range of Rs7,000–8,000/t of steel sold, supported by stable raw material costs and protectionist pricing conditions ➤**

**Figure 4: EBITDA is expected to remain in the range of Rs7,000–8,000/t of steel sold over the coming years**



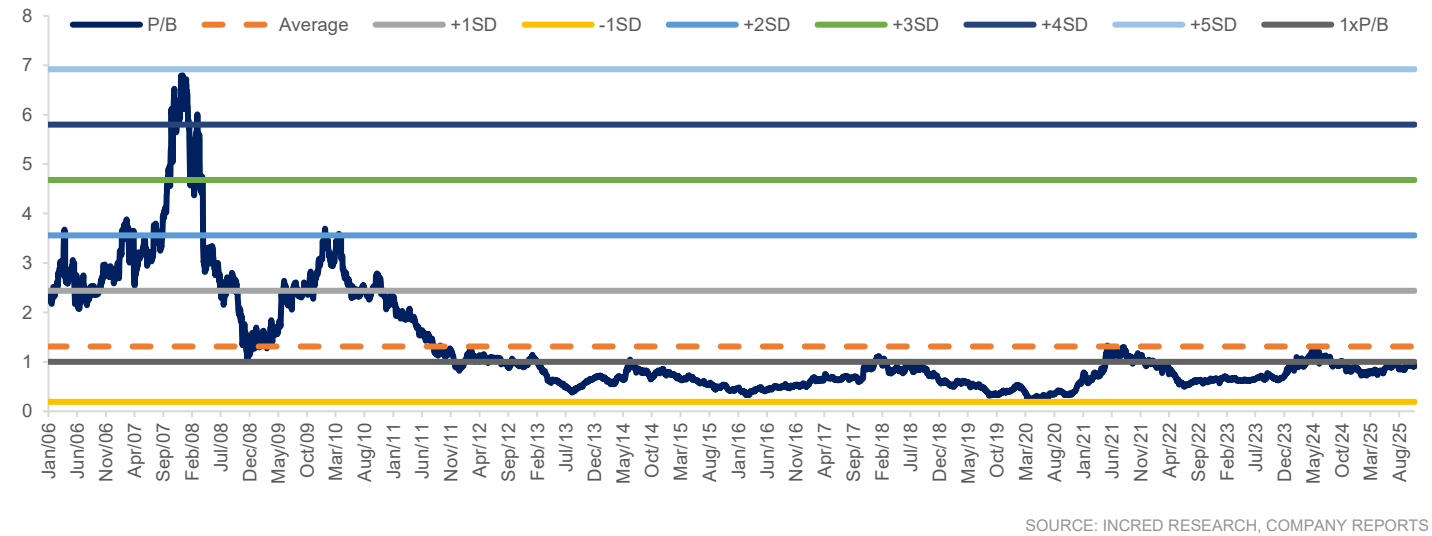
**EPS growth to be led by operational leverage, not higher realisation ➤**

**Figure 5: EPS growth to be led by operational leverage, not higher realisation**



## Valuation is below the historical average but near the past decade average of 1x BV ➤

**Figure 6: For a better part of the last 15 years, SAIL has traded around 1x P/BV, and we don't think it can rerate; while it's not an ideal condition to buy the stock, given the protectionism, we project that the stock can continue trading at around 1x P/BV**



## We value at the stock 1x FY27F P/BV to arrive at a new target price of Rs158 ➤

**Figure 7: We value the stock at 1x P/BV to arrive at a new target price of Rs158**

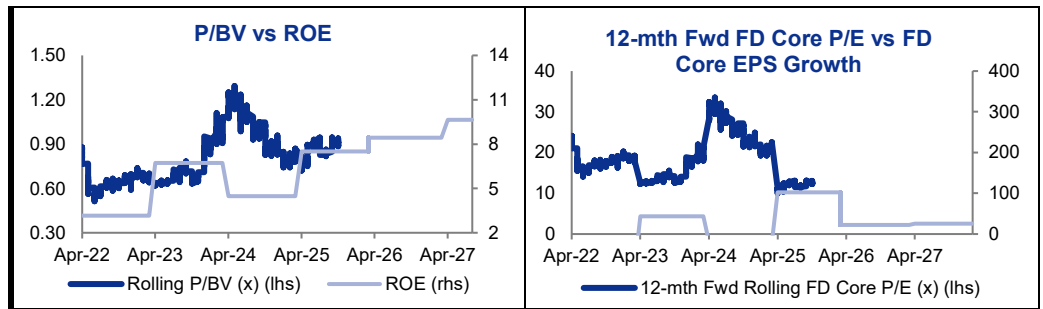
### Target Price

#### Valuation

FY27F book value (Rs)	158
P/BV multiple (x)	1
Target price (Rs)	158

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	May-28F
Total Net Revenues	1,053,746	1,024,782	1,062,483	1,137,281	1,192,455
Gross Profit	511,087	515,762	560,283	594,081	632,455
Operating EBITDA	111,317	106,294	137,317	155,111	177,181
Depreciation And Amortisation	(52,775)	(56,496)	(59,593)	(62,171)	(63,812)
Operating EBIT	58,543	49,798	77,724	92,940	113,368
Financial Income/(Expense)	(24,738)	(27,928)	(28,491)	(30,340)	(32,190)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	11,481	11,344	11,481	11,481	11,481
Profit Before Tax (pre-EI)	45,285	33,215	60,714	74,081	92,659
Exceptional Items	(8,408)	(3,126)			
Pre-tax Profit	36,877	30,088	60,714	74,081	92,659
Taxation	(9,546)	(8,609)	(17,371)	(21,195)	(26,511)
Exceptional Income - post-tax					
Profit After Tax	27,331	21,480	43,343	52,885	66,148
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	27,331	21,480	43,343	52,885	66,148
Recurring Net Profit	33,563	23,711	43,343	52,885	66,148
Fully Diluted Recurring Net Profit	33,563	23,711	43,343	52,885	66,148

### Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	May-28F
EBITDA	111,317	106,294	137,317	155,111	177,181
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(76,898)	(4,418)	(696)	(11,220)	(5,652)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(7,225)	(4,836)	7,000	7,000	7,000
Other Operating Cashflow	25,942	23,397	5,229	(570)	(9,352)
Net Interest (Paid)/Received	(24,738)	(27,928)	(28,491)	(30,340)	(32,190)
Tax Paid	934	6,374	17,371	21,195	26,511
Cashflow From Operations	29,332	98,883	137,731	141,177	163,498
Capex	(43,602)	(55,838)	(90,658)	(45,000)	(45,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	800	3,509			
Cash Flow From Investing	(42,803)	(52,329)	(90,658)	(45,000)	(45,000)
Debt Raised/(repaid)	49,315	(7,822)	20,000	20,000	20,000
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(6,196)	(4,131)			
Preferred Dividends					
Other Financing Cashflow	(29,576)	(31,883)	(28,491)	(30,340)	(32,190)
Cash Flow From Financing	13,544	(43,835)	(8,491)	(10,340)	(12,190)
Total Cash Generated	73	2,719	38,583	85,837	106,308
Free Cashflow To Equity	35,845	38,732	67,074	116,177	138,498
Free Cashflow To Firm	11,267	74,482	75,564	126,517	150,687

**Key Ratios**

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	May-28F
Revenue Growth	0.9%	(2.7%)	3.7%	7.0%	4.9%
Operating EBITDA Growth	38.7%	(4.5%)	29.2%	13.0%	14.2%
Operating EBITDA Margin	10.6%	10.4%	12.9%	13.6%	14.9%
Net Cash Per Share (Rs)	(72.76)	(69.98)	(65.48)	(49.55)	(28.65)
BVPS (Rs)	131.05	134.75	145.24	158.05	174.06
Gross Interest Cover	2.37	1.78	2.73	3.06	3.52
Effective Tax Rate	25.9%	28.6%	28.6%	28.6%	28.6%
Net Dividend Payout Ratio					
Accounts Receivables Days	23.68	28.26	25.96	24.25	23.13
Inventory Days	203.00	221.28	215.19	209.67	215.39
Accounts Payables Days	(99.79)	(92.61)	(79.94)	(80.62)	(84.72)
ROIC (%)	5.7%	4.8%	7.3%	8.7%	10.8%
ROCE (%)	6.5%	5.4%	8.2%	9.1%	10.2%
Return On Average Assets	4.6%	3.9%	5.2%	5.7%	6.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## Recommendation Framework

### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.