SAIL

nuvama institutional equities

COMPANY UPDATE

KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	129
12 month price target (INR)	106
52 Week High/Low	146/99
Market cap (INR bn/USD bn)	532/5.9
Free float (%)	8.0
Avg. daily value traded (INR mn)	2,760.8

SHAREHOLDING PATTERN

	Sep-24	Jun-24	Mar-24
Promoter	65%	65%	65%
FII	3.21%	2.59%	2.82%
DII	15.7%	15.8%	16.0%
Pledge	0%	0%	0%

FINANCIALS

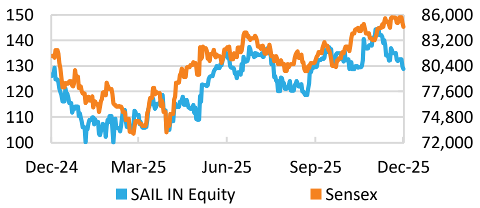
(INR bn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	1,024.8	1,070.8	1,117.2	1,155.1
EBITDA	106.3	96.2	125.1	132.1
Adjusted profit	24.6	21.4	37.8	39.7
Diluted EPS (INR)	6.0	5.2	9.1	9.6
EPS growth (%)	(31.2)	(12.9)	76.1	5.2
RoAE (%)	3.9	3.2	6.4	6.5
P/E (x)	21.7	24.9	14.1	13.4
EV/EBITDA (x)	8.4	8.9	6.9	6.9
Dividend yield (%)	1.2	1.0	2.1	2.2

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	1065.8	1112.2	-1.8	-1.2
EBITDA	96.2	125.1	-17.3	-13.1
Adjusted profit	21.4	37.8	-41.3	-27.2
Diluted EPS (INR)	5.2	9.1	-41.3	-27.2

PRICE PERFORMANCE



Stock not in sync with fundamentals

On the back of an excess supply scenario in flat steel in India over FY26E–28E and low earnings base of SAIL, its earnings are likely to be hurt the most due to weak steel margins. Furthermore, the company shall soon start capex on the 4.5mtpa IISCO expansion, which is likely to increase its debt further. Return ratios too are poor with anticipated RoE of 3.2%/6.4%/6.5% in FY26E/27E/28E.

We are cutting FY26E/27E/28E EBITDA by 17%/13%/13% to factor in lower steel prices (still pencilled in INR3,000–3,500/t steel price hike in Q4FY26). Downgrade to 'REDUCE' from 'HOLD' with a TP of INR106 (earlier INR141) based on 6x FY28E EV/EBITDA. At CMP, the stock trades expensive at 6.9x/6.9x FY27E/28E EV/EBITDA.

Earnings hurt by weak steel prices; rise in coal prices supress profits

Amid lower-than-expected steel prices and volumes, we believe SAIL shall report a ~30% QoQ fall in EBITDA in Q3FY26 and EBITDA/t of ~INR3,700/t, down INR1,400 QoQ (versus our earlier estimate of flat EBITDA/t QoQ). **A back-of-the-envelope calculation shows that at current steel (HRC: INR46,500 and rebar at INR47,500/t) and coking coal prices (USD217/t), SAIL is likely to record EBITDA/t of ~INR2,100.** Though we reckon steel prices have bottomed out and pencil in INR3,000–3,500/t rise in prices in Q4FY26, higher coking coal prices (up ~USD27/t last month to USD217/t) are likely to offset part of the steel price increase. Hence, we are cutting FY26E/27E/28E EBITDA by 17%/13%/13% to factor in lower margins.

Capex to commence for IISCO expansion; debt to increase further

SAIL is likely to start the ordering process for expansion of IISCO capacity by 4.5mtpa by Jan-26. The estimated capex for the same is ~INR330bn (could increase due to rupee depreciation) and the plant is likely to be completed by FY30E. On the back of likely weak earnings, we believe debt shall increase due to higher capex to fund the proposed expansion. We are factoring in capex of INR75bn/INR110bn/INR130bn in FY26E/27E/28E, which is likely to increase net debt to ~INR374bn by end-FY28 and net debt/EBITDA at 2.8x (Q2FY26: INR336.7bn). Though serviceability of debt is not an issue, higher debt restricts equity value.

Risk-reward unfavourable; downgrade to 'REDUCE'

Over FY16–25, SAIL recorded average EBITDA/t of ~INR5,022 (loss of INR2,392 in FY16 and highs of INR13,203 in FY22). Even if we exclude the abnormalities, average EBITDA/t was ~INR5,650 over the last decade. Despite the earnings cut, we are still factoring in EBITDA/t of INR6,348/INR6,474 in FY27E/28E, which is above the ten-year average. On top of it, the commencement of capex would lead to an increase in debt. Unless steel margins report a major surge, SAIL's earnings are likely to lag peers. RoE is likely to be subdued at 6–7%. We believe the risk-reward is unfavourable at the CMP; downgrade to '**REDUCE**' from 'HOLD'.

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Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	10,24,782	10,70,778	11,17,171	11,55,070
Gross profit	5,34,332	5,22,186	5,52,873	5,74,295
Employee costs	1,16,585	1,16,304	1,18,630	1,22,189
Other expenses	1,78,192	1,71,496	1,73,765	1,80,050
EBITDA	1,06,294	96,185	1,25,118	1,32,060
Depreciation	56,496	58,996	61,996	64,996
Less: Interest expense	27,928	20,728	24,287	25,587
Add: Other income	11,344	11,000	11,500	11,500
Profit before tax	33,215	27,462	50,335	52,977
Prov for tax	8,609	6,019	12,584	13,244
Less: Other adjustment	(3,126)	(3,384)	0	0
Reported profit	21,480	18,058	37,751	39,733
Less: Excp.item (net)	3,126	3,384	0	0
Adjusted profit	24,606	21,442	37,751	39,733
Diluted shares o/s	4,131	4,131	4,131	4,131
Adjusted diluted EPS	6	5	9	10
DPS (INR)	1.6	1.3	2.7	2.9
Tax rate (%)	25.9	21.9	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	41,305	41,305	41,305	41,305
Reserves	5,15,259	5,31,284	5,57,710	5,85,523
Shareholders funds	5,56,564	5,72,589	5,99,015	6,26,828
Minority interest	0	0	0	0
Borrowings	3,63,645	3,63,645	3,83,645	4,03,645
Trade payables	1,04,986	1,45,997	1,52,352	1,57,544
Other liabs & prov	1,40,522	1,43,430	1,46,209	1,48,480
Total liabilities	13,29,181	13,94,001	14,54,223	15,13,305
Net block	7,18,615	6,89,619	6,57,624	6,22,628
Intangible assets	14,257	14,257	14,257	14,257
Capital WIP	72,062	1,17,062	1,97,062	2,97,062
Total fixed assets	8,04,934	8,20,938	8,68,943	9,33,947
Non current inv	17,599	17,599	17,599	17,599
Cash/cash equivalent	9,050	44,718	51,855	29,857
Sundry debtors	75,572	72,998	76,176	78,772
Loans & advances	226	226	226	226
Other assets	3,78,004	3,93,726	3,95,628	4,09,108
Total assets	13,29,181	13,94,001	14,54,223	15,13,305

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Net debt (INR mn)	3,54,595	3,18,927	3,31,790	3,73,788
EBITDA margin (%)	10.4	9.0	11.2	11.4
Net profit margin (%)	2.4	2.0	3.4	3.4
Revenue growth (% YoY)	(2.7)	4.8	4.4	3.4
EBITDA growth (% YoY)	(4.5)	(9.5)	30.1	5.5

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported Pbt	30,088	27,462	50,335	52,977
Add: Depreciation	56,496	58,996	61,996	64,996
Interest (net of tax)	22,144	0	0	0
Others	(696)	0	0	0
Less: Changes in WC	(4,418)	35,647	8,716	(4,807)
Operating cash flow	97,240	1,16,085	1,08,463	99,922
Less: Capex	(64,275)	(75,000)	(1,10,000)	(1,30,000)
Free cash flow	32,964	41,085	(1,537)	(30,078)

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.2	6.2	6.2
Repo rate (%)	6.0	5.0	5.0	5.0
USD/INR (average)	84.5	86.5	86.5	86.5
Steel sales volume (mt)	17.9	19.5	19.7	20.4
Blended realisation (INR/t)	57,276	54,576	56,376	56,376
Coking coal cost/t (INR)	20,280	17,600	17,800	17,800
EBITDA/t (INR)	5,941	4,930	6,347	6,473
Net debt/EBITDA (x)	3.3	3.3	2.7	2.8

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	3.9	3.2	6.4	6.5
RoCE (%)	6.7	5.2	7.8	7.8
Inventory days	126	117	114	113
Receivable days	28	25	24	24
Payable days	46	43	49	49
Working cap (% sales)	26.9	22.8	21.5	21.5
Gross debt/equity (x)	0.7	0.6	0.6	0.6
Net debt/equity (x)	0.6	0.6	0.6	0.6
Interest coverage (x)	1.8	1.8	2.6	2.6

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	21.7	24.9	14.1	13.4
Price/BV (x)	1.0	0.9	0.9	0.9
EV/EBITDA (x)	8.4	8.9	6.9	6.9
Dividend yield (%)	1.2	1.0	2.1	2.2

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	(31.2)	(12.9)	76.1	5.2
RoE (%)	3.9	3.2	6.4	6.5
EBITDA growth (%)	(4.5)	(9.5)	30.1	5.5
Payout ratio (%)	30.8	30.0	30.0	30.0

Source: Company and Nuvama estimates

Domestic flat steel industry reports excess supply

The Indian steel industry has excess supply in flat products. Approximately 21mt of incremental capacity (mostly flat products) has been commissioned during FY24–26E and another 9mtpa is likely to be commissioned in FY27E. We forecast incremental flat steel production of ~7mt/year in each of FY27 and FY28 with the ramp-up of commissioned capacities.

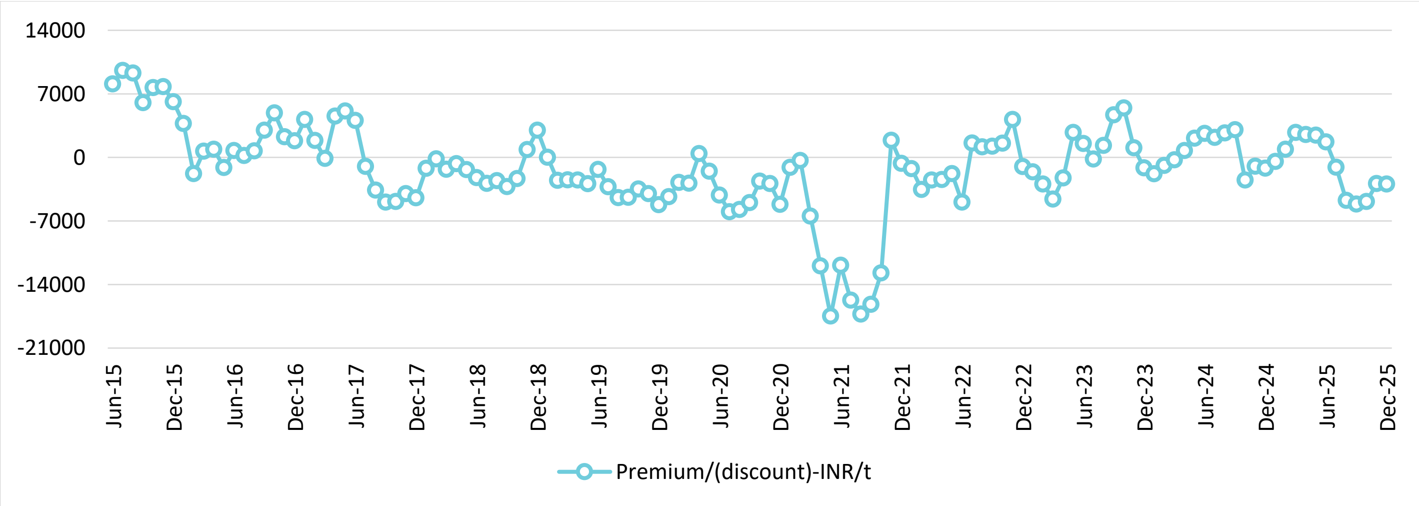
Despite lower imports, India needs the export market to flush out excess steel, as domestic demand will be unable to absorb the entire produce. As a result, even if a safeguard duty comes (not assumed), domestic HRC steel prices are less likely to surpass INR50,000-plus (CMP: INR46,500/t) unless global demand recovers.

Exhibit 1: India: flat steel production on the rise, creating excess supply scenario in India

Sales volume	FY24	FY25E	FY26E	FY27E	FY28E
Flats (mt)					
Tata Steel	16.6	17.6	19.1	20.8	21.5
JSW	16.1	15.6	19.6	22.4	23.0
SAIL	8.2	9.3	9.5	9.6	9.9
Arcelor Mittal	7.3	7.8	7.9	7.9	11.5
JSPL	3.0	4.0	4.9	7.2	8.8
Bhushan Power (Now with JSW)	2.4	2.6	3.0	3.3	3.6
NMDC Steel	1.0	1.3	2.4	2.7	2.7
Total large players	**54.7**	**58.3**	**66.5**	**73.9**	**81.1**
YoY increase	**4.5**	**3.7**	**8.1**	**7.4**	**7.2**

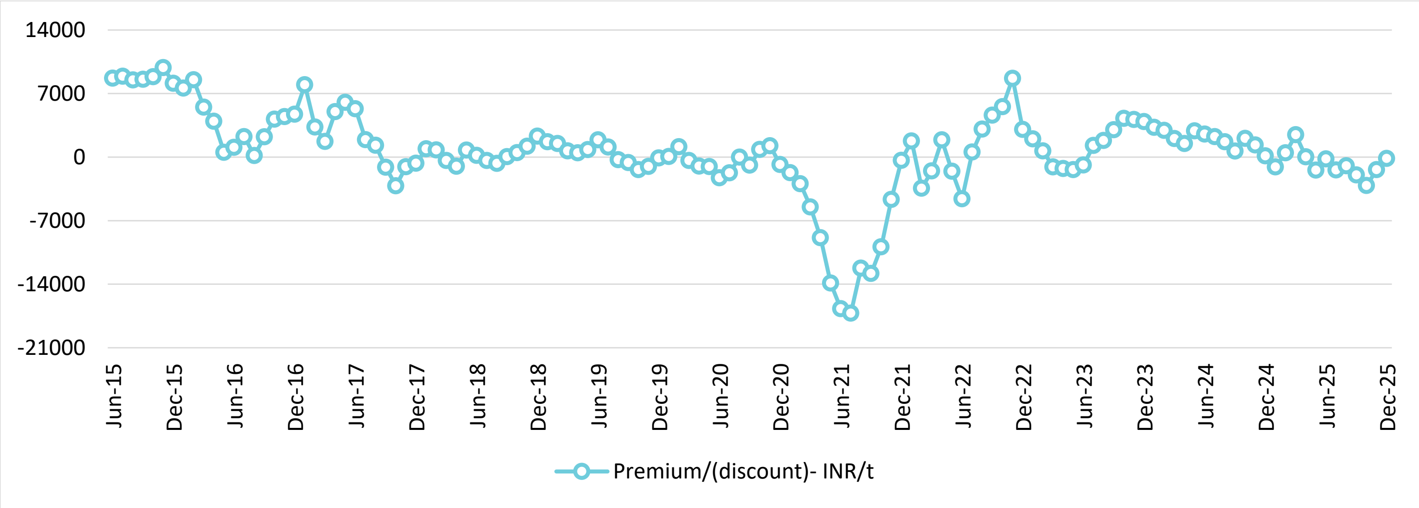
Source: Nuvama Research, Company

Exhibit 2: Domestic HRC prices versus landed cost of imports from China (~INR3,000/t discount currently)



Source: BigMint, Nuvama Research

Exhibit 3: Domestic HRC prices versus landed cost of imports from Korea (almost at parity)



Source: Nuvama Research

Exhibit 4: Change in estimates

	Old			New			Change (%)		
INR mn	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**
Sales volume(mt)	19.5	19.7	20.4	19.5	19.7	20.4	0.0	0.0	0.0
Blended realisation (INR/t)	55,576	57,076	57,076	54,576	56,376	56,376	-1.8	-1.2	-1.2
EBITDA/tonne (INR)	5,963	7,303	7,430	4,930	6,348	6,474	-17.3	-13.1	-12.9
Revenue	10,90,288	11,30,968	11,69,350	10,70,778	11,17,171	11,55,070	-1.8	-1.2	-1.2
EBITDA	1,16,333	1,43,934	1,51,566	96,185	1,25,118	1,32,060	-17.3	-13.1	-12.9
PAT	36,553	51,863	54,362	21,442	37,751	39,733	-41.3	-27.2	-26.9
EPS (INR/share)	8.8	12.6	13.2	5.2	9.1	9.6	-41.3	-27.2	-26.9
TP (INR/share)		141			106			-24.3	

Source: Nuvama Research

Exhibit 5: Key assumptions

Particulars	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Average exchange rate (USD/INR)	82.8	84.5	88.0	89.0	89.0
Steel sales volume (mt)	17.1	17.9	19.5	19.7	20.4
Blended realisation (INR/t)	61,010	57,276	54,576	56,376	56,376
Coking coal cost/t (INR)	24,900	20,280	17,600	17,800	17,800
EBITDA/t (INR)	6,495	5,942	4,930	6,348	6,474
Net debt/EBITDA (x)	3.2	3.3	3.3	2.7	2.8

Source: Company, Nuvama Research

Exhibit 6: Valuation

Particulars (INR mn)	**FY28E**
EBITDA	1,32,060
Multiple (x)	6.0
Enterprise value	7,92,360
Average net debt	3,52,789
Implied Market-cap	4,39,570
No. of shares(mn)	4,131
Target price (per share)	**106**

Source: Nuvama Research

Company Description

SAIL is one of the largest steel producing companies in India with installed capacity of ~20mtpa. It is 100% integrated in iron ore but procures coking coal from Coal India (10-15%) and imports. The company manufactures flat products such as hot rolled (HR) coils, HR plates, cold rolled (CR) coils, pipes and electric sheets, and long products such as thermo mechanically treated (TMT) bars and wire rods. SAIL also offers rails, structurals, merchant products, electric resistance welded pipes, spiral welded pipes and silicon steel sheets. It operates and owns over five integrated steel plants at Bhilai, Durgapur, Bokaro, Rourkela and Burnpur, and approximately three special steel plants at Salem, Durgapur and Bhadravati. SAIL's Chandrapur FerroAlloy Plant (CFP) produces ferro-alloys. It also has SAIL Refractory Unit (SRU) at Bokaro.

Investment Theme

The removal of 13% export rebate by China in CY21, China's supply discipline since CY20 which doesn't flood world steel market, world's focus on decarbonisation, thereby increasing cost etc are some of structural changes which global steel industry witnessed since CY20. We expect EBITDA/t for SAIL to average between INR6-7.5k/t in FY26 & FY27 (FY13-22 average was INR4,430/t) which is primarily due to higher gross margins (higher than historical average) and higher volume. The capex on next phase of expansion to accrue from H2FY26 onwards which limits any deleveraging

Key Risks

- Global recession leading to lower demand in India, thereby impacting volume
- Higher-than-expected fall in steel prices
- Continuous fall in real estate demand and lower infra demand in China
- Higher steel exports from China
- Debt increase amid expansion

Additional Data

Management

Chairman	Shri AmarenduPrakash
Director (Finance)	Dr Ashok Panda
Director (Technical projects and Raw material)	Mr Manish Raj Gupta
Auditor	V.K. Dhingra & Co, A.K. Sabat & Co, Tej Raj & Pal, S. Jaykishan

Holdings – Top 10*

	% Holding		% Holding
Mirae Asset	1.64	HDFC AMC	0.36
Vanguard group	1.41	Edelweiss AMC	0.35
SBI Funds	1.36	Nippon AMC	0.37
Dimesntional Fu	0.38	ICICI Pru MF	0.32
Kotak AMC	0.39	TATA AMC	0.18

**Latest public data*

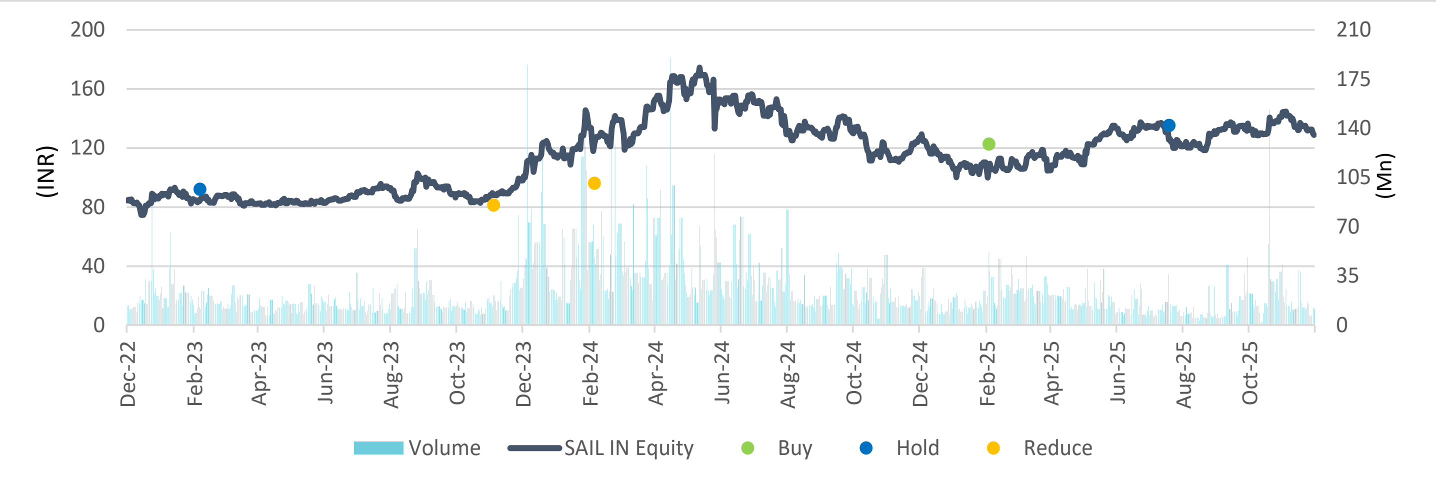
Recent Company Research

Date	Title	Price	Reco
30-Oct-25	Good showing in seasonally weak quarter; *Result Update*	141	Hold
28-Jul-25	Inventory valuation and higher opex hurt; *Result Update*	131	Hold
29-May-25	Margins to move up; debt under control; *Result Update*	129	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
11-Dec-25	Tata Steel	On course for next phase of expansion; *Company Update*
03-Dec-25	JSW Steel	BPSL monetisation to drive deleveraging; *Company Update*
20-Nov-25	Vedanta	A play on 3Ds; *Company Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	207
Hold	<15% and >-5%	69
Reduce	<-5%	35

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