

STEEL AUTHORITY OF INDIA (SAIL) – BUY

Initiating Coverage

Current Market Price (CMP) Rs142	Target Price Rs.170
--	-------------------------------

Our fair value of Rs170 offers upside of 19.7% from current market price.

Rationale:

- SAIL is well-positioned to benefit from strong steel up-cycle.
- Expansion projects to drive volume growth and operating leverage.
- Balance sheet has significantly improved and deleveraging should continue.
- Chinese policy changes have structurally elevated steel prices and margins.
- We value SAIL at 5x Mar'23E EBITDA & arrive at a fair value of Rs170. (Earnings Before Interest, Tax, Depreciation and Amortization).

Initiating Coverage:

Positives:

- Expansion projects should drive 4.4% CAGR in volumes over FY21-24E.
- Strong FCF should reduce leverage from 13x net debt/EBITDA in FY20 to 0.8X in FY22E.
- Iron ore (another cash flows avenue) earnings form 6-10% of SAIL's EBITDA.
- We expect SAIL's EBITDA to grow at 10% CAGR over FY21-24E.

Negatives:

- SAIL's EBITDA/ton of steel is lower than that of peers.

[Click here](#) For detailed report dated 24th June 2021. Note: CMP & valuation may differ due to difference in dates.



This is a synopsis of the Research report issued by Kotak Securities Limited. This is not a comprehensive report and before taking any investment decision we request you to refer the detailed report including disclaimers by clicking here: <https://www.kotaksecurities.com/ksweb/ResearchCall/Fundamental>. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 Months / Disclaimer: <http://bit.ly/2n5AxIE>