

# **Shubh** **Nivesh**



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**Attractive risk reward play, healthy gains lie ahead...**

**About the stock:** Steel Authority of India Ltd (SAIL), is a government owned entity and one of India's largest steelmakers having crude steel capacity of ~20 MTPA

- Operates five integrated steel plants i.e. Bhilai Steel plant, Durgapur Steel plant, Rourkela Steel plant, Bokaro Steel plant, and IISCO Steel plant.

**Investment Rationale**

- Tangible growth lies ahead amidst rising steel demand domestically:** Despite being the world's 2<sup>nd</sup> largest consumer of finished steel, India's per capita consumption remains relatively low at ~103 kg (vs global average of ~215 kg). To support infrastructure development, the government has set a target of achieving 300 MT of crude steel capacity and increasing per capita consumption to 160 kg by FY31. Leveraging its extensive industry experience, SAIL has outlined a roadmap to expand its crude steel capacity from ~20 MTPA to ~35 MTPA by FY31. As part of this plan, the company aims to increase capacity at its IISCO plant from 2.5 MTPA to 7.1 MTPA by FY29, at a capex outlay of ₹36,000 crore. Additionally, SAIL is undertaking brownfield expansions through debottlenecking across its integrated steel plants. We estimate consolidated sales volumes at SAIL to grow at a CAGR of 6% over FY25-28E, reaching 21.5 MT in FY28E vs 17.9 MT in FY25.
- Safeguard duty to support profitability, healthy gains in EBITDA/tonne:** SAIL reported a ~₹4,500/tonne of EBITDA in Q3FY26, reflecting a decline of only ~₹660/tonne QoQ, the lowest among domestic steel players, driven by cost optimisation and inventory liquidation. Going ahead, with domestic steel prices witnessing a sharp recovery (up >₹ 5,000/tonne) post government's imposition of 12% safeguard duty in mid-Dec'25, we expect domestic steel players to witness healthy improvement in profitability with gains to some extent capped by recent rise in coking coal prices (up ~₹1,500/tonne QoQ). Nonetheless, continued focus on reducing employee and other operating costs should support margins ahead. Consequently, we bake in SAIL's EBITDA/tonne at ~₹5.4k/6.6k/7.5k for FY26/FY27/FY28E.
- Trades at lucrative valuations vs. peers with healthy balance sheet:** On the valuation perspective, SAIL trades at an EV/EBITDA multiple of ~6x on FY28E vs. >8x for rest of the major steel producers domestically, which we believe offers an attractive risk reward opportunity given the upcycle in the domestic steel space. Additionally, with improvement in profitability as well as liquidation of inventory, SAIL is well poised for reduction in debt to the tune of >₹ 5,000 crore in FY26, which will result in an improvement in the net debt to EBITDA to 2.1x in FY26 (Debt: Equity at 0.4x), further providing margin of safety to our positive investment thesis on SAIL.

**Rating and Target Price**

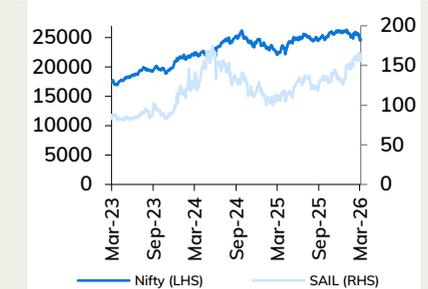
- With safeguard duty led steel price hike, favourable demand tailwinds, and focus on cost optimization, SAIL is expected to deliver improved performance ahead. With supportive valuations (trades at 6x EV/EBITDA on FY28E, lowest amongst its peers), we assign a **BUY** rating on SAIL with a target price of **₹200**, valuing it at 7x on FY28E EV/EBITDA.

**Particulars**

Particulars	₹ crore
Market capitalisation	64,436
Total Debt (FY25)	29,811
Cash & Investment (FY25)	967
EV (₹ crore)	93,280
52 week H/L (₹)	168 / 101
Equity capital (₹ crore)	4,131
Face value (₹)	10

**Shareholding pattern**

	Mar-25	June-25	Sep-25	Dec-25
Promoter	65.0	65.0	65.0	65.0
FII	3.2	3.7	3.8	4.5
DII	15.8	17.3	18.1	17.8
Other	16.0	14.1	13.1	12.6

**Price Chart****Recent event & key risks**

- We expect Sales & PAT at SAIL to grow at CAGR of 7%, 37% respectively, over FY25-28E.
- Key Risk: (i) higher than expected rise in coking coal cost impacting performance (ii) higher capex overrun could strain the B/S

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**Key Financial Summary**

Key Financials (₹ crore)	FY21	FY22	FY23	FY24	FY25	5 year CAGR (FY20-25)	FY26E	FY27E	FY28E	3 year CAGR (FY25-28E)
Net Sales	69,114	1,03,477	1,04,448	1,05,378	1,02,479	10.7%	1,09,895	1,20,897	1,25,925	7.1%
EBITDA	12,739	21,342	8,039	11,149	10,646	0.8%	10,750	13,783	16,118	14.8%
EBITDA Margins (%)	18.4	20.6	7.7	10.6	10.4		9.8	11.4	12.8	
Net Profit	4,148	12,243	2,177	3,067	2,372	2.3%	2,516	4,799	6,076	36.8%
EPS (₹)	10.0	29.6	5.3	7.4	5.7		6.1	11.6	14.7	
EV/EBITDA	7.8	3.6	11.1	8.5	8.8		8.1	6.7	5.9	
RoNW (%)	9.2	22.1	4.3	4.3	2.4		3.7	7.4	8.6	
RoIC (%)	11.8	24.3	3.7	6.6	5.7		5.9	8.7	10.5	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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