Sail Company Analysis

Company Snapshot

●	Sail is one of the seven Maharatna's of the country's Central Public Sector Enterprises.
●	Sail produces iron and steel at five integrated plants and three special steel plants.
●	The government of India owns 75% of Sail's equity and retains voting control of the company.

Raw materials

Iron ore	coal	coke	limestone	dolomite
zinc	aluminium	fluxes	Non coaking coal	ferro silicon

End users

PRODUCTS	END USE/CONSUMERS
Rails Heavystructurals crane rails crossing sleepers	Indian Railways Infrastructure projects Cranes Broad gauge sleepers.
LT. Structurals , TMT round	Engineering and Infrastructure projects.
Wire rods (plain) Wire rods (TMT)	Electrodes Manufacture Infrastructure Projects
Plates	Boilers, Defence ,Railways, Ship building, LPG cylinders, Irrigation, Export
Pig iron	Foundry
SEMIS Bloom, NWS Slab & Billets from BBM HC Bloom from CCS Slab from CCS	Re-rollers

Major segments

1)projects 2) construction 3)fabrication 4) heavy engineering 5)tube manufacturers 6)cold-reducers 7)auto segment 8)cycle 9)drum and barrel 10)container 11)Transportation(oil/gas/water) 12)coated sheet manufacturers 13)wire drawers 14)agricultural equipment 15)white goods 16) space 17) power 18)defence 19)manufacturing

Key points

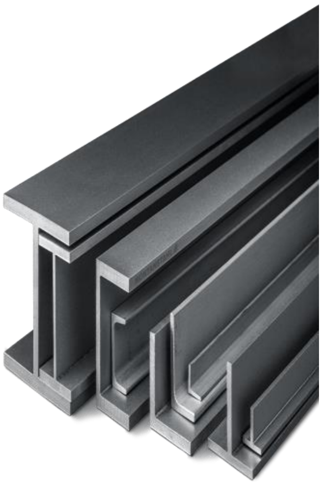
Sail supplied steel to projects of importance like

1. Statue of Unity
2. Bogibeel Bridge
3. Kishanganga and Tuirial Hydro Projects
4. Eastern and Western Peripheral Expressways
5. Lucknow-Agra Expressway
6. Defence projects including indigenously built Anti-Submarine Warfare (ASW), Stealth Corvette INS-Kiltan, 'Dhanush' of the Indian Army.

Clients

1. RITES
2. Bridge & Roof
3. L&T MMH
4. BBJ
5. WBSEDCL
6. Lahmeyer India
7. Wadia Techno Engg Services
8. Lloyds Insulations
9. Tata Growth Shop
10. M.N Dastur & Co
11. KMC.

Key products



Products being added

Auto grade CR Products, Galvanized Coils /Sheets.

Plates / Pipes to meet up to API 100 Grade specification

Universal Beams/Heavy Beams to support Infrastructural requirements

Rails for Metro – Railways and Dedicated Freight Corridors.

Quantum jump in Rounds and Structural production-Wider Plates in the size of 4300 mm.

Recently developed

Narrow Parallel flange beam 750 : usage in construction industry.

Linke Hofmann busch (LHB) wheels : Usage for railways.

Key Geographical Areas

Plant		Saleable steel capacity in MTPA
BSP	Bhilai steel plant	6.6
DSP	Durgapur Steel Plant	2.1
RSP	Rourkela Steel Plant	4.0
BSL	Bokaro Steel Limited	4.2
ISP	Integrated Steel Plant	2.4
VISL	Integrated Steel Plant	0.2
ASP	Alloy Steels Plant	0.4
SSP	Salem Steel Plant	0.3

Major Joint Ventures

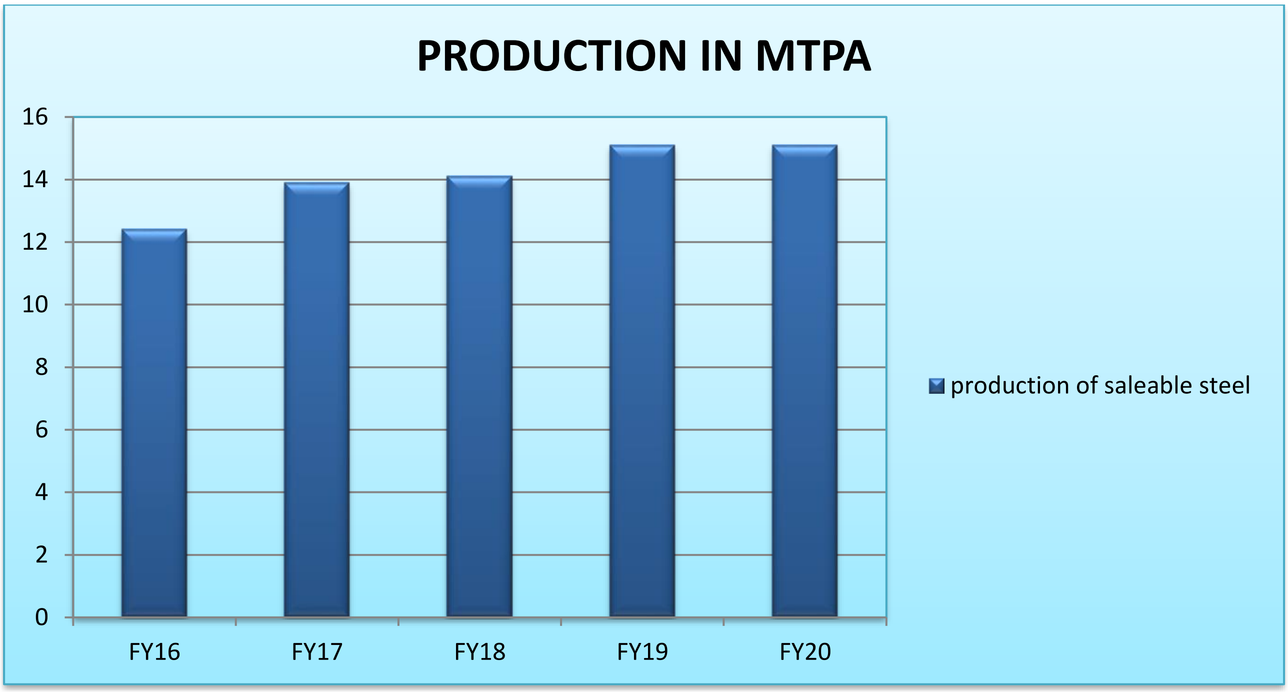
FOCUS AREA	ALLAINCE PARTNER
STEEL	NMDC
DOWNSTREAM STEEL PROCESSING UNITS	BMWIL PRIME GOLD PURE STEEL(TMT)
TECHONOLOGY	KOBELCO
RAW MATERIALS	COAL INDIA , TATA STEEL,NTPC,NMDC,MOIL

Subsidiaries

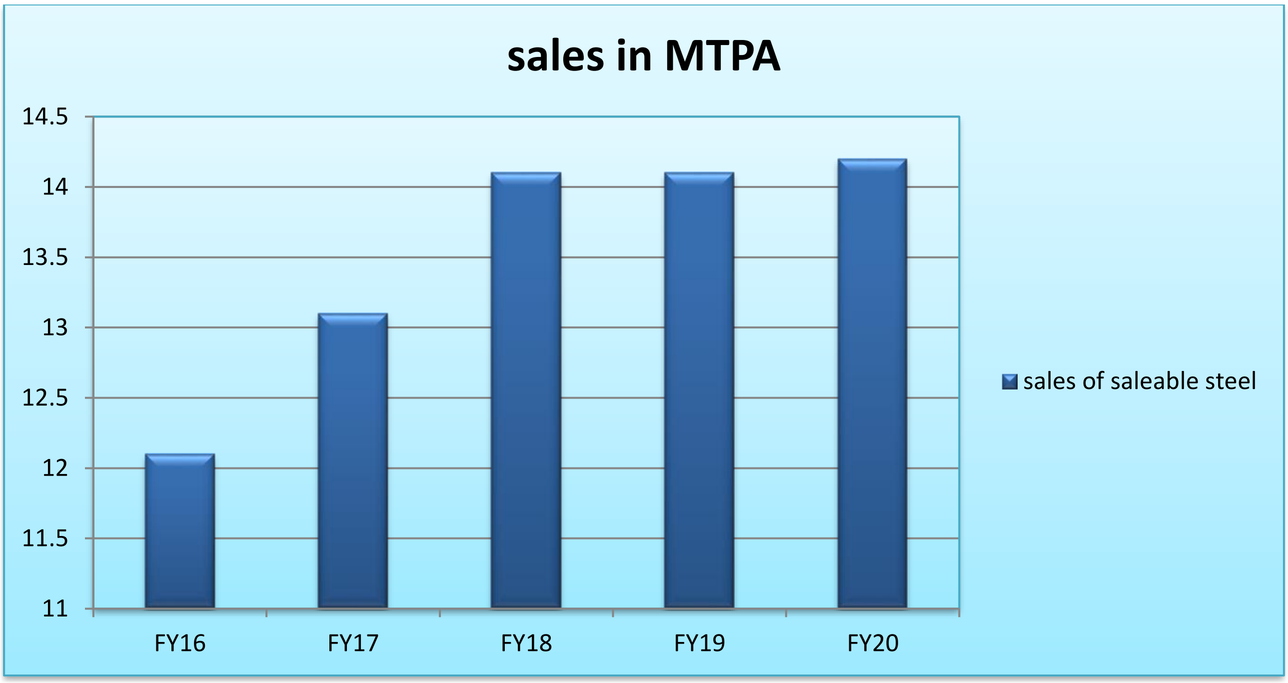
1	**SAIL Refractory Company Limited (SRCL)**
2	SAIL Jagdishpur Power Plant Limited
3	SAIL Sindri Projects Limited
4	Chhattisgarh Mega Steel Limited.

Key operational metrix

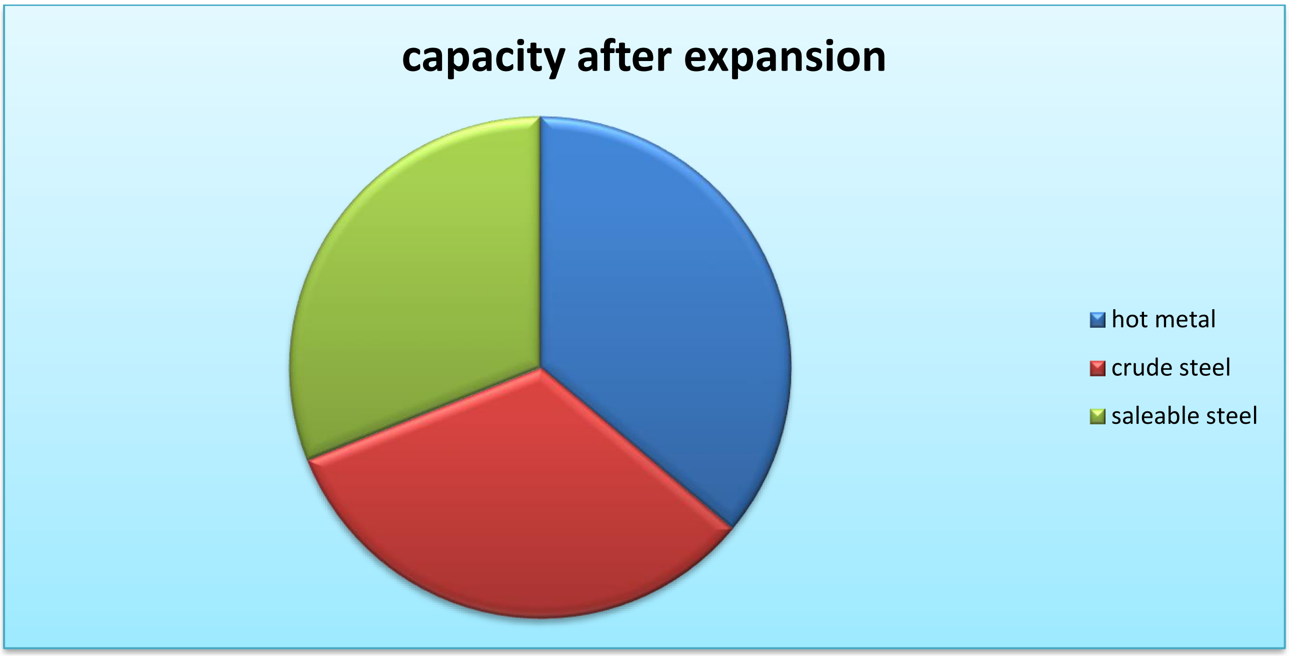
Production in MTPA



Sales in MTPA

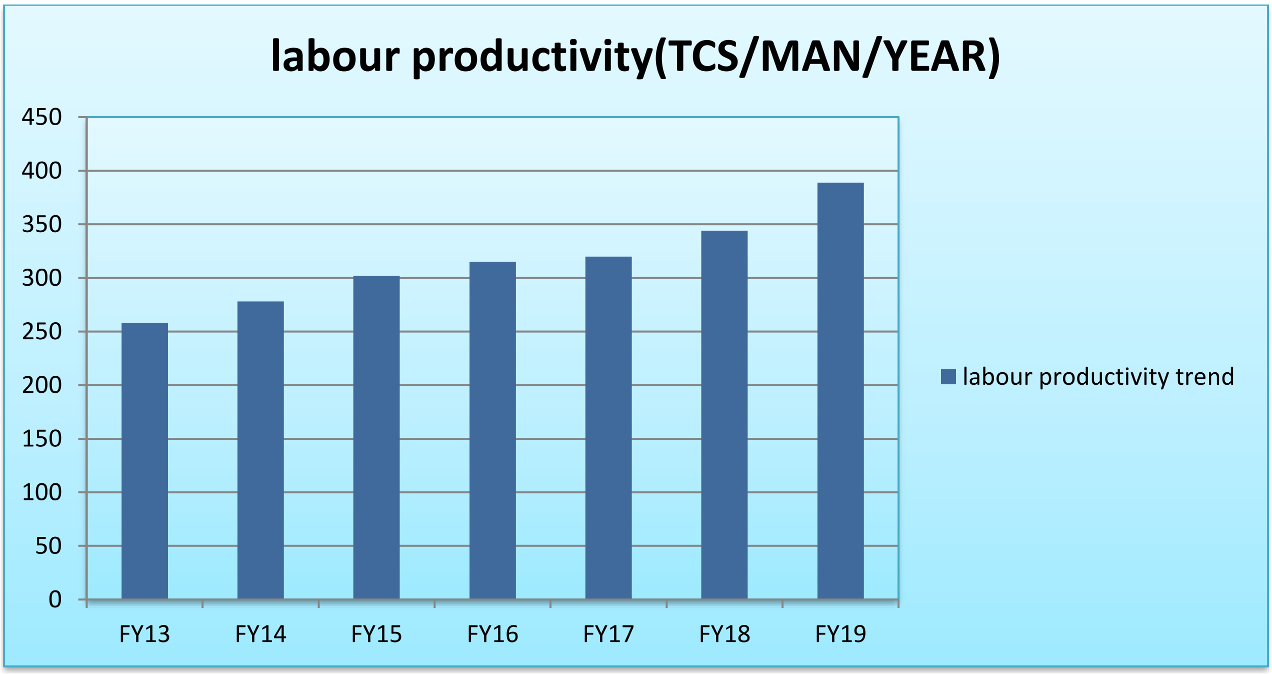


Capacity in MTPA

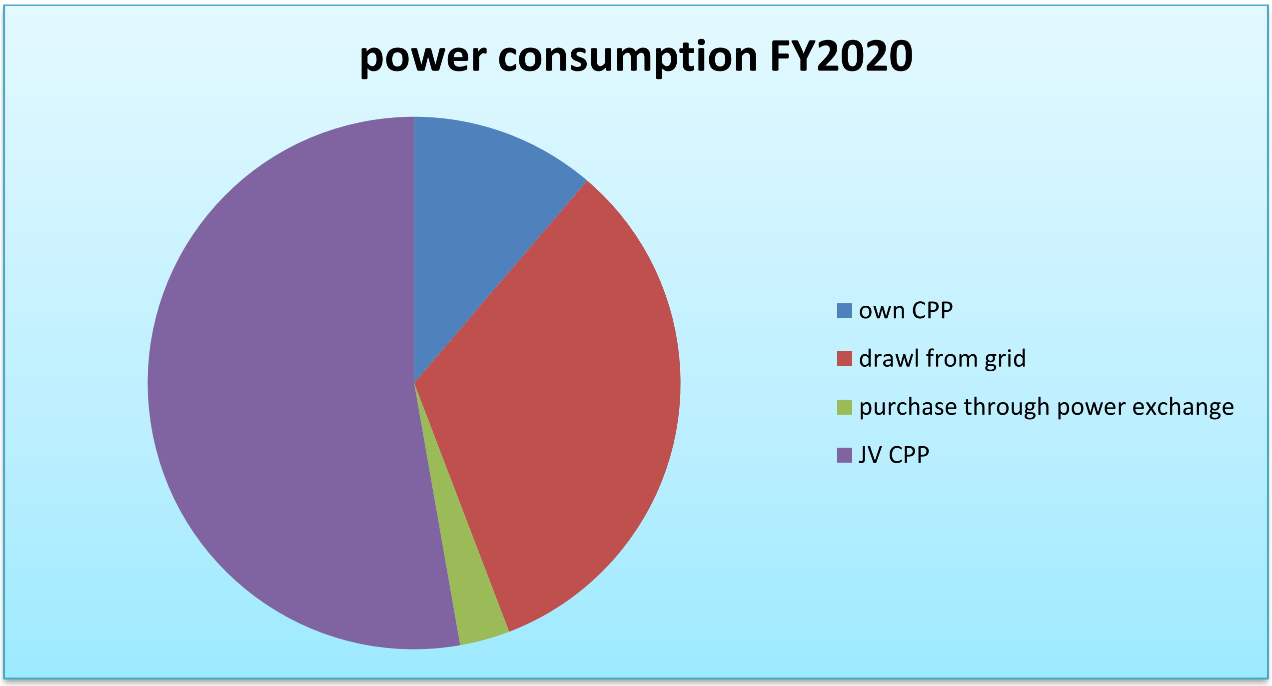


<u>Sustainability metrix</u>

Labour productivity



Power consumption



Other metrix

	PF EMISSION LOAD -kg/tcs	Specific CO2 emission - m3/tcs	Solid waste utilization In %	Specific water consumption - m3/tcs
FY16	0.81	2.60	84	3.83
FY17	0.77	2.61	83	3.75
FY18	0.74	2.56	83	3.62
FY19	0.70	2.57	85	3.44
FY20	0.69	2.54	89	3.50

The meaning of sustainability is avoidance of depletion of natural resources in order to maintain an ecological balance.

Sustainability metrix is very important for the steel sector as steel sector is energy intensive, and leads to pollution hence the company tries to maintain its emission of C02, water consumption, PF emissions, etc in order to comply with environment. As we can see from the trends in the table company has improved its metrix over the time.

Company management

- Shri Anil Kumar Chaudhary has assumed the position of Chairman, SAIL w.e.f. 22nd September 2018, Having experience of more than 34 years in Iron and Steel Sector.

- Ms. Soma Mondal has taken over as Director (Commercial) of Steel Authority of India Limited. Prior to this, she was Director (Commercial), NALCO, Bhubaneswar.

- Shri Puneet Kansal, is 1996 batch IAS officer from the Sikkim Cadre and is presently posted as Joint Secretary, Ministry of Steel.

- Shri harinand rai, Director (Technical)
- He has over 32 years of experience of working in the organisation in different capacities at both Plant level at Bhilai Steel Plant, Bhilai (BSP) and Durgapur Steel Plant.

- Shri anirban dasgupta, Director (Projects & Business Planning).
- Working as a key member of many corporate initiatives including preparation of blueprint for the revival of IISCO Steel Plant before its amalgamation into SAIL, etc.

INDEPENDENT DIRECTORS

1) CA Kartar Singh Chauhan
2) Prof. Narendra Kumar Taneja.
3) Shri Krishan Kumar Gupta
4) SH. N. Shankrappa.

<u>Key management personnel</u>

1	**Audit committee**
2	Nomination and Remuneration committee
3	Stakeholders relationship committee
4	Risk management committee
5	CSR committee
6	Strategic Issues & Joint Ventures Committee
7	Projects committee
8	Operational issues committee

Dividends

Year	Dividend per share	Payout%
2010	3.3	20.2
2011	2.4	20.2
2012	2	23.3
2013	2	38.1
2014	2	31.9

Year	Dividend per share	Payout %
2015	2.00	39.4
2016	0.00	0.00
2017	0.00	0.00
2018	0.00	0.00
2019	0.50	9

Note* - in the years 2016-2018 there were losses faced by the company and 2019 they recovered after three years fall, previously they had given dividend.

Shareholding pledging :

	Holding in %	Pledging in %
2019	75	0
2020	75	0

Business model analysis

Segments

The Group has 8 operating/reportable segments: the five integrated steel plants and three alloy steel plants, being separate manufacturing units, have been considered reportable segments.

Business operations

Process of manufacturing

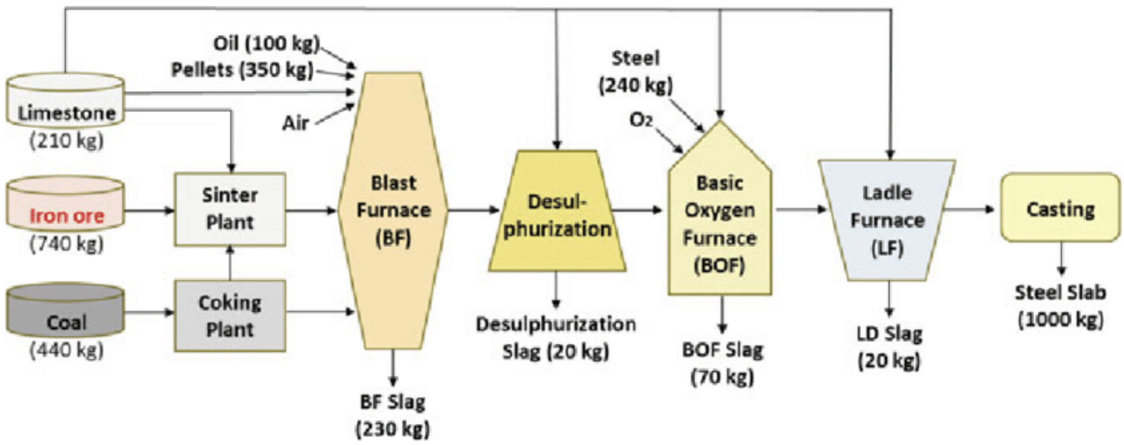


Image source:researchgate

Different grades and types of steel are manufactured for various different end uses. Once it is manufactured it is then supplied to the respective authorities.

Value addition

Value addition in the products to fulfill various goals, developing products like quenched and tempered plates, High Tensile Parallel Flanged Beams, Medium Carbon Wire Rods (HC 52B,SAE 15B21), etc aimed at import substitution. Improving the product mix, developing new products and meeting the demand of local markets as well as other markets.

Cost cutting measures

Various cost control measures are adopted by improving the operational performance by reduction in various costs.

Modernization and expansion

The company is taking a lot of strategic initiatives for its turnaround, growth and sustainance. The company is ramping up its capacity utilizations, new initiatives to improve the efficiency and productivity, multipronged approach that includes organic growth, brown-field projects, technology leadership through strategic alliances, ensuring raw material security by developing new mines, diversifying in allied areas.

Marketing and R&D

Various marketing initiatives are taken for example launching a new brand of TMT bars named 'SAIL SeQR', launching the product parallel flanged beams under the brand name NEX.

Continuous research is conducted at the research and development centre of sail.

Unit economics

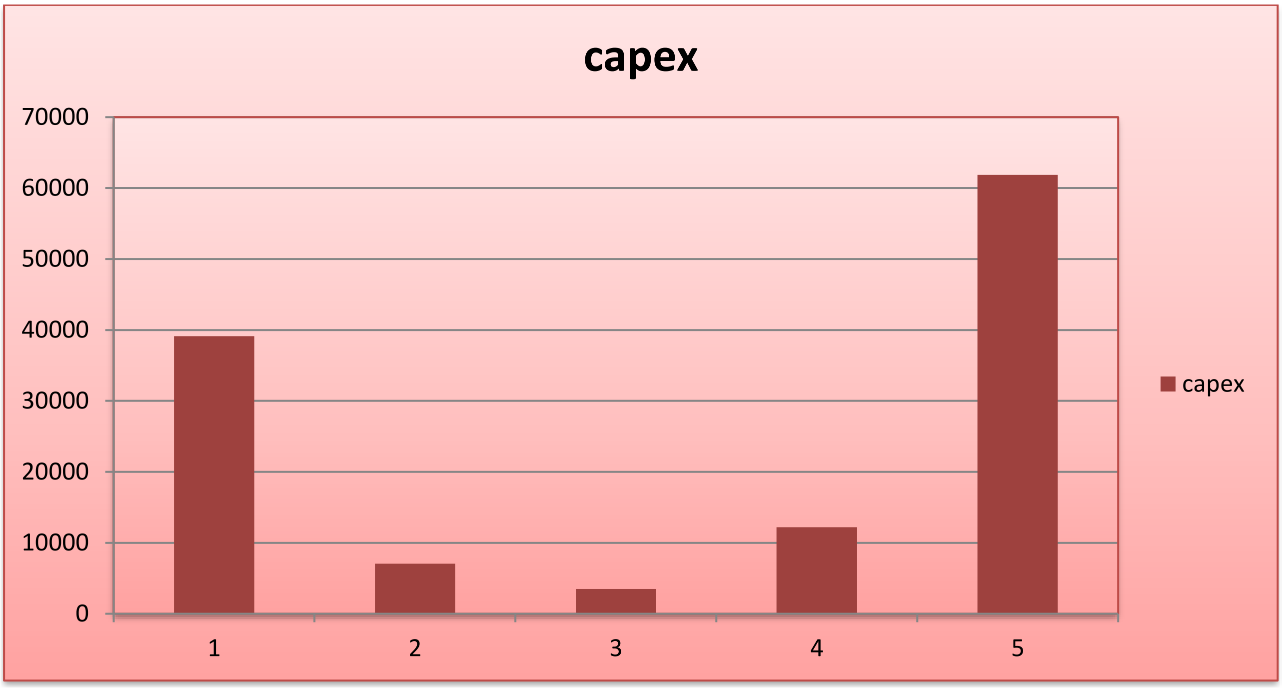
Total production	**14.1 MTPA(million tonnes per annum), 1.41 crore tonnes**
Revenue per tonne	47498.99
Revenue per Employee	0.926
Operating EBITDA per tonne	6923.049
Net profit per tonne	1665.751
Total operating cost per tonne	21922.411
COGS per tonne	21054.475
EBIT per tonne	4522.106

Working capital cycle

	2019	2018	2017	2016
Inventory Turnover	3.44	3.379	2.829	2.664
Inventory days	106	108	129	137
Receivable turnover	14.6	14.6	15.208	12.586
Receivable days	25	25	24	29
Payables Turnover	9.358	7.604	8.488	9.864
Payables days	39	48	43	37
Working cap days	92	85	110	119

The above table shows that the number of working capital days has been decreasing approximately compared to the average of all the years due to increase in the turnover ratios. The increase in the receivable turnover indicates linient policy towards the debtors, on the other hand payables turnover is increasing which indicates that the company is paying off its creditors more quickly which shows that the financial position of the company is improving. Also,the Inventory turnover ratios has been increasing which might indicate the increase in sales.

Capex cycle



1 Expansion of existing capacity

2 Value-addition / Product-mix improvement

3 Technological up gradation / Modernization

4 Sustenance including de-bottlenecking, AMR & Environment

5 Total Estimated Cost In addition, a Capex Plan of Rs. 10264 crore has been made for augmentation of Raw material facilities.

SAIL had a Capex of Rs. 961 crore during Q4 FY 20.

Core Roce and Roe

YEAR	ROCE%	ROE%
2016	-5.70%	-10%
2017	-3.629%	-7%
2018	-0.356%	-1%
2019	2.896%	6%

Latent operating leverage

Hot metal – 23.5MTPA

The utilized Capacity is 74.47%

So the utilized Capacity is (74.47%*23.5) = 17.5MTPA

The unused Capacity is 6 MTPA

Hot metal

Crude steel

Crude Steel – 21.4MTPA

The utilized capacity is 76.17%

So the utilized capacity is (76.17%*21.4) = 16.30MTPA

The unused Capacity is 5.10MTPA

Saleable Steel – 20.2MTPA

The utilized Capacity is 69.80%

So the utilized capacity is (69.80%*20.2)= 14.10MTPA

The unused capacity is 6.10MTPA

Saleable steel

Hence, this shows that the company has medium to low latent leverage, utilizing the maximum amount of the capacities.

So for the Company to grow they have to install more capacity and indulge into more capex.

key moving parts that deliver risk

1. Chiria mines-

Chiria mines in Saranda forest in Jharkhand, for which lease was granted about seven decades ago, but the mining activities in the different leases of mine could not resume due to delay in grant of Forest Clearance.

Major apprehension about Chiria leases emerging from the approved MPSM is that the final decision on grant of Forest Clearance for Chiria leases may not happen in near future and may be decided only after near exhaustion of the mineral deposits in eastern boundary in identified mining zones and availability of suitable technology for extraction of mineral from bio-diverse forest area without damaging the forest and wildlife.

Out of the available iron ore resources of about 3700 MT with SAIL, about 54% i.e. 2000 MT is available at a single location viz. the Chiria mines which is not only critical for future expansion but will also take care of existing expansion in view of other depleting resources.

2. Coaking coal –

Dependence on external sources for key input i.e. coking coal leads to exposure of the Company to the market risk.

3. Employees -

Ageing employee mix along with a high manpower cost and relatively low manpower productivity.

4. Capital and interest expenses- higher capital related charges on account of incremental depreciation and interest on new facilities leading to increased expenses

5.Market risk –

a) Foreign currency risk - Exposures to currency exchange rates arise from the Company's overseas borrowing arrangements, which are primarily denominated in US dollars (USD).

b) Interest rate risk - interest rate cash flow risk exposures on long-term financing.

6.Credit risk-

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments, for example by granting loans and receivables to customers, placing deposits, etc.

The Company's maximum exposure to credit risk is limited to the carrying amount of following types financial assets.

a)Cash and cash equivalents

b)Derivative financial instruments

c)Trade receivables

d)Other financial assets measured at amortized cost

7.Liquidity risk-

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due.

Risk mitigation measures adopted by the company

1.The Company has constituted SAIL Risk Management Committee (SRMC) and the Chief Risk Officer of the Company is acting as the Secretary of the Committee.

2.SAIL is mainly depending on imported Coking Coal and is pursuing the matter through Ministry of Steel for taking up with Ministry of Coal for allocation of suitable coking coal blocks under Government Dispensation route in lieu of surrendered coal blocks.

3.Market risk mitigation

To mitigate the Company’s exposure to foreign currency risk, non-INR cash flows are monitored and forward exchange contracts are entered into in accordance with the Company’s risk management policies. Generally, the Company’s risk management procedures distinguish short-term foreign currency cash flows (due within 6 months) from longer-term cash flows (due after 6 months). Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken. Forward exchange contracts are mainly entered into for significant long-term foreign currency exposures that are not expected to be offset by other same-currency transactions.

4.Credit risk management

Cash and cash equivalent- Credit risk related to cash and cash equivalents is managed by only accepting highly rated banks and diversifying bank deposits and accounts in different banks across the country.

5.Derivative financial instruments

Credit risk related to derivative financial instruments is also managed by only entering into such arrangement with highly rated banks or financial institutions as counterparties. The company diversifies its holdings with multiple counterparties. Trade receivables Credit risk related to trade receivables are mitigated by taking bank guarantees from customers where credit risk is high. The Company closely monitors the credit-worthiness of the debtors and only sells goods to credit-worthy parties. The Company's internal systems are configured to define credit limits of customers, thereby limiting the credit risk to pre-calculated amounts.

6.Other financial assets measured at amortized cost –

Other financial assets measured at amortized cost includes loans and advances to employees and others. Credit risk related to these other financial assets is managed by monitoring the recoverability of such amounts continuously, while at the same time internal control system in place ensure the amounts are within defined limits.

7.Liquidity risk

Management monitors rolling forecasts of the Company's liquidity position and cash and cash equivalents on the basis of expected cash flows. The Company takes into account the liquidity of the market in which the entity operates. In addition, the Company's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Is the company better or worse than peers

Financial ratios					
	Tata steel	Jindal	JSW	SAIL	Industry average
COGS/net sales(%)	41.11%	41.08%	52.82%	44.33%	44.84%
Employee exp / net sales (%)	13.26%	2.71%	3.87%	13.21%	8.26%
Total other expense/net sales (%)	34.81%	17.97%	27.12%	27.89%	26.95%
Effective Tax Rate	1108.41%	13.93%	31.70%	33.82%	296.97%
GPM(%)	58.89%	58.92%	47.18%	55.67%	55.17%
OPM(%) EBITDA margin(%)	12.49%	21.27%	78.17%	14.58%	31.63%
EBITM(%)	6.45%	7.40%	83.96%	9.52%	26.83%
PATM(%)	1.67%	-6.10%	20.06%	3.51%	4.79%
ROE	3.18%	-3.63%	40.18%	5.92%	11.41%
Pre Tax ROCE(%)	5.38%	4.69%	75.75%	9.30%	23.78%
EPS (Rs.)	20.41	-11.77	48.86	5.69	15.7975
Core EPS (Rs)	513.23	-11.91	24.11	5.43	132.715
DPS (Rs)	13.16	0	3.97	0	4.2825
BVPS (Rs) (Book Value per share)	642.62	334.98	121.59	95.98	298.7925
Cash per share (Rs)	101.83	2.03	43.12	0.83	36.9525
P/E (x)	20.51	-17.99	5.43	6.74	3.6725
Core P/E (x)	0.82	-17.78	11.01	7.06	0.2775
EV/EBITDA (x)	8.09		0.78	5.89	4.92
P/BV (x)	0.65	0.63	2.18	0.4	0.965

So looking at the comparison with the peers and the industry,

Talking about the expenses cogs/sales and total other expense/sales is not a big issue its almost in the line with the peers and the industry but the employee expense of SAIL seems to be high.

Effective tax rate seems abrubt with the industry average as tata steel is outlier in the case of ETR but in case of sail it seems normal not too high, not too low.

Talking about the margins only gross profit margin seems normal rest all margins are very volatile, where jsw steel seems to be an outlier with extremely high margins. Whereas comparing sail to others except jsw in case of margins SAIL has performed well. The industry average is different due to the outlier JSW steel.

Talking about the ROE,ROCE again JSW is an outlier but overall sail is better than the other peers.

Talking about the EPS,CORE EPS sail on an average has lower EPS,CORE EPS

BVPS in case of sail seems to be very low compared to the rest and the the P/E ratio is pretty good where tata steel lies as an outlier.

Talking about the price/book value sail has the lowest P/BV maybe indicating that shares of Sail are undervalued but this is based on minimal information and hence, cant make a strong opinion about it.

EV/ebitda seems pretty normal like there is volatility but its almost more or less good.

Financial analysis

	2016	2017	2018	2019
Current ratio	0.627	0.554	0.684	0.778
Quick ratio	0.2471	0.214	0.292	0.309
d/e	0.8236	1.050	1.137	1.045
Debt/assets	0.326	0.361	0.364	0.351
Debt/capital	0.452	0.512	0.532	0.511
Interest coverage	-2.306	-1.03	0.556	2.04
Debt/ebitda	-11.39	579.82	9.06	4.24
Total asset turnover	0.386	0.414	0.499	0.567
Fixed asset turnover	0.454	0.467	0.5078	0.520
Working capital turnover	3.067	3.318	4.294	3.967

Ratio analysis

CURRENT RATIO	Overtime the company's liquidity position has gotten a little bit better from 2016 to 2019. The standard current ratio is 2:1 but in the given case of SAIL of Last 5 yrs, the same has not been maintained. But looking at the industry average and the peers having the same line of business SAIL is also in the line with the industry.
QUICK RATIO	Overtime we can see that the quick ratio is increasing its lesser than 1 which indicates that it might not fully able to pay off the current liabilities but may have some liquidity improvement. Talking about the industry and peers SAIL's quick ratio is in line with the industry.

DEBT RATIOS	Looking at the trends in the debt ratios that is d/e, debt/assets, debt/capital. We can see the similar trends in all the ratios with debt, that is the debt is slightly decreasing in 2019 compared to previous year and the reason for that is the company has repayed some portion of debt resulting in decreasing debt ratios. Apart from that 2018 debt has slightly increased from its previous year due to the increase in debt in that particular year. Overall we can conclude that there are very negligible changes in the debt ratios.
ASSET TURNOVER RATIOS	Looking at the trends in the asset turnover and fixed asset turnover, we can observe that the asset turnover ratios are increasing probably due to the increase in the revenue growth which is greater than the increase in total assets and fixed assets. The revenue has been growing drastically year on year.
WORKING CAPITAL TURNOVER	Looking at the trends in the working capital turnover compared to the average the working capital turnover has increased indicating the decrease in the working capital days as explained above under the heading working capital cycle

Future plans

Steel Authority of India (SAIL) is in talks with the Indian Railways for an order to supply about 15.5 lakh tonnes of rail in the next financial year. The Indian Railways had placed an order with the company for supply of 13.5 lakh tonne rails in the current financial year. Till February 29, the company produced 11.65 lakh tonne rails.

Exposed to dual concerns of slack demand and plunging prices across all categories, state owned steel giant has formed five task forces to review the market, enabling to take corrective steps. The newly constituted five task forces comprising directors of SAIL would suggest re-orientation of product-mix to match the supply in tune with the demand of products. They would also look for opportunities to procure cheaper raw materials like coking coal, limestone, dolomite, ferro manganese and refractories in the present downturn market.

largest steel-making PSU Steel Authority of India (SAIL) has proposed to expand its capacity to 49.6 mtpa in its Vision 2030 programme.

SAIL is in the final stage of completion of its ongoing Rs 70,000-crore modernisation and expansion programme that will take its crude steel capacity to a little over 20 mtpa. Under its Vision 2030 programme, the company plans to further add 29.6 mtpa in two phases by 2030. This might entail an investment of over $ 31 billion.

According to the plan, in the first phase, the capacity will be raised to 35.8 mtpa. The company intends to enhance strength at its Durgapur Steel Plant (DSP) to 7.5 mtpa in the first phase from 2.5 mtpa. That of the Rourkela Steel Plant (RSP) has been proposed to be raised to 8.8 mtpa from 3.7 mtpa now. Bokaro Steel Plant's (BSL's) capacity will be raised to 9.5 mtpa and IISCO's to 3 mtpa in the first phase. No timeline has been set for the completion of the first phase.
Though there hasn't been any plan to raise capacity at Bhilai Steel Plant in the first phase; it will see huge expansion in the second phase. Its capacity will be raised to 12 mtpa in the second phase from 7 mtpa now, and subsequently to 14 mtpa by 2030. IISCO's will be raised to 7.3 mtpa.

"In addition to capacity enhancement, Vision 2030 also focuses on building market leadership with a global orientation, production and product-mix aligned with prevalent trends in the steel business, achieving complete integration of key inputs/raw materials, improvement in techno-economic parameters and manpower productivity, which will catapult SAIL into the top league of metals and mining industry at global level," steel ministry has said in a response to a query of the parliamentary standing committee.

It's thrust now is to realise the full potential of the modernisation and expansion plans undertaken and completed at various plants or units. Further, in view of the present financial position of the company, emphasis is laid on consolidation of existing or just completed facilities, rather than going for new capital schemes during the next three-four years, the steel ministry said.

Impact of covid 19

- (SAIL NSE -4.21 %) has said that the impact of Covid-19 in the financial results of FY 2020 was Rs 771.76 crore on account of fall in the net realisable value of inventories.

- Operating plants at sub-optimal levels, lack of domestic demand for steel in the country, and un-remunerative prices are having an adverse impact on the financials of the company," said SAIL in a statement.

- There is a slowdown in sales and cash realizations which has led to increased borrowings of 500 crore during the first quarter of financial year 2021.

- The realisation from Debtors has been low. However, cash conservation efforts initiated during this period have helped in keeping the borrowing levels under control, the company said.

- As per SAIL's statement, sufficient lines of credit are available with the company to tap loans from cheaper sources from time to time for repayment or swapping of old loans. The company sees no threats to service debt

- Though there was shrinkage in demand for steel, the supply of raw materials was not impacted much, except for certain imported spares. Staggered deliveries of bulk raw materials, in sync with requirements, helped in maintaining the inventories at normal levels.

- SAIL is closely monitoring the situation and adjusting its production based on demand for specific products.

Sources for the collection of information –

1. the economic times

2.www.financialexpress.com,

3.moneycontrol,

4.www.sail.co.in

5.annual reports

6.investor presentations (sail)