SELL
TP: Rs 121 | ∀ 14%

SAIL | Metals & Mining | 30 October 2025

Operational performance impacted by weak realisation

- **Q2 results were better than expectations, primarily due to a strong volume growth of 19.8%YoY**
- **Pricing outlook is positive in H2FY26 with a likely pickup in demand from a higher level of construction activity in H2FY26**
- **Maintain SELL with TP of Rs121, based on 5.5x Sept'27 EBITDA. due to limited growth drivers in near term**

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Results above expectations on strong volume growth: Revenue came at Rs267bn, (+8.2%YoY, +3.0%QoQ), was 7.2% above our estimates. EBITDA came at Rs25bn (-13.2%YoY, -8.7%QoQ), was 9.6% above estimates. Outperformance is primarily due to the strong volume growth of 19.8%YoY. EBITDA/t was Rs5,144, lower by 15.3%YoY, impacted by higher raw material cost.

Volumes: Standalone volumes came at 4.9mnt, higher by 19.8%YoY. This was much higher than the domestic demand growth of 9%YoY.

Domestic pricing outlook: Realisation declined by 9.6%YoY and 4.5%QoQ. QoQ decline is despite the safeguard duty, as imports spiked QoQ by 36%, due to the tariff imposed by various countries. Even YoY decline in realisation is negative vs realisation performance YoY of other steel peers. Spot HRC prices are 2-3% lower than Q2 average. Management sees improvement in pricing in Q3, aided by a pick-up in construction activity and benefit of GST reforms.

Going forward, management expects a coking coal cost to be higher by USD6-7 in Q3FY26. So, H2 margin improvement is expected to be driven by price improvement.

Expansion project: SAIL is undergoing major expansion programme in which it will be doing brownfield and greenfield expansion projects, increasing the overall capacity by 14mn tonnes from the current 21mnt to 35mnt. Incremental volumes will come from FY29E onwards. We estimate 4% CAGR volumes growth over FY25-FY28E period.

Maintain SELL with TP of Rs121: Considering capacity constraints in near term, higher costs relative to peers and risk on balance sheet parameters as the capex picks up, we maintain SELL with TP of Rs121, based on 5.5x Sept'27 EBITDA.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SAIL IN/Rs 141
Market cap	US$ 6.6bn
Free float	35%
3M ADV	US$ 21.9mn
52wk high/low	Rs 143/Rs 99
Promoter/FPI/DII	65%/3%/16%

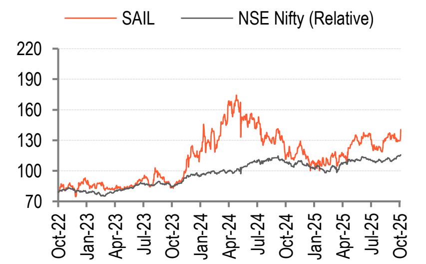
Source: NSE | Price as of 29 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs bn)	1,024,791	1,097,550	1,164,281
EBITDA (Rs bn)	106,462	124,329	131,842
Adj. net profit (Rs bn)	26,844	34,773	37,415
Adj. EPS (Rs)	6.5	8.4	9.1
Consensus EPS (Rs)	6.6	8.5	10.5
Adj. ROAE (%)	4.6	5.8	6.0
Adj. P/E (x)	21.6	16.7	15.5
EV/EBITDA (x)	2.8	2.4	2.4
Adj. EPS growth (%)	(31.3)	29.5	7.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Quarterly performance

Rs mn	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YOY (%)	H1FY26	H1FY25	YOY (%)
Revenue	267,042	259,218	3.0	246,752	8.2	526,259	486,730	8.1
EBITDA	25,283	27,687	(8.7)	29,127	(13.2)	52,970	51,327	3.2
EBITDA margin (%)	9.5	10.7		11.8		10.1	10.5	
Depreciation	14,535	14,415	0.8	13,039	11.5	28,950	27,062	7.0
Interest	4,843	5,946	(18.6)	7,577	(36.1)	10,789	14,491	(25.5)
Other income	2,059	1,621	27.0	1,670	23.3	3,680	3,440	7.0
PBT	7,964	8,947	(11.0)	10,181	(21.8)	16,911	13,213	28.0
Tax	1,374	2,232	(38.4)	2,762	(50.2)	3,607	2,925	23.3
Reported PAT	4,187	7,446	(43.8)	8,971	(53.3)	11,633	9,789	18.8
Exceptional item	(3,384)	0		0	NA	(3,384)	(3,118)	(8.6)
Adjusted PAT	7,572	7,446	1.7	8,971	(15.6)	15,017	12,907	16.4
Adj. PATM (%)	2.8	2.9		3.6		2.9	2.7	
EPS (Rs)	1.8	1.8	1.7	2.2	(15.6)	3.6	3.1	16.4

Source: Company

Fig 2 – Q2FY26 Actual v/s estimate

Particulars	Q2 Actual	Estimate	VAR (%)
Revenue (Rs mn)	267,042	249,071	7.2
EBITDA (Rs mn)	25,283	23,073	9.6
EBITDA margin (%)	9.5	9.3	NA
PAT (Rs mn)	4,187	5,160	(18.9)
EPS (Rs)	1.0	1.2	(18.9)

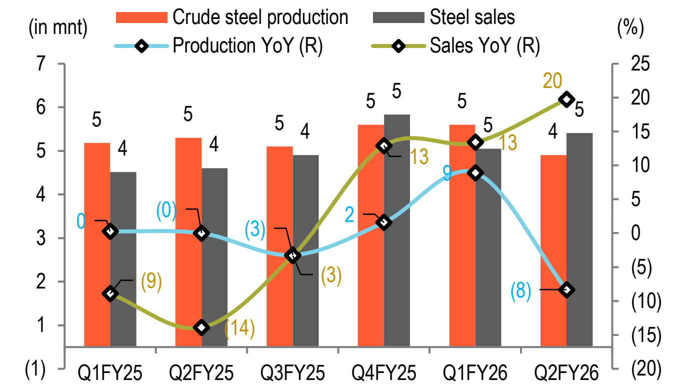
Source: Company, BOBCAPS Research

Fig 3 – Business performance

Rs mn	Q2FY26	Q1FY26	QoQ (%)	Q2FY25	YoY (%)	H1FY26	H1FY25	YoY (%)
Steel sales (mnt)	4.9	4.6	7.9	4.1	19.8	9.5	8.1	16.6
Realization (Rs./t)	54,387	56,970	(4.5)	60,182	(9.6)	55,629	60,001	(7.3)
EBITDA (Rs/t)	5,144	6,076	(15.3)	7,084	(27.4)	5,592	6,316	(11.5)

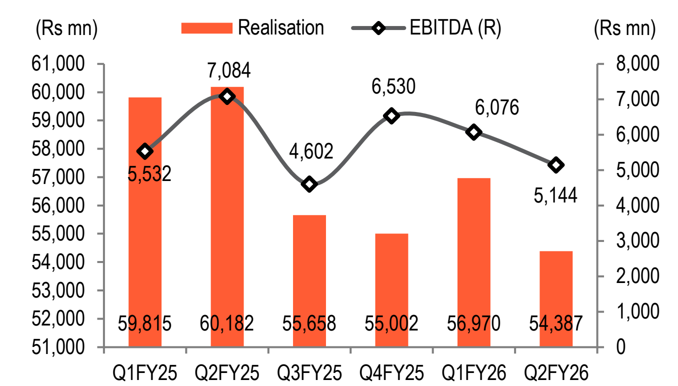
Source: Company

Fig 4 – Production & sales trend



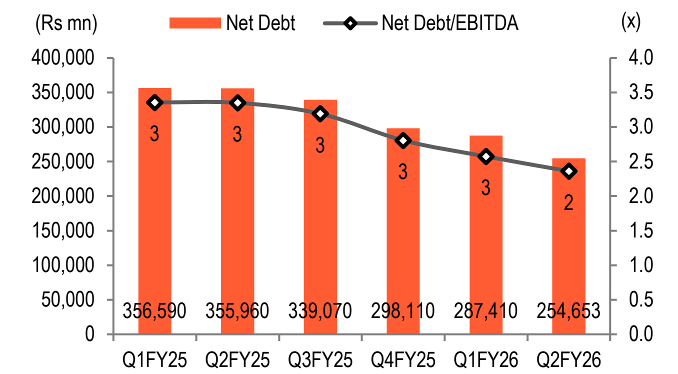
Source: Company

Fig 5 – Realisation & EBITDA trend



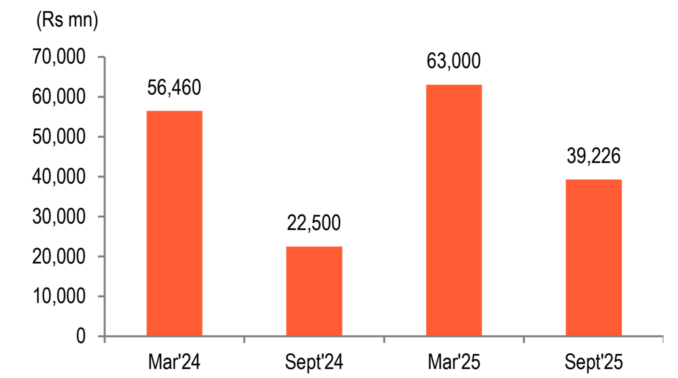
Source: Company

Fig 6 – Leverage



Source: Company

Fig 7 – Capex



Source: Company

Concall Highlights

- **Volumes performance:** Volume growth of 19.8%YoY was higher than 9% volume growth for the industry in Q2. Management guided for improved demand in H2FY26 that will drive growth; also guided for volumes of 18.5mnt for FY26E, which would be a 3.7%YoY growth over FY25 volumes of 17.8mnt. The value added product share was 57% in Q2FY26 vs 55% in Q1FY26. Management targets to achieve +60% in the medium term.
- **Pricing:** Prices declined QoQ even with strong demand. This is due to the increase in imports despite safeguard duty. Steel imports declined 20%YoY and increased 36%QoQ. The pricing decline was higher for SAIL vs industry peers. Management expects pricing to improve in 2H, aided by GST reforms and pickup in construction activity.
- **Cost guidance:** Management expects coking coal cost to be higher by USD6-7 in Q3FY26.
- **Capex and capacity additions:** SAIL incurred a capex of Rs39,226mn in H1FY26 while guiding for capex of Rs+75,000mn. SAIL is undergoing major expansion programme in which it will be doing brownfield and greenfield expansion projects, ramping up overall capacity by 14mn tonnes from the current 21mnt to 35mnt. Major capex will come in FY27E-FY31E, due to greenfield expansion project. Management expects capex to be Rs100,000mn in FY27E and +Rs100,000mn in FY28E.
- **Net debt:** Consolidated net debt decreased to Rs255bn in September 2025 from net debt of Rs288bn in March 2025, due to improved performance. Gross debt decreased by Rs33bn during this period. Net D/E is 0.4x. Management targets to have NetD/E of 0.3-0.35 before starting growth capex for expansion.

Valuation Methodology

SAIL is undergoing a major expansion programme in which it will be doing brownfield and greenfield expansion projects, ramping up the overall capacity by 14mn tonnes. Incremental volumes will come from FY29E onwards. Major capex will come in FY27E-FY31E, due to the greenfield expansion project. This will increase the overall debt and can put pressure on the balance sheet and cashflow.

We estimate 4% CAGR volumes growth over FY25-FY28E period. EBITDA per tonne will expand, but remain at discount to large peers, due to higher employee and fixed costs.

Due to constraints on capacity in near term, higher costs relative to peers and risk on balance sheet parameters as the capex picks up, we maintain SELL with TP of Rs121 based on 5.5x Sept'27 EBITDA.

Fig 8 – Valuation

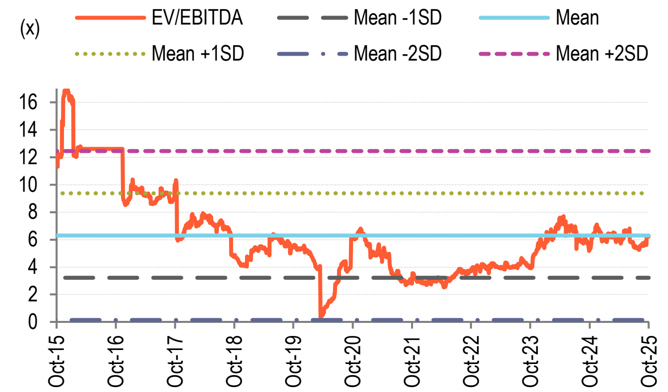
Particulars	Sept. 27 EBITDA (Rs mn)	Multiple	Value (Rs cr)	Rs/share
SAIL	143,461	5.5	789,037	191
Less - Net debt			288,442	70
Targer price			**500,595**	**121**

Source: , BOBCAPS Research

Key Risks

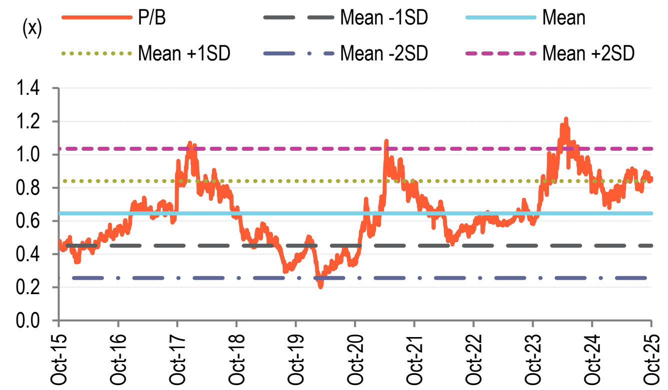
- Capex on expansion projects to risk leverage ratio:
  - SAIL has plans to ramp up capacity. Major capex will come in FY27E-FY31E due to the greenfield expansion project, which will raise the overall debt. Further, an environment of weak demand during this period can put pressure on the balance sheet and cashflow.
- Coking coal – disruption and price volatility can impact operating profit
  - SAIL depends on imported coking coal for most of its requirements. With a limited number of vendors, it gets bulk supply from one geographical area. Thus, risk in terms of interruption can impact the requirement. Also, price volatility can raise operating cost and thus impact EBITDA performance.
- High manpower cost and old blast furnaces to continue impacting margins
  - SAIL has a high manpower cost relative to peers and old blast furnaces that account for half of production. These earn USD80-90 per tonne i.e. Rs6,600 – Rs7,500 per tonne lower EBITDA margins than through new blast furnaces. Thus, high manpower cost and old blast furnaces will continue weighing on margin performance (overall EBITDA per tonne) – at relatively lower EBITDA/tonne vs peers.

Fig 9 – EV/EBITDA 2YF



Source: Bloomberg

Fig 10 – P/B 1YF



Source: Bloomberg

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Financials

Income Statement

Y/E 31 Mar (Rs bn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	**1,053,783**	**1,024,791**	**1,097,550**	**1,164,281**	**1,217,198**
EBITDA	111,493	106,462	124,329	131,842	155,081
Depreciation	(52,784)	(56,507)	(64,100)	(68,850)	(75,975)
EBIT	58,709	49,955	60,229	62,991	79,106
Net interest inc./(exp.)	(24,739)	(27,932)	(29,081)	(28,552)	(33,737)
Other inc./(exp.)	10,670	8,750	8,750	8,925	9,104
Exceptional items	(8,408)	(3,126)	0	0	0
EBT	40,618	32,515	44,815	48,330	59,487
Income taxes	(9,951)	(8,797)	(10,042)	(10,915)	(13,711)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	4,868	4,916	4,966	5,015	5,065
Reported net profit	**30,667**	**23,718**	**34,773**	**37,415**	**45,777**
Adjustments	8,408	3,126	0	0	0
Adjusted net profit	**39,075**	**26,844**	**34,773**	**37,415**	**45,777**

Balance Sheet

Y/E 31 Mar (Rs bn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	153,324	105,040	100,470	109,768	114,757
Other current liabilities	158,052	145,849	145,849	145,849	145,849
Provisions	12,941	13,911	13,911	13,911	13,911
Debt funds	306,010	298,111	306,111	335,911	396,911
Other liabilities	205,747	211,743	211,743	211,743	211,743
Equity capital	41,305	41,305	41,305	41,305	41,305
Reserves & surplus	529,707	547,751	569,719	593,709	623,997
Shareholders' fund	571,012	589,056	611,024	635,015	665,302
Total liab. and equities	**1,407,086**	**1,363,709**	**1,389,107**	**1,452,196**	**1,548,472**
Cash and cash eq.	6,730	9,669	4,683	4,902	5,577
Accounts receivables	83,554	76,099	90,523	97,622	102,059
Inventories	373,467	337,433	352,493	377,115	394,255
Other current assets	63,879	41,602	41,602	41,602	41,602
Investments	45,900	49,765	49,765	49,765	49,765
Net fixed assets	654,151	650,614	651,513	682,663	756,688
CWIP	61,406	72,062	72,062	72,062	72,062
Intangible assets	14,889	14,257	14,257	14,257	14,257
Deferred tax assets, net	0	0	0	0	0
Other assets	149,011	161,973	161,973	161,973	161,973
Total assets	**1,407,086**	**1,363,709**	**1,389,107**	**1,452,196**	**1,548,472**

Cash Flows

Y/E 31 Mar (Rs bn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	**38,143**	**119,932**	**93,899**	**112,396**	**138,902**
Capital expenditures	(54,107)	(76,169)	(65,000)	(100,000)	(150,000)
Change in investments	(4,037)	(3,865)	0	0	0
Other investing cash flows	6,637	4,813	0	0	0
Cash flow from investing	**(51,507)**	**(75,221)**	**(65,000)**	**(100,000)**	**(150,000)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	49,392	(7,899)	8,000	29,800	61,000
Interest expenses	(24,739)	(27,932)	(29,081)	(28,552)	(33,737)
Dividends paid	(8,261)	(10,739)	(12,805)	(13,424)	(15,489)
Other financing cash flows	(1,805)	4,798	0	0	0
Cash flow from financing	**14,587**	**(41,772)**	**(33,885)**	**(12,177)**	**11,773**
Chg in cash & cash eq.	**1,223**	**2,939**	**(4,986)**	**219**	**675**
Closing cash & cash eq.	**6,730**	**9,669**	**4,683**	**4,902**	**5,577**

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	7.4	5.7	8.4	9.1	11.1
Adjusted EPS	9.5	6.5	8.4	9.1	11.1
Dividend per share	2.0	2.6	3.1	3.3	3.8
Book value per share	138.2	142.6	147.9	153.7	161.1

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	0.3	0.3	0.3	0.3	0.3
EV/EBITDA	2.5	2.8	2.4	2.4	2.3
Adjusted P/E	14.9	21.6	16.7	15.5	12.7
P/BV	1.0	1.0	1.0	0.9	0.9

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	79.7	75.3	77.6	77.4	77.0
Interest burden (PBT/EBIT)	83.5	71.3	74.4	76.7	75.2
EBIT margin (EBIT/Revenue)	5.6	4.9	5.5	5.4	6.5
Asset turnover (Rev./Avg TA)	77.7	74.0	79.7	82.0	81.1
Leverage (Avg TA/Avg Equity)	2.4	2.4	2.3	2.3	2.3
Adjusted ROAE	698.7	462.8	579.5	600.5	704.1

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	0.9	(2.8)	7.1	6.1	4.5
EBITDA	38.7	(4.5)	16.8	6.0	17.6
Adjusted EPS	103.7	(31.3)	29.5	7.6	22.3
Profitability & Return ratios (%)					
EBITDA margin	10.6	10.4	11.3	11.3	12.7
EBIT margin	5.6	4.9	5.5	5.4	6.5
Adjusted profit margin	3.7	2.6	3.2	3.2	3.8
Adjusted ROAE	7.0	4.6	5.8	6.0	7.0
ROCE	6.6	5.4	6.2	6.2	7.2
Working capital days (days)					
Receivables	29	27	30	31	31
Inventory	129	120	117	118	118
Payables	59	42	38	39	39
Ratios (x)					
Gross asset turnover	0.8	0.7	0.8	0.8	0.8
Current ratio	1.0	1.0	1.1	1.1	1.2
Net interest coverage ratio	2.4	1.8	2.1	2.2	2.3
Adjusted debt/equity	0.5	0.5	0.5	0.5	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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HOLD – Expected return from -6% to +15%
SELL – Expected return <-6%
Note: Recommendation structure changed with effect from 21 June 2021

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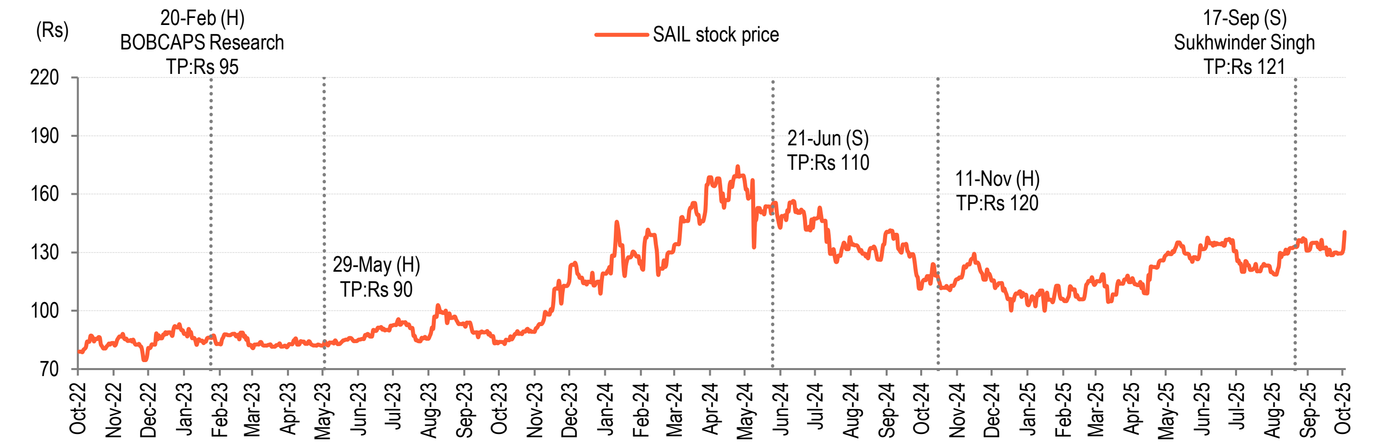
Ratings and Target Price (3-year history): SAIL (SAIL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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