Dated: 31 Oct 2025

SAIL (SAIL) - SELL

Result Update

Current Market Price (CMP)	Fair Value (FV)
Rs.137	Rs.90

Rationale:

- SAIL's Q2FY26 EBITDA beat estimates on higher volumes and realizations, partially offset by higher costs.
- Per-ton metrics were distorted due to (1) higher scrap sales and (2) NSL trade sales.
- Coal costs should trend marginally higher in Q3FY26, but realizations should improve in November/December 2025 on (1) post-festive season demand and (2) 7-8% discount to import parity aiding margins in H2FY26.
- An increase in capex as the company embarks on the next phase of expansion should keep FCF negative and worsen the balance sheet.
- We raise FV to Rs90 on rollover to September 2027E. Maintain SELL.

(CAGR - Compound Annual Growth Rate, EBITDA - Earnings Before Interest, Taxes, Depreciation, and Amortization, EPS- Earning Per Share)

Positives:

- Management maintained guidance for sales volumes of 18.5 mn tons for FY26.
- Value-added products (VAP) share stood at 57% in 2QFY26 (55% qoq). Management targets 60% VAP share, going forward.
- The gross debt decreased qoq by Rs2310 cr to Rs26430 cr (Rs28740 cr as of Q1FY26).

Negatives:

- Management expects coking coal cost to increase by US$6-7/ton qoq in Q3FY26.
- Balance sheet deterioration remains key risk.

Holding Period: 12 months

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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