CareEdge RATINGS

Steel Authority of India Limited

August 04, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	8,500.00 (Reduced from 9,983.75)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total bank facilities	**8,500.00 (₹ Eight thousand five hundred crore only)**		
Bonds	106.00 (Reduced from 1,120.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Bonds	1,455.00 (Reduced from 1,855.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Bonds	2,000.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Bonds	1,185.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Bonds	-	-	Withdrawn
Total long-term instruments	**4,746.00 (₹ Four thousand seven hundred forty-six crore only)**		
Fixed deposit	1,000.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Total medium-term instruments	**1,000.00 (₹ One thousand crore only)**		
Commercial paper	8,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**8,000.00 (₹ Eight thousand crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of Steel Authority of India Limited (SAIL) continue to derive strength from its 'Maharatna' status, with the majority ownership by the Government of India (GoI) and the company's established position as one of the largest integrated and diversified steel producers in India with access to captive iron ore mines, a long track record in the steel business, a strong distribution network, and modernisation initiatives undertaken by the company to make the operations cost-efficient. SAIL has undertaken accelerated deleveraging during FY22 (refers to the period from April 1 to March 31), which has been supported by its robust operating performance, marked by healthy profitability per tonne and growing sales volumes, thereby resulting in strong cash flows, which have been utilised to pay off the debt in line with the management's stated focus to deleverage. Resultantly, its leverage, debt coverage, and liquidity indicators have improved in FY22. CARE Ratings Limited (CARE Ratings) believes that going forward, the company shall maintain a strong financial risk profile as it is not undertaking any major expansion projects currently and free cash flows are expected to be deployed towards further debt reduction.

However, the company is expected to witness moderation in its operating performance during FY23 due to a reduction in the spreads in line with the tapering of the global steel industry upcycle in recent months, although sales volumes are likely to remain healthy on the back of a favourable domestic demand scenario. The ratings further continue to remain constrained by the susceptibility of the company's operating margins to the volatility in coking coal and steel prices, the competition from more efficient steelmakers, the large working capital requirements, regulatory risks, and the cyclicality inherent in the steel industry.

Furthermore, CARE Ratings has withdrawn the ratings to the bond issue of ₹72.0 crore, as the same has been fully redeemed.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustenance of strong operating performance, with profit before interest, lease rentals, depreciation and taxation (PBILDT) per tonne above ₹12,000 and sales volumes above 17 million tonne per annum (MTPA).
- Total debt (TD)/PBILDT below 1 on a sustained basis and a significant build-up of liquidity.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in sales volumes below 15.0 MT and PBILDT per tonne below ₹8,000 per tonne.
- Any large debt-funded capex, resulting in an overall gearing ratio above 1.0x on a sustained basis.
- GoI diluting its controlling stake in the company.

Detailed description of the key rating drivers

Key rating strengths

Strong parentage and Maharatna status: SAIL is the largest state-owned steel producer in India with a majority stake of 65% held by the GoI as on June 30, 2022. The company enjoys 'Maharatna' status, which imparts greater autonomy to central public sector enterprises (CPSEs) in their investment and capital expenditure (capex) decisions. Such a status also aims at facilitating the expansion of its operations both, in the domestic and global markets. The company also enjoys substantial financial flexibility due to government ownership and it has demonstrated the ability to raise funds at competitive rates.

Strong operating performance, backed by higher realisations: During FY22, the total operating income (TOI) increased significantly by 48% y-o-y, aided by higher sales volume and better sales realisations. The average sales realisation increased from ₹45,817 per MT to ₹63,656 per MT on the back of an increase in steel prices and a better product mix, besides benefits accruing from a higher share of production from cost-efficient methods. Furthermore, lower coking coal prices in H1FY22 led to an improvement in its PBILDT margin, from 18.6% in FY21 to 20.63% in FY22. The overall sales volumes grew by 8% to 16.15 MT in FY22 (PY: 14.94 MT) while the PBILDT per tonne increased to ₹13,216 per tonne in FY22 (PY: ₹9,068 per tonne). Furthermore, the profit-after-tax (PAT) margin of SAIL improved from 5.56% in FY21 to 11.61% in FY22 on account of reduced interest expenses, in line with the reduction in total debt and better-operating margins.

Sizeable deleveraging: With higher sales volumes, better sales realisations, and consequent generation of higher cash accruals, coupled with healthy cash flows from operations, the company has been able to reduce its total debt (including acceptances of Rs. 10000 crore) considerably to ₹32,000 crore as on June 30, 2022 (₹29,363 crore as on March 31, 2022; ₹40,794 crore as on March 31, 2021). The continuous reduction in debt and accretion of profits to net worth has also led to an improved overall gearing of 0.30x as on March 31, 2022 (PY: 0.82x). The interest coverage ratio and the TD/PBILDT ratio of the company improved significantly, to 12.57x and 1.3x as on March 31, 2022 (PY: 4.57x and 3.2x, respectively), on account of its higher operating profits and reduced interest expenses in line with debt reduction. Going forward, CARE Ratings expects the company's deleveraging to continue on the back of the generation of healthy free cash flows in the absence of any major debt-funded capex plans.

Geographically-diversified operations and rising emphasis on value-added products: SAIL owns and operates five integrated steel plants, viz, Bhilai Steel Plant (BSP), Durgapur Steel Plant (DSP), Rourkela Steel Plant (RSP), Bokaro Steel Plant (BSL), and IISCO Steel Plant (ISP). The company also has three special steel plants, ie, Durgapur Alloy Steel Plant, Salem Steel Plant, and Visvesvaraya Iron & Steel Plant. The product portfolio for SAIL includes a variety of products, viz, hot-rolled (HR) coils, cold-rolled (CR) coils, perforated metal (PM) plates, rounds, bars, wire rods, and rails, etc. These products find applications in industries including construction, engineering, power, railways, automotive, consumer durables, and defence. During FY22, the company produced 8.25 MT tonne (PY: 6.40 MT) of value-added steel, which contributed to 51.10% of the total saleable steel production in FY22 (PY:46.70%), whereas the balance pertained to commoditised steel products and semis. Moreover, the company increased its share of production of cost-efficient con-cast methods to 99% in FY22, from 97% in FY21 and 90% in FY20, reaping the benefits of its modernisation initiatives undertaken over the years.

Sizeable scale and integrated operations: SAIL is one of the largest integrated steel producers in India, with a crude steel capacity of 19.63 MTPA as on June 30, 2022, and has a high degree of vertical integration, since its entire requirement of iron ore is met from captive iron ore mines. The company also procures a very small quantity of coking coal from its captive mines, namely, the Chasnala and Jitpur mines. However, it is dependent on external sources for its coking coal requirements, with more than 95% being imported from Australia, the US, and New Zealand, and its joint venture (JV) with NTPC-International Coal Ventures Pvt Ltd (ICVL, Mozambique), while in the domestic market, its major supplier is Coal India Limited (CIL) and the latter's different subsidiaries. SAIL mined a total of 31.04 MT of steelmaking minerals (mainly iron ore) during FY22 (FY21: 30.06 MT). Furthermore, the company is undertaking expansion of its iron ore mines under its modernisation and expansion (M&E) project, which will ensure the availability of captive iron ore for its current and future capacities.

Strong marketing network: The company has a strong central marketing organisation (CMO), which is responsible for marketing of the company's steel products, including carbon and alloy steel. The company's CMO consists of a network of four regional offices, 37 branch sales offices (BSOs), 10 customer contact offices (CCOs), and 43 operational warehouses (23 departmental and 20 consignment agents yards) across India, equipped with mechanised material handling systems. Furthermore, the company has a dealer network of more than 2,300 dealers as on March 31, 2022, including close to 1,000 rural dealers spread across the country, with a presence across all major districts of the country. However, the company has a relatively lower presence in export markets, which contributed only 6.8% to the total sales in FY22 (PY: 9.6%), contrary to major private steel producers that had substantially higher exports in FY22 in the backdrop of the buoyancy in global steel prices.

Liquidity: Strong
The liquidity of SAIL remains strong, with free cash and cash equivalents and bank balances of ₹641 crore as on March 31, 2022. Furthermore, the company had unutilised fund-based facilities of ₹10,000 crore as on May 31, 2022. It is expected to earn sufficiently healthy cash accruals to take care of its scheduled term debt repayments of ₹1,293 crore in FY23. SAIL further derives financial flexibility from its low gearing ratio and parentage of the GoI, which provides it easy access to funds at attractive rates. The company does not have any firm expansion plans or acquisition plans and its maintenance or sustenance capex of nearly ₹4,000 crore annually will be funded largely through internal accruals.

Key rating weaknesses
Susceptibility of the operating margins to volatility in input costs: The prices of SAIL's key raw materials – iron ore and coking coal – have shown a volatile trend over the years. Although the entire iron ore requirement is met from captive mines, the coking coal requirement is largely met through imports, which have shown volatility in prices, thus impacting the company's margins over the years. Also, being a limited exporter, the company remains exposed to foreign currency fluctuation risks on its coking coal imports, albeit the risk is somewhat mitigated due to the import parity pricing prevalent in the domestic steel industry. Furthermore, SAIL's relatively higher overheads and lower productivity vis-à-vis other integrated steel players have also led to suppressed profitability in the past, though the company is taking initiatives to become more cost-efficient.

Working capital-intensive operations: Being an integrated player with captive mines, the company had substantial inventories, although it reduced to 87 days in FY22 (PY: 137 days) amid destocking, aided by a better demand scenario. Its collection period also improved from 45 days in FY21 to 23 days in FY22, supported by better collection, particularly the recovery of dues from the Indian Railways. However, the company reported a certain increase in its creditor's period due to the increase in coking coal prices towards the end of the year. As a result, the working capital cycle of the company improved significantly, from 136 days in FY21 to 56 days in FY22.

Cyclicality inherent in the steel industry: The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates, and seasonal changes in the demand and supply conditions in the market. Apart from the demand-side fluctuations, the highly capital-intensive nature of steel projects, along with the inordinate delays in completion, hinders the responsiveness of the supply-side to demand movements. This results in several steel projects bunching up and coming on stream simultaneously, leading to a demand-supply mismatch, which has a bearing on volumes and prices. However, for manufacturers like SAIL, the presence across the value chain and a higher share of value-added products, provide better protection against the cyclicality and related fluctuations in prices of commoditised steel products.

Regulatory risk: The GoI has recently announced the imposition of export duty on iron ore, pellets, and a few steel and steel intermediaries on May 20, 2022. In the case of iron ore, the duty has been raised to 50% in all categories, up from 30% that was on lumps above 58% iron content. In the case of iron ore pellets, a 45% duty has been imposed, which earlier did not attract export duty. In the case of other classes of steel and intermediaries, a 15% export duty has been imposed wef May 22, 2022. On the other hand, the government has reduced import duty on coking coal and anthracite coal to 0% from 2.5%, and on coke and semi-coke to 0% from 5%, to reduce the cost of domestic production of steel products. With the imposition of export duty on various steel products, exports have become less remunerative for Indian players. Although SAIL's major revenues are from the domestic markets (93.2% in FY22), the imposition of duty will lead to a higher supply in the domestic market, which might impact the domestic prices as well.

Industry analysis and prospects: The domestic steel industry's production and consumption grew by 18.1% and 11.4%, respectively, on a y-o-y basis in FY22. Steel exports remained robust for the third straight year and increased by 25.1% during FY22, after recording a growth of 29.1% in FY21 and 31.4% in FY20. International factors such as environmental concerns surrounding China's steel industry, an uptrend in global steel prices, and higher demand from European nations led to increased shipments from India. In the current fiscal year also, domestic steel consumption has grown by 10.8% on a y-o-y basis during the period from April-June 2022. Going forward, domestic steel demand is likely to grow in high single digits, backed by various measures such as the increase in government capex by 36% y-o-y to ₹7.5 lakh crore in the Union Budget 2022-23; infrastructure push towards seven growth engines – roads, railways, airports, ports, mass transport, waterways, and logistic infra; the Pradhan Mantri Awas Yojana (PMAY) scheme; and the Jal Jeevan Mission. Apart from these, a revival in economic activities will also support domestic steel consumption and will aid steel production in India. However, there has been a moderation in steel prices both, globally and domestically, which shall result in the normalisation of high spreads witnessed over the past couple of years.

Analytical approach
Standalone, along with factoring in government notching as per CARE Ratings' criteria on factoring linkages-government support.

Applicable criteria
Policy on Default Recognition
Factoring linkages government support
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch
Short-term instruments
Manufacturing companies
Policy on Withdrawal of Ratings
Rating methodology – Steel industry

About the company
SAIL was promoted in 1973 by the GoI as a holding company to bring companies producing steel and related products under one umbrella. The company is an integrated iron and steel maker, producing both, carbon and special steel, for industries like construction, engineering, power, railway, automotive, consumer durables, defence, etc. At present, SAIL owns and operates five integrated steel plants, viz, Bhilai Steel Plant (BSP), Durgapur Steel Plant (DSP), Rourkela Steel Plant (RSP), Bokaro Steel Plant (BSL) and IISCO Steel Plant (ISP). The company also has three special steel plants, ie, Alloy Steel Plant, Salem Steel Plant, and Visvesvaraya Iron & Steel Plant. SAIL is one of the largest steelmakers in India, with crude steel and saleable steel capacities stood at 19.63 MTPA and 18.54 MTPA, respectively, as on June 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)*
TOI	69,886	103,473	NA
PBILDT	13,544	21,344	NA
PAT	3,850	12,015	NA
Overall gearing (times)	0.82	0.30	NA
Interest coverage (times)	4.57	12.57	NA

A: Audited; *not yet announced, hence not applicable.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	October 06, 2030	8,500.00	CARE AA; Stable
Bonds	INE114A07513 INE114A07604 INE114A07612 INE114A07620 INE114A07638	August 11, 2009	8.80% p.a.	October 26, 2025	106.00	CARE AA; Stable
Bonds	INE114A07828 INE114A07778	November 19, 2009	8.65% p.a	February 01, 2020	0.00	Withdrawn
Bonds	INE114A07729 INE114A07869	April 23, 2010	9.35% p.a.	October 14, 2024	1,455.00	CARE AA; Stable
Bonds	INE114A07950 INE114A07968	August 01, 2016	8.30% p.a.	August 03, 2023	2,000.00	CARE AA; Stable
Bonds	INE114A07943	January 21, 2015	8.35% p.a.	November 19, 2022	1,185.00	CARE AA; Stable
Fixed deposit		Proposed	-	-	1,000.00	CARE AA; Stable
Commercial paper-Commercial paper (standalone)*	-	-	-	7 days to 364 days	8,000.00	CARE A1+

*no outstanding.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fixed deposit	LT	1,000.00	CARE AA; Stable	-	1)CARE AA; Stable (August 05, 2021)	1)CARE AA-; Negative (October 07, 2020) 2)CARE AA-; Negative (April 06, 2020)	1)CARE AA-; Stable (October 04, 2019)
2.	Bonds	LT	106.00	CARE AA; Stable	-	1)CARE AA; Stable (August 05, 2021)	1)CARE AA-; Negative (October 07, 2020) 2)CARE AA-; Negative (April 06, 2020)	1)CARE AA-; Stable (October 04, 2019)
3.	Commercial paper-Commercial paper (standalone)	ST	8,000.00	CARE A1+	-	1)CARE A1+ (August 05, 2021)	1)CARE A1+ (October 07, 2020)	1)CARE A1+ (October 04, 2019)

							2)CARE A1+ (April 06, 2020)	
4.	Bonds	LT	-	-	-	1)CARE AA; Stable (August 05, 2021)	1)CARE AA-; Negative (October 07, 2020) 2)CARE AA-; Negative (April 06, 2020)	1)CARE AA-; Stable (October 04, 2019)
5.	Bonds	LT	1,455.00	CARE AA; Stable	-	1)CARE AA; Stable (August 05, 2021)	1)CARE AA-; Negative (October 07, 2020) 2)CARE AA-; Negative (April 06, 2020)	1)CARE AA-; Stable (October 04, 2019)
6.	Bonds	LT	2,000.00	CARE AA; Stable	-	1)CARE AA; Stable (August 05, 2021)	1)CARE AA-; Negative (October 07, 2020) 2)CARE AA-; Negative (April 06, 2020)	1)CARE AA-; Stable (October 04, 2019)
7.	Bonds	LT	1,185.00	CARE AA; Stable	-	1)CARE AA; Stable (August 05, 2021)	1)CARE AA-; Negative (October 07, 2020) 2)CARE AA-; Negative (April 06, 2020)	1)CARE AA-; Stable (October 04, 2019)
8.	Fund-based - LT-Term loan	LT	8,500.00	CARE AA; Stable	-	1)CARE AA; Stable (August 05, 2021)	1)CARE AA-; Negative (October 07, 2020) 2)CARE AA-; Negative (April 06, 2020)	1)CARE AA-; Stable (October 04, 2019)

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	NA
B. Non-financial covenants	NA

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Bonds	Simple
2.	Commercial paper-Commercial paper (standalone)	Simple
3.	Fixed deposit	Simple
4.	Fund-based - LT-Term loan	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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