

Steel Authority of India Limited (Revised)

August 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	9,983.75 (Reduced from 30,000.00)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)
Total Bank Facilities	9,983.75 (Rs. Nine Thousand Nine Hundred Eighty-Three Crore and Seventy-Five Lakhs Only)		
Long Term Long Term Instruments	1,120.00 (Reduced from 1,134.00)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)
Long Term Long Term Instruments	72.00 (Reduced from 144.00)	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)
Long Term Long Term Instruments	1,855.00	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)
Long Term Long Term Instruments	2,000.00	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)
Long Term Long Term Instruments	1,185.00	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)
Total Long Term Instruments	6,232.00 (Rs. Six Thousand Two Hundred Thirty-Two Crore Only)		
Fixed Deposit	1,000.00	CARE AA; Stable (Double A; Outlook: Stable)	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Total Medium Term Instruments	1,000.00 (Rs. One Thousand Crore Only)		
Commercial Paper	8,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	8,000.00 (Rs. Eight Thousand Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities/debt instruments of Steel Authority of India Limited (SAIL) factors in significant deleveraging of the company's financial risk profile attributed to repayments and prepayments of its debt and resultant improvement in gearing, debt metrics and liquidity position. The company's faster-than-expected deleveraging has been supported by strong operating performance marked by significantly higher-than-envisaged profitability per tonne and healthy sales volumes thereby resulting in strong cash flows which has been utilized to pay off debts in view of the management's focus to deleverage. CARE believes that, going forward, the company shall continue to report healthy sales volumes and spreads in the absence of any immediate signs of abatement of the industry upcycle, and hence it shall continue to deleverage further in the short to medium term. The ratings continue to derive strength from SAIL's 'Maharatna' status with 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 captive iron ore mines, long track record in steel business, strong distribution network and modernization initiatives undertaken by the company to make the operations cost-efficient. The ratings, however, continue to remain constrained by the susceptibility of the company's operating margins to volatility in coking coal and steel prices, competition from more efficient steelmakers, large working capital requirements and the cyclical nature inherent in the steel industry.

Rating Sensitivities

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

- Sustenance of strong operating performance with PBILDT per tonne above Rs.12,000 and volumes above 17 MTPA.
- Sustained improvement in overall gearing to below 0.50x and total debt/PBILDT below 1.50x .

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

- Decline in sales volumes below 15.0 MT and PBILTD per tonne below Rs. 9, 000 per tonne.
- Any significantly larger than the envisaged increase in working capital requirements or debt-funded capex deteriorating gearing beyond 1.0x.
- Higher than envisaged dividend payout resulting in weaker liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Strong operating performance backed by higher realizations: During FY21 (refers to the period from April 1 to March 31), the total operating income increased by 12% y-o-y aided by higher sales volume and

better sales realizations. The average sales realization increased from Rs. 39,706 per MT to Rs. 42,541 per MT on the back of an increase in steel prices and a better product mix, besides benefits accruing from higher share of production from cost efficient methods. Further, lower coking coal prices and decrease in power and fuel cost led to an improvement in operating profit margin from 17.6% in FY20 to 19.38% in FY21 despite the impact of covid-19 in H1FY21 (refers to the period from April 1 to September 30). The overall sales volumes remained 5% higher at 14.94 MT in FY21 (PY: 14.23 MTs) while PBILDT per tonne increased to Rs. 9,068 per tonne in FY21 (PY: Rs. 7,718 per tonne). Furthermore, the PAT margin of SAIL also improved from 3.24% in FY20 to 5.51% in FY21 on account of reduced interest expense in line with the reduction in total debt. Going forward, CARE expects the company to maintain healthy PBILDT per tonne aided by strong demand, firm realizations, improving product mix and the company's better ability to withstand fluctuation in raw material price as it has captive mines for iron ore.

Sizeable deleveraging: With higher sales volume, better sales realization and consequent generation of higher cash accruals coupled with healthy cash flow from operations, the company has been able to reduce its total debt (including acceptances) considerably to Rs. 35,585 crore as on June 30, 2021 (Rs. 40,767 crore as on March 31, 2021; Rs. 56,943 crore as on March 31, 2020). The continuous reduction in debt and accretion of profits to net worth has also led to improved overall gearing of 0.97x as on March 31, 2021 (PY: 1.49x). The interest coverage ratio and the total debt-to-PBILDT ratio of the company improved significantly to 4.81x and 3.01x as on March 31, 2021 (PY: 3.15x and 5.18x respectively) on account of its higher operating profit and reduced interest expense in line with the debt reduction. Going forward, CARE 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 i.e. Durgapur Alloys 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, rails etc. These products find applications in industries including construction, engineering, power, railways, automotive, consumer durables, and defence. During FY21, the company produced 6.82 million tonnes (PT: 6.40 MT) of value-added steel which contributed to 46.74% of the total saleable steel production in FY21 (PY:42.39%) whereas the balance pertained to commoditized steel products and semis.

Strong parentage and Maharatna status: SAIL is one of the largest state-owned steel producers in India with a majority stake held by the Government of India (GoI). GoI holds 65% stake in the company as on June 30, 2021. The company enjoys 'Maharatna' status that imparts greater autonomy to central public sector enterprises (CPSEs) in their investment and capital expenditure decisions. Such a status also aims at facilitating the expansion of its operations both in the domestic and global markets. SAIL also enjoys substantial financial flexibility due to Government ownership and it has demonstrated the ability to raise funds at competitive rates.

Sizable scale and integrated operations: SAIL is one of the largest integrated steel producers in India with a crude steel capacity of 19.63 million tonnes per annum (MTPA) as on June 30, 2021 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, USA, New Zealand and its joint venture with NTPC –

International Coal Ventures Pvt Ltd (ICVL, Mozambique), while in the domestic market, its major supplier is Coal India Ltd through its different subsidiaries. SAIL mined a total of 30.06 million tonnes of steel-making minerals (mainly iron ore) during FY21 (FY20: 29.28 MT). Further, the company is under an expansion of its iron ore mines under its M&E project which will ensure availability of captive iron ore for current and future capacities.

Strong marketing network: The company has a strong central marketing organization (CMO) which is responsible for the marketing of the company's steel products including carbon and alloy steel. The company's CMO consists of a network of 4 regional offices, 37 Branch Sales Offices (BSOs), 10 Customer Contact Offices (CCOs), and 43 Operational Warehouses (23 Departmental & 20 Consignment Agents yards) across India equipped with mechanized material handling systems. Furthermore, the company has a dealer network of more than 2,300 dealers as on March 31, 2021, including close to 1,000 rural dealers spread across the country with a presence across all districts of the country.

Key Rating Weaknesses

Susceptibility of the operating margins to volatility in input cost: 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 impacting the company's margins over the years. Further, SAIL's relatively higher overheads and lower productivity vis-à-vis other integrated steel players has also led to suppressed profitability. However, with the recent increase in cost of coking coal, the company has the flexibility to change its raw material mix and can use pulverized coal injections which is one-third the cost of hard coking coal.

Working capital intensive operations: The working capital cycle of the company improved from 158 days in FY20 to 136 days in FY21 primarily on account of liquidation of inventory and healthy realization from debtors. While Railways is a GoI entity and there is limited counterparty risk, an increase in business with Railways has meant a higher working capital cycle for the company. However, the liquidity risks are mitigated with nearly 60% un-utilized working capital limits with the company for the 12 months trailing ended May, 2021.

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 the 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 demand-supply mismatch which has a bearing on volumes and prices. However, for manufacturers SAIL, the pervasive presence across the value chain and a higher share of value-added products, provide better protection against cyclicality and related fluctuations in prices of commoditized steel products.

Risks related to ongoing modernization and expansion (M&E) plan: SAIL is currently implementing a modernization & expansion plan (M&E) (including mine development) with a total estimated cost of Rs. 85,928 crore (including input tax credit). The M&E plan entails enhancing the overall production capacity from 12.8 MTPA to 21.4 MTPA of saleable steel. Till June 30, 2021, SAIL has incurred a cumulative expenditure of Rs. 72,955 crore (including on mine development) and the same has been financed by debt to the extent of Rs. 31,109 crore and the balance through internal accruals of the company. As on June 30, 2021, the installed capacity of crude steel and saleable steel stood at 19.63 MT and 18.54 MT

respectively. The company has budgeted a capex of Rs. 6,000 crore on M&E and ongoing expansion plans in FY21. The ongoing M&E plan of SAIL exposes the company to project execution and funding-related risks. However, the company's strong financial flexibility and superior resource raising capabilities mitigate such risks to some extent.

Liquidity: Strong

SAIL's liquidity position improved and stood strong marked by healthy cash accruals of Rs. 10,972 crore during FY21 (PY: Rs. 6,706 crore) and free cash and cash equivalent of ~Rs 468 crore as on March 31, 2021. The company expects gross cash accruals of ~Rs. 13,959 crore against scheduled debt repayment obligation of Rs. 2,100 crore in FY22. Working capital cycle of the company remained well managed resulting in healthy cash flow from operations. Average fund based working capital utilization of the company stood low at ~40% for the trailing 12 months ended May, 2021.

Analytical approach: Standalone after factoring in government notching as per CARE's criteria on factoring linkages-government support.

Applicable Criteria

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Steel Industry](#)

[Liquidity Analysis of Non - Financial Sector Entities](#)

[Factoring Linkages Government Support](#)

About the Company

SAIL was promoted in 1973 by the Government of India (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 i.e. Alloy Steel Plant, Salem Steel Plant and Visvesvaraya Iron & Steel Plant. SAIL is one of the largest steel maker in India with crude steel and saleable steel capacities stood at 19.63 Million Tonnes Per Annum (MTPA) and 18.54 MTPA as on June 30, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	62,393	69,886
PBILDT	10,983	13,544
PAT	2,022	3,850
Overall gearing (times)	1.49	0.97
Interest coverage (times)	3.15	4.81

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	December, 2030	9983.75	CARE AA; Stable
Bonds	INE114A07471 INE114A07489 INE114A07513 INE114A07596 INE114A07604 INE114A07612 INE114A07620 INE114A07638	August 11, 2009	8.80% p.a.	October 26, 2025	1120.00	CARE AA; Stable
Bonds	INE114A07828 INE114A07778	May 25, 2012	9.30% p.a.	May 25, 2022	72.00	CARE AA; Stable
Bonds	INE114A07711 INE114A07729 INE114A07869	April 23, 2011	9.35% p.a.	September 09, 2026	1855.00	CARE AA; Stable
Bonds	INE114A07950 INE114A07968	August 01, 2016	8.30% p.a.	August 03, 2023	2000.00	CARE AA; Stable
Bonds	INE114A07943	November 19, 2015	8.35% p.a.	November 19, 2022	1185.00	CARE AA; Stable
Fixed Deposit		-	-	-	1000.00	CARE AA; Stable
Commercial Paper-Commercial Paper (Standalone)		-	-	7 days to 364 days	8000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fixed Deposit	LT	1000.00	CARE AA; Stable	-	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)
2.	Bonds	LT	1120.00	CARE AA; Stable	-	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)
3.	Commercial Paper- Commercial Paper (Standalone)	ST	8000.00	CARE A1+	-	1)CARE A1+ (07-Oct-20) 2)CARE A1+ (06-Apr-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (04-Oct-18)
4.	Bonds	LT	72.00	CARE AA; Stable	-	1)CARE AA-; Negative (07-Oct-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)

						2)CARE AA-; Negative (06-Apr-20)		
5.	Bonds	LT	1855.00	CARE AA; Stable	-	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)
6.	Bonds	LT	2000.00	CARE AA; Stable	-	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)
7.	Bonds	LT	1185.00	CARE AA; Stable	-	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)
8.	Fund-based - LT-Term Loan	LT	9983.75	CARE AA; Stable	-	1)CARE AA-; Negative (07-Oct-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (08-Mar-19)

						2)CARE AA-; Negative (06-Apr- 20)		
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Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA
Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds	Simple
2.	Commercial Paper-Commercial Paper (Standalone)	Simple
3.	Fixed Deposit	Simple
4.	Fund-based - LT-Term Loan	Simple

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

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