Steel Authority of India Limited

October 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	10,500.00 (Enhanced from 8,500.00)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	35,000.00 (Enhanced from 30,000.00)	CARE A1+	Reaffirmed
Bonds	92.00	CARE AA; Stable	Reaffirmed
Bonds	1,000.00 (Reduced from 1,455.00)	CARE AA; Stable	Reaffirmed
Bonds	-	-	Withdrawn
Fixed deposit	1,000.00	CARE AA; Stable	Reaffirmed
Commercial paper	8,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Steel Authority of India Limited (SAIL) continues to derive strength from its 'Maharatna' status, with the majority ownership by the Government of India (GoI). As on June 30, 2023, the GoI holds 65% shareholding in SAIL.

The ratings further derive comfort from the company's established position as one of the largest integrated and diversified steel producers in India with access to captive iron ore mines and the long track record of operations with a strong distribution network and modernisation initiatives undertaken by the company to make the operations cost-efficient. Furthermore, the modernisation initiatives have resulted into an improved operating rate for the company with higher sales of value-added products, leading to overall increase in the sales volumes.

During FY23 (FY refers to the period from April 1 to March 31), SAIL's profitability was impacted due to high input costs, especially coking coal. Although the company is completely self-sufficient in its iron ore requirements, it continues to import 95% of its coking coal requirement, with negligible share from its captive coking coal mines, which further exposes SAIL to foreign exchange fluctuation losses.

Going forward, while raw material prices are expected to continue to remain volatile, CARE Ratings Limited (CARE Ratings) believes that domestic steel players are better placed to partially pass on the increase in the raw material prices and record higher saleable steel volumes owing to strong domestic demand and improving exports volumes post removal of the export duty in November 2022.

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.

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

CARE Ratings has withdrawn the ratings to the bond issue (ISIN: INE114A07950, INE114A07968 and INE114A07729) of total ₹2,455.00 crore, as the issues were fully redeemed.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Sustenance of strong operating performance with the profit before interest, lease rentals, depreciation and taxation (PBILDT) per tonne above ₹12,000 and sales volumes above 17 million tonnes.
- Total debt (TD)/PBILDT below 1.00x on a sustained basis and significant build-up of liquidity.

Negative factors

- Decline in the sales volumes below 15.0 million tonne (MT) and PBILDT per tonne below ₹7,000 per tonne on a sustained basis.
- Any large debt-funded capex, resulting in an overall gearing ratio above 1.00x.
- The GoI diluting its controlling stake in the company.

Analytical approach: Standalone

CARE Ratings has considered the standalone approach, factoring in the government notching as per CARE Ratings' criteria on 'Factoring linkages-government support'.

Outlook: Stable

The stable outlook reflects that the rated entity is likely to maintain its strong market position, which, coupled with the favourable demand scenario in the domestic market, will enable it to sustain its healthy business risk profile over the short to medium term.

Detailed description of the key rating drivers

Key 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, 2023. The company enjoys the '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. CARE Ratings notes that the company also enjoys substantial financial flexibility due to government ownership and has demonstrated the ability to raise funds at competitive rates.

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 FY23, the company produced 9.14 MT tonne (FY22: 8.63 MT) of value-added steel, which contributed to 52.70% of the total saleable steel production in FY23 (FY22: 51.10%), whereas the balance pertained to commoditised steel products and semis.

Moreover, historically, the company has increased its share of production of cost-efficient con-cast methods to 99.00% in FY23, from 98.86% in FY22, 96.90% in FY21, and 90.40% in FY20, reaping the benefits of its modernisation initiatives undertaken over the years.

Strong marketing network

SAIL has a central marketing organisation (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 four regional offices and 11 distributors each from the eastern and southern regions of India and 10 distributors each from the northern and western regions of India.

SAIL has 37 branch offices and 37 warehouses in India. Furthermore, it has 14 conversion agents and three wet leasing agents. Furthermore, the company has a dealer network of around 4,842 dealers as on March 31, 2023, including close to 1,000 rural dealers spread across the country with a presence across all districts of the country. The CMO's domestic marketing effort is supplemented by its ever-widening network of rural dealers who meet the demands of the smallest customers in the remote corners of the country. In addition to this, the company has 38 Tier-I distributors as on March 31, 2023.

SAIL's wide marketing network ensures the availability of quality steel in virtually all districts of the country. The CMO also has an international trade division that caters to the customised requirements of the international customers.

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 March 31, 2023, and has a high degree of vertical integration, since its entire requirement of iron ore is met from captive iron ore mines.

The company procures only 5% of its total quantity requirement of coking coal from its captive mines, namely, the Chasnala and Jitpur mines. However, it is dependent on external sources for its remaining 95% of coking coal requirements, which is imported from Australia, the US, and New Zealand, and its joint venture (JV) with NTPC-International Coal Ventures Private Limited (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 35.59 MT of steelmaking minerals (mainly iron ore) during FY23 (FY21: 31.04 MT).

Furthermore, the company is undertaking the 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.

Operating performance

During FY23, although the steel prices normalised in comparison to FY22, the total operating income (TOI) remained stagnant on a y-o-y basis at ₹1.04 lakh crore, aided by better sales realisations. The average sales realisation increased from ₹59,353 per metric tonne to ₹60,921 per metric tonne on the back of a better product mix, besides benefits accruing from a higher share of production from cost-efficient methods. Furthermore, higher coking coal prices in FY23 led to a downfall in its PBILDT margin, from 20.63% in FY22 to 7.69% in FY23.

The overall sales volumes showed a minute growth of 0.3% from 16.15 MT in FY22 to 16.20 MT in FY23 while the PBILDT per tonne decreased from ₹13,216 per tonne in FY22 to ₹4,959 in FY23. Furthermore, the profit-after-tax (PAT) margin of SAIL decreased drastically from 11.61% in FY22 to 1.82% in FY23 on account of higher cost of productions, especially coking coal and foreign exchange fluctuations (FY23: ₹963 crore as against FY22: ₹216 crore).

Projected capex

SAIL has a plan to expand its capacity to more than 32 MTPA by FY31-32. Furthermore, the company also plans to enhance its existing capacity with process and operating efficiencies. To achieve the same, SAIL has projected to incur a total capex of ₹1 lakh crore, expected to be funded with debt to internal accruals/equity ratio of 1:1. Majority of the capex will be undertaken in FY27 and FY28.

Key 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 (around 95%) through imports, which have shown volatility in prices, thus impacting the company's margins over the years. Also, being a limited exporter, SAIL 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, although 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, 96 days in FY23 as compared with 87 days in FY22. Its collection period also improved from 23 days in FY22 to 18 days in FY23, 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 from 55 days in FY22 to 58 days in FY23. As a result, the working capital cycle of the company stayed stagnant at 56 days in FY23.

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 provides better protection against the cyclicality and related fluctuations in the prices of commoditised steel products.

Commodity risks

Commodities are essential inputs to the manufacturing of steel; they have global supply chains, and their prices get significantly impacted by various factors, such as geo-political landscape, supply-demand imbalance, weather patterns, policy interventions by governments in key sourcing and consuming countries (especially China), increasing financialisaton of commodities markets, etc. FY23 continued to witness high volatility in the raw material segment, especially in the coal market owing to the elongated La Nina Phenomenon and the impact of the Russia-Ukraine war. The Bureau of Meteorology, Australia, has announced the end of La Nina in March 2023, which will ease up the constrains on the production front in one of the biggest sellers of coking coal. However, with the emergence of China, the possibility of spot trades will minimise the supply-demand gap.

Increase in short-term debt.

The unsecured short-term debt levels for SAIL were higher in FY23 (₹13,550 crore) in comparison with FY22 (₹650 crore). In FY23, the coking coal prices had hit a historical high of around US$ 600 per tonne and falling to below US$ 200 per tonne within a span of six months. Currently, the coking coal prices are normalising. However, if the coking coal prices continue to reduce, CARE Ratings expects the short-term debt to be reduced from FY24 onwards.

Liquidity: Strong

The liquidity of SAIL remains strong, with free cash and cash equivalents and bank balances of ₹398 crore as on March 31, 2023. Furthermore, SAIL is expected to earn sufficiently healthy cash accruals to take care of its scheduled term debt repayments of ₹2,496 crore in FY24. The capex during FY24 is expected to be funded through internal accruals. 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 has largely not unutilised its fund-based bank lines of ₹10,000 crore in the past year. The limits are more than adequate to meet its incremental working capital needs over the next one year.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks

Parameter	Compliance and action by the company
Environment	• SAIL is certified with ISO 9000:2015 (quality management systems), ISO 14001:2015 (environmental management systems), SA 8000:2014 (social accountability), and ISO 45001:2018 (occupational health and safety management systems). • SAIL measures and reports on greenhouse gas (GHG) emissions as per the WSA methodology and is also a Climate Action member. • It has voluntarily subscribed to the action points defined under the Charter on Corporate Responsibility for Environmental Protection (CREP), an MOEF&CC initiative. • It is a winner of the 'Golden Peacock Environment Management Award - 2021' in the steel sector. • It is the third joint winner of the coveted 3rd National Water Award 2020 in the 'Best Industry' Category for showcasing work and efforts towards water conservation. • Winner of the '21st Annual Greentech Environment & Sustainability Award 2021'. • ENCON Award 2021 for Energy Conservation to multiple units for achieving over 4.25-star energy rating.
Social	• SAIL's business policies and actions are aligned with the 10 universal principles of the UN Global Compact towards human rights, labour, environment, and anti-corruption. • SAIL uses numerous modes to engage with both, its internal and external stakeholders in a constructive manner and to capture their expectations. Interaction with suppliers allows the company to recognise focus areas and strengthen relationships with them. Customer satisfaction index and employee satisfaction are few of the metrics methodologies adopted to gauge and quantify stakeholder feedback.
Governance	• Despite 65% stake owned by GoI, SAIL, by virtue of its 'Maharatna' status, enjoys significant operational and financial autonomy. The Board of Directors comprises of one chairman, seven wholetime directors and eight non-executive directors (consisting of two government nominee directors and six independent directors). • SAIL has formulated various policies, which ensures transparency, accountability, disclosures, and reporting. Policies on anti-bribery management, MOU, enterprise risk management, CSR, safety, quality, corporate environment, occupational health and safety, energy management and social accountability and sustainable development are in place, in line with the requirement.

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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals and mining	Ferrous metals	Iron and steel

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 March 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	103,473.40	104,447.36	24,800
PBILDT	21,343.86	8,031.59	2,090
PAT	12,015.04	1,903.07	150
Overall gearing (times)	0.58	0.80	-
Interest coverage (times)	12.57	3.94	3.41

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds	INE114A07869	23-04-2010	9.35% p.a.	14-Oct-2024	1000.00	CARE AA; Stable
Bonds	INE114A07950	01-Aug-2016	8.30% p.a.	03-Aug-2023	0.00	Withdrawn
Bonds	INE114A07968	01-Aug-2016	8.30% p.a.	03-Aug-2023	0.00	Withdrawn
Bonds	INE114A07513	15-Sep-2009	8.75% p.a.	09-Sep-2026	50.00	CARE AA; Stable
Bonds	INE114A07612	26-Oct-2009	8.80% p.a.	26-Oct-2023	14.00	CARE AA; Stable

Bonds	INE114A07620	26-Oct-2009	8.80% p.a.	26-Oct-2024	14.00	CARE AA; Stable
Bonds	INE114A07638	26- Oct -2009	8.80% p.a.	26-Oct-2025	14.00	CARE AA; Stable
Commercial paper-Commercial paper (Standalone)	-	Proposed	-	7-365 days	8000.00	CARE A1+
Fixed deposit		-	-	-	1000.00	CARE AA; Stable
Fund-based - LT-Term loan		-	-	31-Mar-2032	10500.00	CARE AA; Stable
Fund-based - ST-Working capital limits		-	-	-	35000.00	CARE A1+

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 2023-2024	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
1	Fixed deposit	LT	1000.00	CARE AA; Stable	1)CARE AA; Stable (03-Aug-23)	1)CARE AA; Stable (04-Aug-22)	1)CARE AA; Stable (05-Aug-21)	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)
2	Bonds	LT	92.00	CARE AA; Stable	1)CARE AA; Stable (03-Aug-23)	1)CARE AA; Stable (04-Aug-22)	1)CARE AA; Stable (05-Aug-21)	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)
3	Commercial paper-Commercial paper (Standalone)	ST	8000.00	CARE A1+	1)CARE A1+ (03-Aug-23)	1)CARE A1+ (04-Aug-22)	1)CARE A1+ (05-Aug-21)	1)CARE A1+ (07-Oct-20)

								2)CARE A1+ (06-Apr-20)
4	Bonds	LT	-	-	-	1)Withdrawn (04-Aug-22)	1)CARE AA; Stable (05-Aug-21)	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)
5	Bonds	LT	1000.00	CARE AA; Stable	1)CARE AA; Stable (03-Aug-23)	1)CARE AA; Stable (04-Aug-22)	1)CARE AA; Stable (05-Aug-21)	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)
6	Bonds	LT	-	-	1)CARE AA; Stable (03-Aug-23)	1)CARE AA; Stable (04-Aug-22)	1)CARE AA; Stable (05-Aug-21)	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)
7	Bonds	LT	-	-	1)Withdrawn (06-Apr-23)	1)CARE AA; Stable (04-Aug-22)	1)CARE AA; Stable (05-Aug-21)	1)CARE AA-; Negative (07-Oct-20) 2)CARE AA-; Negative (06-Apr-20)
8	Fund-based - LT-Term loan	LT	10500.00	CARE AA; Stable	1)CARE AA; Stable (03-Aug-23) 2)CARE AA; Stable (06-Apr-23)	1)CARE AA; Stable (04-Aug-22)	1)CARE AA; Stable (05-Aug-21)	1)CARE AA-; Negative (07-Oct-20)

								2)CARE AA-; Negative (06-Apr-20)
9	Fund-based - ST-Working capital limits	ST	35000.00	CARE A1+	1)CARE A1+ (03-Aug-23) 2)CARE A1+ (06-Apr-23)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

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
5	Fund-based - ST-Working capital limits	Simple

Annexure-5: Lender details To view the lender-wise details of 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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