Rashtriya Ispat Nigam Limited (Revised)

May 21, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	13,983.89 (Enhanced from 50.00)	CARE BB+; Stable	Assigned
Short-term bank facilities	15,016.11 (Enhanced from 50.00)	CARE A4+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to bank facilities of Rashtriya Ispat Nigam Limited (RINL or the Company) takes into consideration the company's strong parentage being a wholly owned public sector undertaking (PSU) of the Government of India (GoI). The rating further takes into consideration the company's capital raising/refinancing ability derived out of its ownership and Navratna status as well as having a large asset base.

The ratings positively factors certain steps taken by the management on the operational front, which include operationalisation of the third blast furnace through various external arrangements to ensure steady supply of raw material, commissioning of the oxygen enrichment plant, which was earlier non-operational and under dispute for several years.

Apart from the key strategic changes on the operational front, the company has further initiated sale/leasing of various non-core assets, with an aim to reduce its existing debt levels. In line with the same, the company has initiated sale of forged wheel plant in Rae Bareilly to Indian Railways which has reduced the debt associated with the plant amounting to around ₹770 crore. Furthermore, the Company plans sale/leasing of surplus unutilised land in the short to medium-term period, the proceeds of which will largely be utilised towards further debt reduction.

RINL is one of leading integrated long steel producers in India with an installed liquid steel melting capacity of 6.3 million tonnes per annum (MTPA) which can be enhanced to 7.3 MTPA. RINL's manufacturing unit is strategically located in Visakhapatnam (one of the major port cities in southeast cost of India) in vicinity of two major ports, Visakhapatnam Port Trust and Gangavaram Port Limited, through which plant's major raw material requirements are sourced.

The ratings continue to remain constrained on account of continued losses incurred by the Company, which has significantly depleted its net worth, as well as lack of any captive raw material resources, and weak capital structure. Historically, from FY02 to FY14 (FY refers to April 01 to March 31), RINL had been a profitable company which underwent ₹20,000 crore of capacity expansion from 3 MTPA to 6.3 MTPA and eventually to 7.3 MTPA. However, the company was hit with commodity down-cycle, and various operational bottlenecks in the system which significantly delayed the commissioning of the plant (including shocks like COVID-19). During the period FY15 to FY24, the company has posted positive profit after tax (PAT) only once in FY22 on a consolidated basis. Apart from the operational challenges, the financial burden also kept mounting up which increased the Company's financial leverage and interest burden. Given the weak gross cash accruals (GCA) and cash & liquid investments as compared to annual debt repayment and interest obligations, ratings are largely a reflection upon the company's ability to refinance/raise additional debt on the back of its financial flexibility derived from the central government ownership. For FY22, the company benefitted due to upcycle in domestic steel industry, while for FY23, the profit before interest, lease rentals, depreciation, and tax (PBILDT) margins worsened to (-2.81%) as against 11.42% and 7.19% in FY22 and FY21, respectively, due to the surge in coking coal prices. For FY24, the reduction in net sales realisation have reduced the spreads and resulted in continued losses. For most part of FY23 and 9MFY24, one of the blast furnaces was non-operational due to working capital and raw material shortage, which resulted in

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

reduction in volume sales as well. However, going ahead, CARE Ratings expects the volume sales to increase with restoration in the operations of the third blast furnace since Q4FY24.

The Cabinet Committee on Economic Affairs, in its meeting held on January 27, 2021, had given in principle approval for 100% disinvestment of GOI shareholding in RINL and its stake in its subsidiaries/joint ventures (JVs) through strategic disinvestment by way of privatisation. However, no major update in terms of expression of interest (EOI) has been received and the disinvestment shall be key rating monitorable for the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors likely to lead to positive rating action

- Sustained improvement in profitability margins leading to positive cash flows from operating activities.
- Strong deleveraging in the form of reduction in total debt, supported by disposal of non-core assets and unutilised land.
- Any direct or indirect support from GOI helping in turnaround of the business.

Negative factors- Factors likely to lead to negative rating action

- Adverse shift in the debt levels leading to further increase in leverage ratios.
- Significant increase in average cost of borrowings.
- Continuation of operational losses and negative PBILDT margins.

Analytical approach: Consolidated

RINL along with its subsidiaries operate in the same line of business and have financial and management linkages. List of subsidiaries have been mentioned in the Annexure-6.

Outlook: Stable

The stable outlook reflects expectation of a reduction in operational losses of the company on account of optimum utilisation of the plant, and reduction in its debt levels through monetisation of non-core assets held by the Company.

Detailed description of the key rating drivers:

Key weaknesses

Integrated plant with lack of backward integration for key raw materials

The Company's facilities comprise three blast furnaces and coke oven batteries for converting coking coal into coke which is used in the blast furnace. The company has captive power plant, and the semis (blooms/billets) consumed in the rolling mill are manufactured in the facilities itself.

Steel production consumes substantial amount of raw materials including iron ore and coking coal. RINL unlike other major integrated steel manufacturers does not have any captive sources of raw material. Currently, the company is sourcing entire iron ore requirement from NMDC while coking coal is majorly being imported from Mozambique and Australia.

Historically continued operational losses have weakened the financial position

From FY02 to FY14, RINL had been a profitable company, and underwent ₹20,000 crore of capacity expansion from 3 MTPA to 6.3 MTPA and eventually to 7.3 MTPA. However, the company was hit with commodity down-cycle, and various operational bottlenecks in the system, which significantly delayed the commissioning of the plant (including shocks like covid). During the period FY15 to FY24, the company has posted positive profit after tax (PAT) only once in FY22 on consolidated basis. Apart from the operational challenges, the financial burden also kept on mounting up due to such challenges which increased the financial leverage and interest burden on the company.

Exposure to inherent cyclicality in the end use industry

The steel industry is sensitive to the shifting business cycle, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Demand for steel products is sensitive to trends of particular industries, such as automotive, construction, infrastructure, and consumer durables, which are the key consumers of steel products. 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 supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand-supply mismatch. The producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Key strengths

Wholly owned by Govt of India with entire debt exposure from PSU banks

RINL is a Navratna enterprise under administrative control of Ministry of Steel (MoS). The board of director comprises two government directors from Ministry of Steel who are additional secretary and financial advisor. The chairman-cum-managing director has rich experience having previously worked large integrated steel players in the past. The company has access to competitive financing from government basis government shareholding. The debt in its entirety is from PSU banks. Over the past decade, though there has been no direct apparent government support, there continues to be indirect support by government.

Established market position with strategic location of the plant

RINL's manufacturing unit is in Visakhapatnam, major port city in southeast cost of India with two major ports, Visakhapatnam Port Trust (VPT) and Gangavaram Port Limited (GPL). The unit's strategic location enables the company to import coking coal easily from the port which helps company to rationalise freight costs.

RINL is second largest Public Sector Undertaking steel company in India (after Steel Authority of India [SAIL]) with an installed liquid steel production capacity of 6.3 MTPA which can be enhanced to 7.3 MTPA. RINL has established track record of about two decades in steel industry and currently the company is one of the leading producers of long steel products in India. The company is a big player in the fragmented industry (long steel is relatively more fragmented as compared to flat steel).

Monetisation of non-core assets to help in reducing debt burden

The company has planned sale of various non-core assets, including the sale of forged wheel plant in Raebareli. This plant has been sold to the railways and will directly reduce the debt which was related to this project by around ₹770 crore. This apart, the company has entered into various external arrangements which has been ensuring the availability of raw materials for continuous operation of the plant. Up to January 2022, the company was operating three blast furnaces, but the third blast furnace was shut down from February 2022 to December

2023 due to working capital shortage. Now the third blast furnace has been operational since December 2023 due to this arrangement.

Cost optimisation initiatives and resolution of operational bottleneck

One of the key bottlenecks for the company has been the air separation plant (also called oxygen enrichment plant). This oxygen enrichment process reduces the coke consumption and increases productivity, which was being planned for captive consumption via build own operate (BOO) basis. Due to dispute and contract termination by the counterparty, the oxygen plant could not be made operational, which was ideally supposed to commence 6-7 years back. Recently, this oxygen plant has become operational with settlement of the long-standing dispute.

On the other hand, the company has taken various cost optimisation initiatives including reducing the power costs (8.72% as percentage of TOI in FY23 as compared to 4.94% in FY22), which was higher in FY23 as the captive consumption of power plant had reduced due to shortage of coal. However, due to various external arrangement, the captive power plant has again been made operational and will reduce the power costs in FY25. This apart, as per the company management, the company has also been rationalising the employee costs (which contributed 12.01% of TOI for FY23).

Liquidity: Stretched

The company's liquidity has remained stretched with current ratio of 0.41x as on March 31, 2023 and quick ratio of 0.10x as on March 31, 2023. Inferior current ratio was on account of low cash and liquid investments to the tune of ₹111.63 crore as on March 31, 2023, and high inventories of ₹7,388 crore.

While the company's collection period has remained comfortable at around 13 days in FY23; while gross current asset days have elongated to 153 days due to higher inventory holding period at around 111 days. The inventory days are higher due to integrated operations. Working capital utilisation has remained highly utilised at 92.11% during last 12 months ending February 2024.

Assumptions/Covenants Not applicable

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Government Support
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments
Iron & Steel

About the company and industry

Industry classification

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

Rashtriya Ispat Nigam Limited (RINL), the corporate entity of Visakhapatnam Steel Plant (VSP) is a Public Sector Undertaking (PSU) with Navratna status, being 100% owned by the President of India (Govt of India). The company has shore-based integrated steel plant at Visakhapatnam in Andhra Pradesh. The company has an established position in the long steel products manufacturing within the domestic market with an installed liquid steel capacity of 6.3 million tonnes per annum (MTPA). RINL produces broad range of steel products, including plain wire rods, rebars, rounds, squares, structural, billets, blooms, and pig iron.

Brief Financials (₹ crore)	FY2022 (A) Consolidated	FY2023 (A) Consolidated	9MFY2024 (UA) Standalone
Total operating income	28,503	22,949	16,907
PBILDT	3,255	-645	-793
PAT	901	-2,900	-3,067
Overall gearing (times)	6.92	122.74	-
Interest coverage (times)	2.05	-0.36	-0.49

A: Audited UA: Unaudited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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
Fund-based - LT-Working capital term loan		-	-	FY2029	1425.00	CARE BB+; Stable
Fund-based/Non-fund-based-Short term		-	-	-	15016.11	CARE A4+
Non-fund-based-Long term		-	-	-	600.00	CARE BB+; Stable
Term Loan-Long term		-	-	FY2035	11958.89	CARE BB+; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Term loan-Long term	LT	11958.89	CARE BB+; Stable				
2	Fund-based/Non-fund-based-Short term	ST	15016.11	CARE A4+				
3	Non-fund-based-Long term	LT	600.00	CARE BB+; Stable				
4	Fund-based - LT-Working capital term loan	LT	1425.00	CARE BB+; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working capital term loan	Simple
2	Fund-based/Non-fund-based-Short term	Simple
3	Non-fund-based-Long term	Simple
4	Term loan-Long term	Simple

Annexure-5: Lender details

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

Annexure-6: List of all entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Eastern Investments Limited	Full consolidation	Direct subsidiary with 51% stake

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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