

Steel Authority of India Limited

March 08, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term bank facilities (Term Loans)	30,000	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Total	30,000 (Rupees Thirty thousand crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Steel Authority of India Limited (SAIL) derive strength from the majority ownership by Government of India (GoI) and its established position as one of the largest integrated steel producers in India with captive iron ore mines. The ratings also favorably factors in SAIL's geographical diversity of sales with a strong marketing network, healthy mix of value-added products and a moderate capital structure. The ratings take cognizance of the improvement in the operational and financial performance during 9MFY19 (refers to the period April 1 to December 31). The rating strengths are, however, tempered by the susceptibility of the SAIL's operating margins to volatility in input costs (particularly coking coal), cyclical nature inherent in the steel industry and risks associated with the implementation of the large ongoing Modernization & Expansion (M&E) projects of the company.

Going forward, SAIL's ability to achieve the envisaged revenue and profitability while keeping control on the input costs shall remain a key rating sensitivity. Also ramping up of operations from enhanced capacity and completion of the ongoing M&E plan within the time and cost estimates shall remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Majority GOI ownership and benefits accruing from Maharatna Status

SAIL is one of the largest state owned steel producers in India with a majority stake held by Government of India (GoI). During FY18, GoI's stake in the company continues to remain at 75.00%. The company enjoys 'Maharatna Status', a status that gives greater autonomy to Central Public Sector Enterprises (CPSEs) in their investment and capital expenditure decisions. Such a status also aims at facilitating expansion of its operations both in the domestic and global markets.

One of the largest integrated steel producers in the country

SAIL has a high degree of vertical integration, with 100% of its requirement of iron ore being met from captive iron ore mines, whereas around 65% of the power requirement in FY18 was fulfilled from captive sources (including JVs). The company procures very small quantity of coking coal from its captive mines namely Chasnala and Jitpur mines. It is dependent on external sources for its coking coal requirements (86% import component) imported from Australia, USA and New Zealand while in the domestic market major supplier is Coal India Ltd through its different subsidiaries

Strong marketing network

SAIL has a strong central marketing organization (CMO) which is responsible for marketing of the company's steel products including the carbon and alloy steel. The company's CMO consists of a network of 37 Branch Sales Offices (BSOs), 21 Consignment Agents, 10 Customer Contact Offices (CCOs) and 25 Departmental Warehouses across India. Furthermore, the company has dealer network of 1,970+ dealers, including close to 1,000 rural dealers spread across the country, which provides it a significant reach to multiple consumption centres.

Healthy product mix

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 like construction, engineering, power, railway, automotive, consumer durables, defense etc. The share of long products, flat products and semi-finished products from the 5 ISPs in the total sales were at 27.9%, 53.2% and 18.9% respectively during FY18 as against 25%, 51% and 24% respectively in FY17 indicating greater share of sales from flat steel products. During FY18, the share of value added steel in the total sales also stood at 44.7% as against 42% in FY17 whereas the balance pertained to commodity steel.

Improvement in operational and financial performance during 9MFY19

SAIL has reported an improvement in operational and financial performance during 9MFY19 characterized by a growth in sales realizations. During 9MFY19, the total operating income grew by ~20% owing to improvement in realizations though

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

volume sales moderated marginally. SAIL produced 10.95 Million Tonne (MT) during 9MFY19 representing a growth of 4.7% over similar period previous year, however the sales volume moderated to 9.98 MT during 9MFY19 as against 10.34 MT during 9MFY18. SAIL reported total operating income of Rs.48,748 crore with a PBILDT and PAT of Rs.7,806 crore and Rs.1,710 crore respectively as against a total operating income of Rs.40,778 crore with a PBLIDT and net loss of Rs.2,528 crore and Rs.1,297 crore respectively during 9MFY18. The total debt increased to Rs.46,818 crore as on December 31, 2018 as against Rs.44,184 crore as on December 31, 2017 owing to debt raised for ongoing capital expenditure. Going forward, reduction in debt levels and improvement in overall gearing and debt coverage indicators shall remain a key monitorable.

Liquidity

The company has generated healthy cash accruals of Rs.5,119 crore during 9MFY19 against which it has full year repayments of Rs.3,221 crore. The company's liquidity position is further supported by cash and cash equivalent of Rs.186 crore as on December 31, 2018. Further, the average working capital utilization remained at ~50% over the past twelve months ended January 2019.

Key Rating Weaknesses

Susceptibility of the operating margins due to volatility in input costs

The key raw material iron ore and coking coal prices had shown a volatile trend over the years. Although, entire iron ore requirement is met from captive mines but the coking coal requirement is largely met through imports which has shown volatility in prices impacting the company's margins over the years.

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, renders the supply-side largely inflexible, and hinders responsiveness to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to sudden demand supply mismatches.

Risks related to ongoing modernization and expansion (M&E) plan

SAIL is currently implementing a modernization & expansion plan (M&E) (including mine development and sustenance capex) with a total estimated cost of Rs.72,134 crore. The said M&E plan entails to enhance the production capacity from 12.4 MTPA to 20.2 MTPA of saleable steel. Till January 31, 2019, SAIL has incurred Rs.68,909 crore out of Rs.72,134 crore of M&E plan. As on December 31, 2018, the installed capacity of crude steel and saleable steel stood at 19.14 MT and 17.87 MT respectively. The company has faced delays in the completion of M&E plan considering the complexity and size of the projects as well as due to delays in receipt of site clearance for a few of its facilities.

Analytical Approach Followed – Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

SAIL was promoted in 1973 by 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, defense 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 i.e. Alloy Steel Plant, Salem Steel Plant and Visvesvaraya Iron & Steel Plant. SAIL is one of the largest steel maker in India with total hot metal, crude steel and saleable steel capacities stood at 15.98 Million Tonnes Per Annum (MTPA), 15.02 MTPA and 14.07 MTPA respectively as on March 31, 2018.

Particulars (Rs crore)	FY17 (A)	FY18 (A)
Total operating income	44,938	58,947
PBILDT	542	5,058
PAT	(2,833)	(482)
Overall gearing (times)	1.15	1.27
Interest coverage (times)	0.21	1.79

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

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

Analyst Contact:

Name: Sudhir Kumar

Tel: 011-45333232

Email: sudhir.kumar@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund Based - LT – Term Loans	-	-	Sept 2028	30000.00	CARE AA-; Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fixed Deposit	LT	1000.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)	1)CARE AA; Negative (31-Dec-16) 2)CARE AA+ (06-May-16)	1)CARE AA+ (16-Mar-16) 2)CARE AAA (12-Aug-15)
2.	Bonds	LT	1957.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)	1)CARE AA; Negative (31-Dec-16) 2)CARE AA+ (06-May-16)	1)CARE AA+ (16-Mar-16) 2)CARE AAA (12-Aug-15)
3.	Commercial Paper	ST	8000.00	CARE A1+	1)CARE A1+ (04-Oct-18)	1)CARE A1+ (05-Oct-17)	1)CARE A1+ (31-Dec-16) 2)CARE A1+ (06-May-16)	1)CARE A1+ (16-Mar-16) 2)CARE A1+ (12-Aug-15)
4.	Bonds	LT	1500.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)	1)CARE AA; Negative (31-Dec-16) 2)CARE AA+ (06-May-16)	1)CARE AA+ (16-Mar-16) 2)CARE AAA (12-Aug-15)
5.	Bonds	LT	6000.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)	1)CARE AA; Negative (31-Dec-16) 2)CARE AA+ (06-May-16)	1)CARE AA+ (16-Mar-16) 2)CARE AAA (12-Aug-15)
6.	Bonds	LT	2000.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)	1)CARE AA; Negative (31-Dec-16) 2)CARE AA+ (06-May-16)	-
7.	Bonds	LT	2000.00	CARE AA-; Stable	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)	1)CARE AA; Negative (31-Dec-16)	-
8.	Fund Based - LT – Term Loans	LT	30000.00	CARE AA-; Stable				

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691