Steel Authority of India Limited

October 7, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bond Programme-I*	1,134.00 (reduced from 1,198.00)	CARE AA-; Negative (Double A minus; Outlook: Negative)	Reaffirmed
Long-term Bond Programme-II*	144.00 (reduced from 1,147.00)	CARE AA-; Negative (Double A minus; Outlook: Negative)	Reaffirmed
Long-term Bond Programme-III*	1,855.00 (reduced from 3,276.00)	CARE AA-; Negative (Double A minus; Outlook: Negative)	Reaffirmed
Long-term Bond Programme-IV*	1,185.00 (reduced from 1,950.00)	CARE AA-; Negative (Double A minus; Outlook: Negative)	Reaffirmed
Long-term Bond Programme-V*	2,000.00	CARE AA-; Negative (Double A minus; Outlook: Negative)	Reaffirmed
Long-term Public Deposit Programme	1,000.00	CARE AA-; Negative (Double A minus; Outlook: Negative)	Reaffirmed
Short term CP/ICD Programme	8,000.00	CARE A1+ (Single A one plus)	Reaffirmed
Total Instruments	15,318.00 (Rupees fifteen thousand three hundred and eighteen crore only)		
Long term Bank Facilities	30,000.00 (Rupees thirty thousand crore only)	CARE AA-; Negative (Double A minus; Outlook: Negative)	Reaffirmed

Details of instruments/facilities in Annexure-1

** Bonds outstanding as on September 3, 2020 stood at Rs.6,318 crore.*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the debt instruments/bank facilities of Steel Authority of India Limited (SAIL) continue to derive strength from its 'Maharatna' status with its majority ownership by the Government of India (GoI), its established position as one of the largest integrated steel producers in India with captive iron ore mines. The ratings also favourably factor in SAIL's diversification both in terms of location of plants and products with strong marketing network. These rating strengths are, however, partially offset by its moderate capital structure and debt coverage indicators, susceptibility of the SAIL's operating margins to volatility in input costs, particularly coking coal, competition from more efficient steel makers and the cyclicality inherent in the steel industry. The ratings also remain constrained due to the risks associated with the implementation and ramping up of large ongoing modernization & expansion (M&E) projects of the company and the increase in gross working capital cycle due to delayed payments from Indian Railways. The rating also takes into cognizance of weaker than envisaged operational performance during FY20 (refers to period: April 1 to March 31) and significant impact of

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

COVID-19 induced lockdown on operational performance during Q1FY21 (refers to period: April 1 to June 30).

Rating Sensitivities

Positive Factors

- SAIL's ability to improve its operating profitability supported by operational efficiency through the modernized capacities across various plants; along with growth in saleable steel volumes and resultantly improved cash-flows on a sustained basis.
- Rationalization of debt level leading to improvement in the company's overall gearing to below 1.0x and total debt/PBILDT below 3 times on a sustained basis.

Negative Factors

- Lower than envisaged sales volumes and profitability margins in the projected period leading to higher dependence on debt leading to overall gearing beyond 2.0 times.
- Any significantly larger than envisaged increase in working capital requirement or debt funded capex exerting further pressure on the leverage and liquidity.

Outlook: Negative

The negative outlook has been continued as CARE expects SAIL's operating profitability to remain muted notwithstanding an expectation of a gradual improvement in realizations and volumes, which is unlikely to result in any significant deleveraging, thereby keeping debt coverage metrics at elevated levels. The outlook may be revised to stable if SAIL is able to report substantial improvement in operating cash flows thereby resulting in reduction in debt levels and improvement in leverage and liquidity position.

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 producer in India with majority stake held by the Government of India (GoI). As on June 30, 2020, the GoI's stake in the company continued to remain at 75%. 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 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. Besides this, recent decision by GoI to keep steel industry in list of strategic sectors bodes well for SAIL as it is the largest PSU in the steel sector.

One of the largest integrated steel producers in the country: SAIL is one of the largest steel producers in India with a crude steel capacity of 19.63 million tonnes per annum (MTPA) as on June 30, 2020 and has a high degree of vertical integration, since its entire requirement of iron ore is met from captive iron ore mines. Similarly, around 70%-75% of the total power requirement in FY20 was fulfilled from captive sources (including joint ventures (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 with more than 86% 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 32.721 million tonne of steel making minerals (mainly iron ore) during FY20 which increased by 4% y-o-y.

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), 20 consignment agents, 10 customer contact offices (CCOs) and 25 departmental warehouses across India. Furthermore, the company has a dealer network of 1,789 dealers, including close to 1,000 rural dealers spread across the country.

Geographically diversified operations and healthy product mix: 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 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 FY20, the company produced 6.394 million tonne of value added steel which represents 42.39% of the total saleable steel production as compared with 42% in FY19 whereas the balance pertained to commoditized steel products and semis.

Key Rating Weaknesses

Moderate capital structure and debt coverage indicators: SAIL has a moderate capital structure characterized by an overall gearing and long-term debt equity of 1.49x and 0.98x as on March 31, 2020 as against 1.27x and 0.94x as on March 31, 2019. The gearing and long-term debt equity ratio moderated marginally on account of an increase in total debt which stood at Rs.54,127 crore as on March 31, 2020 as against Rs.45,170 crore as on March 31, 2019. This increase in debt can be attributed to its ongoing expansion and modernization project, to the elongation in working capital cycle during FY20 amid slower collections from institutional customers and to its inventory build-up due to muted demand. However, the interest coverage indicators of the company remained broadly stable at 3.15x in FY20 (PY: 3.23x) with marginal deterioration due to increase in interest cost, which was partially offset by improved PBILDT and sales volumes. Nonetheless, as on March 31, 2020, the total debt to PBILDT and total debt to gross cash accruals deteriorated to 5.18x (PY: 4.45x) and 8.31x (PY: 6.75x) respectively due to moderation in total debt profile. The adjusted total debt/GCA (adjusting for the increase in GCA due to iron ore valuation) stood at 17.56 times as on March 31, 2020.

Weaker than envisaged operational performance during FY20: During FY20, the operational performance of the company moderated as seen in the decline in total operating income from Rs.67,370 crore in FY19 to Rs.62,393 crore in FY20 due to lower sales realisations. The net sales realisations declined from Rs.43,722/MT in FY19 to Rs.39,700/MT in FY20 in line with the decline in the market prices of finished steel. However, the sales volume registered marginal growth from 14.12 million tonne (MT) in FY19 to 14.23 MT in FY20. Till 9MFY20, the company had PBILDT of Rs.4,267 crore which increased to Rs.10,983 crore in FY20 due to valuation of sub-grade iron ore fines in Q4FY20, which is in line with GoI allowing SAIL to sell its total mineral production up to 25%. However, the adjusted PBILDT/tonne (adjusting for the increase in PBILDT due to iron ore valuation) stood at Rs.5,054/tonne during FY20 as compared to Rs.7,283/tonne in FY19. During Q1FY21, the company reported a negative PBILDT of Rs.125 crore on account of low sales volume coupled with low net sales realizations as a result of lockdown imposed by GoI due to covid-19 pandemic. However, from June 2020 the company has reported better sales volume compared to corresponding months of previous year primarily due to return of buoyancy in steel demand. With prices gradually reaching pre-COVID-19 levels, the company's ability to report improvement in operational performance to support its elevated debt levels shall remain key monitorable.

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.

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 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.

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.79,800 crore (including Rs.10,264 crore for augmenting raw material sources). The M&E plan entails enhancing the overall production capacity from 12.8 MTPA to 21.4 MTPA of saleable steel. Till June 2020, SAIL had incurred a cumulative expenditure of Rs.71,285 crore (including on mine development). As on June 30, 2020, 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.4,000 crore on M&E and on-going expansion plans in FY21 out of which Rs.1,135 crore has been done till August 2020. The company has faced delays in the completion of M&E plan considering the complexity and size of the projects. However, the cost incurred on the M&E plan till date has been funded more through internal resources with a lower debt component against the envisaged debt-equity mix of 1:1. The on-going 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.

Extended Working Capital Cycle

The working capital cycle of the company deteriorated from 98 days as on March 31, 2019 to 158 days as on March 31, 2020 primarily because of delays in payment from Indian Railways and built up inventory due to muted demand. While Railways is a GoI entity and there is no risk of default, increase in business with Railways will mean working capital cycle going up further. However, the same is mitigated by un-utilized working capital limits with the company.

<u>Liquidity: Adequate</u>

SAIL has adequate liquidity marked by expected cash accruals of Rs.5,731 crore in FY21. The liquidity of the company is also supported by sanctioned fund based limit of Rs 10,000 crore, of which Rs 7,000 crore has already been tied up with different banks. The average working capital utilization remained at

45% for the 12- month period ended August 2020. Also, additional non fund-based limit of Rs.10,000 crore has been sanctioned to the company. In addition, SAIL also enjoys tied up/sanctioned loans for medium/long term from various banks to the tune of Rs.25,191 crore as on September 30, 2020. Out of these sanctioned limits, around Rs.2,700 crore is still available for utilization for general corporate purposes. SAIL has repayment obligations aggregating to Rs.6,598 crore in FY21, of which a substantial portion of the debt to the tune of Rs.6,017 crore has already been repaid till September 28, 2020.

Industry prospects:

India is the second largest crude steel producer in the world. India's crude steel production fell by 1.5% and finished steel production was flat at 109.2 MT in FY20 against 110.9 MT in FY19. Domestic demand for steel was impacted by slowdown in manufacturing activities during the year which was further aggravated by the Covid-19 Pandemic towards the year end.

As the lockdown measures continue to relax further in the coming months, steel demand as well as production has been increasing steadily in the domestic market. Monthly steel consumption which had declined to 1.6 mt in Apr 2020, has now recovered to 8.4 mt in July 2020. Domestic demand has witnessed a 'V' shape recovery in the last 3 months (June-Aug 2020). Furthermore, normalcy is gradually getting restored on the supply side as well. CARE expects domestic steel demand to witness steady improvement on the back of opening up of the economy. Demand for steel during the short to medium term period is likely to be supported by automobile and pipes manufacturing sector, improving infrastructure activity (including the railway and metro projects) along with the construction sector (road and bridges construction). However, demand recovery from the real estate sector is likely to take a longer time. Higher exports, improving realizations and lower raw material prices is likely to support the profitability margins of domestic integrated steel players including SAIL.

Analytical approach: Standalone

Applicable Criteria

Consolidation & Factoring Linkages in Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector entities
Rating Outlook and credit watch
Short Term Instruments
Rating Methodology - Manufacturing Companies
Rating Methodology Steel

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 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 crude steel and saleable steel capacities stood at 19.63 Million Tonnes Per Annum (MTPA) and 18.54 MTPA as on March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	67,370	62,393
PBILDT	10,183	10,983
PAT	2,179	2,022
Overall gearing (times)	1.27	1.49
Interest coverage (times)	3.23	3.15

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	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	30000.00	CARE AA-; Negative
Bonds	September 15, 2009	8.75% p.a. to 9.00% p.a.	October 26, 2025	1134.00	CARE AA-; Negative
Bonds	May 25, 2012	9.30% p.a	May 25, 2022	144.00	CARE AA-; Negative
Bonds	August 11, 2009	8.55%- 9.35% p.a.	September 9, 2026	1855.00	CARE AA-; Negative
Bonds	August 01, 2016	8.30% p.a.	August 03, 2023	2000.00	CARE AA-; Negative
Bonds	November 19, 2015	8.35% p.a.	November 19, 2022	1185.00	CARE AA-; Negative
Proposed Long term Public deposit programme	-	-	-	1000.00	CARE AA-; Negative
Commercial Paper-Commercial Paper (Standalone)	-	-	-	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	Rating	Date(s) & Rating(s)	Date(s) & Rating(s)	Date(s) & Rating(s)	Date(s) & Rating(s)

			(Rs. crore)		assigned in 2020-2021	assigned in 2019-2020	assigned in 2018-2019	assigned in 2017-2018
1.	Fixed Deposit	LT	1000.00	CARE AA-; Negative	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)
2.	Bonds	LT	1134.00	CARE AA-; Negative	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)
3.	Commercial Paper-Commercial Paper (Standalone)	ST	8000.00	CARE A1+	1)CARE A1+ (06-Apr-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (04-Oct-18)	1)CARE A1+ (05-Oct-17)
4.	Bonds	LT	144.00	CARE AA-; Negative	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)
5.	Bonds	LT	1855.00	CARE AA-; Negative	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)
6.	Bonds	LT	2000.00	CARE AA-; Negative	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)
7.	Bonds	LT	1185.00	CARE AA-; Negative	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (04-Oct-18)	1)CARE AA-; Negative (05-Oct-17)
8.	Fund-based - LT-Term Loan	LT	30000.00	CARE AA-; Negative	1)CARE AA-; Negative (06-Apr-20)	1)CARE AA-; Stable (04-Oct-19)	1)CARE AA-; Stable (08-Mar-19)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: None

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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