

Steel Authority of India Limited (Revised)

April 6, 2020

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bond Programme-I*	1,198	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed, and Outlook revised from 'Stable' to 'Negative'
Long-term Bond Programme-II*	1,147	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed, and Outlook revised from 'Stable' to 'Negative'
Long-term Bond Programme-III*	3,276	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed, and Outlook revised from 'Stable' to 'Negative'
Long-term Bond Programme-IV*	1,950	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed, and Outlook revised from 'Stable' to 'Negative'
Long-term Bond Programme-V*	2,000	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed, and Outlook revised from 'Stable' to 'Negative'
Proposed Long-term Public Deposit Programme	1,000	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed, and Outlook revised from 'Stable' to 'Negative'
Short-term CP/ICD Programme	8,000	CARE A1+ (A One Plus)	Reaffirmed
Total Instruments	18,571 (Rupees eighteen thousand and five hundred and seventy one crore only)		
Long-term bank facilities	30,000	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Reaffirmed, and Outlook revised from 'Stable' to 'Negative'

Details of instruments/facilities in Annexure-1

** Bonds outstanding as on March 31, 2020 stood at Rs.7,860 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 the majority ownership by the 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 favourably factor in SAIL's diversification both in terms of location of plants as well as products with strong marketing network, and its moderate capital structure and debt coverage indicators. These rating strengths are, however, partially offset by the susceptibility of the SAIL's operating margins to volatility in input costs particularly coking coal, the cyclical nature inherent in the steel industry and the risks associated with the implementation and ramping up of large ongoing modernization & expansion (M&E) projects of the company.

Rating Sensitivities*Positive Factors*

- SAIL's ability to improve its operating profitability margin beyond 15% supported by operational efficiency through the modernized capital expenditure (capex) across various plants; along with growth in saleable steel volumes and improved cash-flows on a sustained basis.
- Rationalization of debt level leading to improvement in the company's capital structure to below 0.8x on a sustained basis.

Negative Factors

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

- Sustained decline in profitability margins below 9% in the projected period leading to higher dependence and elevated debt level beyond 1.50 times.
- Further deterioration in TD/GCA (total debt to gross cash Accruals) from current levels
- Any significant larger than envisaged increase in working capital requirement or debt funded capex exerting further pressure on the liquidity.

Outlook: Negative

The revision in the rating outlook factors in the continued low realizations of saleable steel in the current quarter, which along with a lower volume off-take, is likely to impair SAIL's ability to recoup the losses of the previous quarters resulting in weak overall operational performance, thereby keeping the overall debt at elevated levels. The outlook may be revised to 'Stable' in case of an improvement in the operating performance thereby leading to better cash flows and financial risk profile.

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 March 31, 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.

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 December 31, 2019 and has a high degree of vertical integration as its entire requirement of iron ore is met from captive iron ore mines whereas around 70%-75% of the total power requirement in FY19 (refers to the period from April 1 to March 31) 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 with more than 80% being imported from Australia, USA, New Zealand and JV Company – International Coal Ventures Pvt Ltd (ICVL, Mozambique), 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), 20 Consignment Agents, 10 Customer Contact Offices (CCOs) and 25 Departmental Warehouses across India. Furthermore, the company has dealer network of around 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 FY19, the share of value added steel in the total sales stood at 42% as compared with 44.7% in FY18 whereas the balance pertained to commoditized steel products.

Moderate capital structure and debt coverage indicators

SAIL's moderate capital structure is characterized by an overall gearing and long term debt equity of 1.24x and 0.94x respectively as on March 31, 2019 as against 1.33x and 0.97x as on March 31, 2018. The gearing and long term debt equity ratio though has remained high in past years which is attributable to debt availed for its ongoing modernization and expansion (M&E) project, the same is expected to moderate marginally in the medium term. The debt coverage indicators of the company improved significantly during FY19 which stood at 3.23x in FY19 primarily due to improved PBILDT per ton and growth in volumes. Consequentially, the total debt to PBILDT and total debt to gross cash accruals improved to 4.45x and 6.75x respectively. The total debt increased to Rs.51,871 crore as on December 31, 2019 has increased by around Rs.6,700 crore as compared with total debt as on March 31, 2019 owing to availment of Buyer's credit and pending realization from debtors mainly Indian Railways.

Moderation in operational performance during 9MFY20 (refers to the period from April 1 to December 31)

The operating income in FY19 grew by 14% on a y-o-y basis and grew from Rs.58,947 crore in FY18 to Rs.67,370 crore in FY19. The PBILDT nearly doubled in FY19 in comparison with FY18, supported by buoyant demand, upswing in the net sales realization (NSR) for the finished steel coupled with various cost control measures implemented by the company. Consequently, the company reported a PAT of Rs.2,179 crore in FY19 as against a net loss of Rs.482 crore in FY18. However, during 9MFY20, the realization for saleable steel has fallen by 14% which led to a decline in PBILDT per ton from Rs.7,819 per ton during 9MFY19 to Rs.4,069 per ton during 9MFY20. Furthermore, increase in other overheads including stores and spares cost, cost of repairs, depreciation and interest expense led to a net loss of Rs.704 crore during 9MFY20 as compared with a PAT of Rs.1,710 crore during 9MFY19. Going forward, the company's ability to report improvement in operational performance to support its elevated debt levels shall remain key monitorable.

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 has 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 said M&E plan entails to enhance the production capacity from 12.8 MTPA to 21.4 MTPA of saleable steel. Till December 31, 2019, SAIL had incurred a cumulative capital expenditure of Rs.70,658 crore and the same has been funded through debt-equity of 0.67x with debt of around Rs.28,044 crore. As on December 31, 2019, the installed capacity of crude steel and saleable steel stood at 19.63 MT and 18.54 MT respectively. The company has faced delays in the completion of M&E plan considering the complexity and size of the projects and also due to delays in receipt of site clearance for a few of its facilities. The ongoing M&E plan of the company exposes it to the project completion and stabilization risks (post-completion). However, the company's healthy balance sheet and its track record in terms of execution skills mitigate such risks to some extent.

Adequate Liquidity

The liquidity of the company is adequate, supported by sanctioned fund based limit of Rs 10,000 crore, of which Rs 7,000 crore has already been tied up with different Bank. The average working capital utilization remained lower than 50% for the 12-month period ended February 2020. In addition, SAIL also enjoys tied up/sanctioned loans for medium/long term from various banks to the tune of Rs 32,341 crore. Out of these sanctioned limits, around Rs 6,000 crore is still available for utilization. The company's cash accrual for FY19 were Rs.6,722 crore against debt repayment obligation of Rs.3,608 crore during FY20.

Analytical approach: Standalone

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](#)

[Rating Methodology-Factoring linkages in ratings](#)

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, 2019.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	58,947	67,370
PBILDT	5,058	10,183
PAT	-482	2,179
Overall gearing (times)	1.37	1.27
Interest coverage (times)	1.79	3.23

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

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	-	-	-	30000.00	CARE AA-; Negative
Bonds	August 11, 2009	8.80% p.a.	October 26, 2025	1198.00	CARE AA-; Negative
Bonds	November 19, 2009	8.65% p.a.	February 01, 2020	1147.00	CARE AA-; Negative
Bonds	April 23, 2010	9.35% p.a.	October 14, 2024	3276.00	CARE AA-; Negative
Bonds	August 01, 2016	8.30% p.a.	August 03, 2023	2000.00	CARE AA-; Negative
Bonds	January 21, 2015	8.35% p.a.	November 19, 2022	1950.00	CARE AA-; Negative
Fixed Deposit	-	-	-	1000.00	CARE AA-; Negative
Commercial Paper	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fixed Deposit	LT	1000.00	CARE AA-; Negative	1)CARE AA-; Stable (04-Oct-19)	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)
2.	Bonds	LT	1198.00	CARE AA-; Negative	1)CARE AA-; Stable (04-Oct-19)	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)

3.	Commercial Paper	ST	8000.00	CARE A1+	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (04-Oct-18)	1)CARE A1+ (05-Oct-17)	1)CARE A1+ (31-Dec-16) 2)CARE A1+ (06-May-16)
4.	Bonds	LT	1147.00	CARE AA-; Negative	1)CARE AA-; Stable (04-Oct-19)	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)
5.	Bonds	LT	3276.00	CARE AA-; Negative	1)CARE AA-; Stable (04-Oct-19)	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)
6.	Bonds	LT	2000.00	CARE AA-; Negative	1)CARE AA-; Stable (04-Oct-19)	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	1950.00	CARE AA-; Negative	1)CARE AA-; Stable (04-Oct-19)	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 Loan	LT	30000.00	CARE AA-; Negative	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

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.

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