

Steel Authority of India Limited

October 04, 2019

Ratings

Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bond Programme-I	1,198 (reduced from 1,957)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long-term Bond Programme-II	1,147 (reduced from 1,500)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long-term Bond Programme-III	3,276 (reduced from 6,000)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long-term Bond Programme-IV	1,950 (reduced from 2,000)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long-term Bond Programme-V	2,000	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Proposed Long-term Public Deposit Programme	1,000	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
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-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

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 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 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 off-set by the susceptibility of the SAIL's operating margins to volatility in input cost particularly coking coal, cyclicity inherent in the steel industry and risks associated with the implementation and ramping up of large ongoing Modernization & Expansion (M&E) projects of the company.

Going forward, SAIL's ability to ramp up of operations from enhanced capacity across various plants and achieve the envisaged revenue and profitability amidst volatile input costs and fluctuating steel prices shall remain the key rating sensitivities. Further, any higher than envisaged debt funded capex will also be a key rating sensitivity.

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 Government of India (GoI). As on June 30, 2019, GoI's stake in the company continued to remain at 75%. 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. 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 largest steel producer with a crude steel capacity of 19.63 million tons per annum (MTPA) as on March 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

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

Chasnala and Jitpur mines. It is dependent on external sources for its coking coal requirements with more than 80% being 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), 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, railway, automotive, consumer durables, and defense. 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.

Healthy operational performance during FY19

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 the good 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 Q1FY20, the realization for saleable steel has fallen by 7.20% which along with the lower volumes (around 1% decline), higher usage of coal and limestone, increased power consumption, iron ore cost and some other raw material prices have increased the overall cost of manufacturing exerting pressure on the profitability in the current sluggish market scenario. As a result of this, the PBILDT per ton declined from Rs.7,293 per ton during FY19 to Rs.5,176 per ton during Q1FY20.

Key Rating Weaknesses

Susceptibility of the operating margins to volatility in input cost

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 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.76,377 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 July 31, 2019, SAIL had incurred a cumulative capital expenditure of Rs.69,774 crore and the same has been funded through debt-equity of 0.67x with debt of around Rs.28,044 crore. As on March 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 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 (Outstanding of Rs. 2,460 crore as on June 30, 2019). The average working capital utilization remained low at around 36% for the 12-month period ended August 2019. In addition, SAIL also enjoys tied up/sanctioned loans for medium/long term from various banks to the tune of Rs 29,941 crore. Out of these sanctioned limits, Rs 8,400 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 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 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 (outstanding as on August 31, 2019)

Name of the instrument	ISIN No	Date of Issuance	Coupon rate	Maturity Date	Size of Issue	Rating assigned along with Rating Outlook
Bonds	INE114A07471	11-08-09	8.55	11-08-21	700	CARE AA-; Stable
Bonds	INE114A07489	25-08-09	8.7	25-08-24	300	CARE AA-; Stable
Bonds	INE114A07505	15-09-09	8.75	15-09-19	50	CARE AA-; Stable
Bonds	INE114A07513	15-09-09	8.75	15-09-24	50	CARE AA-; Stable
Bonds	INE114A07570	26-10-09	8.8	26-10-19	14	CARE AA-; Stable
Bonds	INE114A07588	26-10-09	8.8	26-10-20	14	CARE AA-; Stable
Bonds	INE114A07596	26-10-09	8.8	26-10-21	14	CARE AA-; Stable
Bonds	INE114A07604	26-10-09	8.8	26-10-22	14	CARE AA-; Stable
Bonds	INE114A07612	26-10-09	8.8	26-10-23	14	CARE AA-; Stable
Bonds	INE114A07620	26-10-09	8.8	26-10-24	14	CARE AA-; Stable
Bonds	INE114A07638	26-10-09	8.8	26-10-25	14	CARE AA-; Stable
Bonds	INE114A07646	19-11-09	8.6	19-11-19	335	CARE AA-; Stable
Bonds	INE114A07661	07-12-09	8.5	07-12-19	120	CARE AA-; Stable
Bonds	INE114A07679	30-12-09	8.65	30-12-19	450	CARE AA-; Stable
Bonds	INE114A07687	01-02-10	8.65	01-02-20	242	CARE AA-; Stable
Bonds	INE114A07695	23-04-10	8.75	23-04-20	545	CARE AA-; Stable
Bonds	INE114A07703	30-04-10	8.72	30-04-20	660	CARE AA-; Stable
Bonds	INE114A07711	23-08-11	9.3	23-08-21	400	CARE AA-; Stable
Bonds	INE114A07729	09-09-11	9.35	09-09-26	455	CARE AA-; Stable
Bonds	INE114A07752	25-05-12	9.3	25-05-20	15	CARE AA-; Stable
Bonds	INE114A07802	25-05-12	9.3	25-05-20	57	CARE AA-; Stable
Bonds	INE114A07760	25-05-12	9.3	25-05-21	15	CARE AA-; Stable
Bonds	INE114A07810	25-05-12	9.3	25-05-21	57	CARE AA-; Stable
Bonds	INE114A07778	25-05-12	9.3	25-05-22	15	CARE AA-; Stable
Bonds	INE114A07828	25-05-12	9.3	25-05-22	57	CARE AA-; Stable
Bonds	INE114A07869	14-10-14	9	14-10-24	1000	CARE AA-; Stable
Bonds	INE114A07885	21-01-15	8.3	21-01-20	500	CARE AA-; Stable
Bonds	INE114A07935	25-08-15	8.27	25-08-20	265	CARE AA-; Stable
Bonds	INE114A07943	19-11-15	8.35	19-11-22	1185	CARE AA-; Stable
Bonds	INE114A07950	01-08-16	8.3	01-08-23	1200	CARE AA-; Stable
Bonds	INE114A07968	03-08-16	8.3	03-08-23	800	CARE AA-; Stable
Fund-based - LT-Term Loan	-	-	-	January 2030	30000	CARE AA-; Stable
Proposed fixed deposit	-	-	-	-	1000	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 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-; 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)
2.	Bonds	LT	1198.00	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)
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)
4.	Bonds	LT	1147.00	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)
5.	Bonds	LT	3276.00	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)
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	1950.00	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 Loan	LT	30000.00	CARE AA-; Stable	-	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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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.

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