RATING RATIONALE

18 Nov 2022

Steel Authority of India Ltd.

Brickwork Ratings Reaffirms the ratings for the Non-Convertible Debentures of Rs. 5000 Cr of Steel Authority of India Ltd.

Particulars:

Facility / Instrument	Amt (Rs. Cr)		Tenure	Rating*	
	Previous	Present		Previous (November 12, 2021)	Present
NCD**	5000	**5000**	**Long Term**	BWR AA/Stable (Reaffirmation and change in outlook from Negative to Stable)	**BWR AA (Stable) (Reaffirmation)**

*Please refer to BWR website **www.brickworkratings.com/** for definition of the ratings.
**Details of the raised NCDs are given in Annexure I.

RATING ACTION/Outlook
BWR reaffirms the ratings of the NCD issues of Steel Authority of India Ltd. (SAIL or "the Company").

BWR has essentially relied upon the audited financial results of SAIL up to FY22 and H1FY23 unaudited financials, information and clarifications provided by the management of SAIL and information available in public domain which BWR considers reliable.

The rating continues to derive strength that SAIL being one of the largest steel making company in India promoted by Govt. of India which holds a majority shareholding, its established position as on one of the largest integrated steel producers in India with captive iron ore mines, geographical diversity with five integrated steel plants and three special steel plants, established sales network, healthy product mix, strong operating performance in FY22 although decline in H1FY23 with improvement in leverage and expected improvement in operating performance FY23 onwards with completion of Modernisation and Expansion (M&E).

However the rating is constrained by exposure of the SAIL's operating margins to volatility in input cost particularly coking coal, inherent cyclicality of steel industry, working capital intensive nature of the operations and foreign currency fluctuation risk.

KEY RATING DRIVERS

Credit Strengths-:

Majority GOI ownership: As on September 30, 2022 Government of India's (GoI) stake in SAIL remains at 65% and the company enjoys 'Maharatna Status', a status which provides greater autonomy and flexibility in investment and capital expenditure decisions. Such a status also aims at facilitating expansion of its operations both in the domestic and global markets.

Integrated production provides better operating flexibility: SAIL is one of the largest integrated steel producers in India with captive iron ore mines and majority of power requirement is procured from captive sources resulting in significant cost saving and sustainability of supply. However the company is dependent on external sources for coal requirements, exposing them to the risk of fluctuations in coal prices.

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 4 regional offices, 37 Branch Sales Offices (BSOs), 17 Consignment Agency yards, 2 customer handling agents, 4 Customer Contact Offices (CCOs) and 20 Departmental Warehouses across India. Furthermore, the company has a dealer network of 4,378 dealers.

Healthy product mix: The product portfolio for SAIL includes a variety of products viz Hot Rolled (HR) Coils, Cold Rolled (CR) Coils, Plate Mill (PM) plates, bars, wire rods, rails etc. These products find applications in industries like construction, engineering, power, railway, automotive, consumer durables, defense etc.

Last stage of Modernisation and Expansion (M&E) Plan: The company has incurred capital expenditure of 6,013 crore during FY 2021-22 as against a revised estimate/plan of 8,000 crore. Capex planned for the financial Year 2022-23 is likely be at 6,800 crore to enhance the share of captive power and ensure supply of reliable power at optimum cost to expansion projects. The new power facility through JV of 250 MW at rourkela Steel plant has been commissioned in March, 2022. Further, the company is in the process of installing new captive power facility of (2x20) MW capacity at durgapur Steel plant by NTPC-SAIL power company Limited (NSPCL), a Joint Venture company of SAIL & NTPC Ltd.

Improved operating performance for FY22 although declined in H1FY23: During FY22 the PBILDT & PAT margins has improved and stood at 20.62% and 11.83% (vis-a-vis18.49% and 6% in FY21) due to better realization and decline in interest cost on back of decline in its debt profile.However, the same has declined in H1FY23 and stood at Rs.3033 Cr (P.Y Rs. 13893 Cr) on back of volatile coking coal prices along with the imposition of export duty by the Government of India (GoI) in May 2022 which has resulted in a significant decline in profitability however, the same is likely to be improved in Q3-Q4 FY23 as post monsoon construction activity starts and the coal prices appear to be moderated.

Substantial Deleveraging: With increased cash accruals on account of improvement in operating performance, the company continued to repay and prepay a substantial amount of debt. Total debt reduced from Rs.35350 Cr as on March 31, 2021 to Rs. 13386 Cr as on March 31, 2022 which led to improved gearing ratio at 0.25 times. However, during H1FY23, debt level has increased marginally to Rs. 27471 Cr as on Sep 30, 2022 due to increase in working capital utilization with gearing ratio standing at 0.52 times as on september 2022.

Credit Risks-:

Inherent cyclicality of steel industry: Steel industry is highly cyclical in nature dependent on general economy, interest rates, and seasonal changes in 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 completion, hinders the responsiveness of the supply-side to demand movements. This results in several steel projects bunching up and coming on stream simultaneously, leading to a demand-supply mismatch, which has a bearing on volumes and prices. However, for manufacturers like SAIL, the presence across the value chain and a higher share of value-added products, provide better protection against the cyclicality and related fluctuations in prices of commoditised steel products.

Susceptibility of the operating margins to volatility in input cost and commodity price risk: The key raw materials i.e. iron ore and coking coal prices had shown a volatile trend over the years. The GoI had recently announced the imposition of export duty on iron ore, pellets, and a few steel and steel intermediaries on May 20, 2022. Further in the case of iron ore, the duty has been raised to 50% in all categories, up from 30% that was on lumps above 58% iron content. Although, entire iron ore requirement can be 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.

Foreign exchange risk: Owing to the high dependence on imports approx ~85-90% for its coking coal as well as foreign currency denominated debt, the company remains exposed to forex risks, which is partially mitigated by way of its hedging policy, covering. In respect of imports and other payables, the company hedges its payables as and when the exposure arises. Also, the company export’s ~6-7% of its Total Operating Income (TOI) which provides natural hedge to that extent.

ANALYTICAL APPROACH: BWR has analyzed SAIL on a consolidated basis taking into consideration its consolidated financial profile. To arrive at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

LIQUIDITY (Strong): The Company has cash and cash equivalent of Rs. 426.17 Cr as on Sep 30, 2022 with most of the debt being prepaid. Furthermore, the company had unutilised fund-based facilities of ₹10,000 crore as on October, 2022. SAIL further derives financial flexibility from its lower gearing ratio and parentage of the GoI, which provides it easy access to funds at attractive rates.

RATING SENSITIVITIES:

Positive: Improvement in operating performance of the company on the back of implementation of M&E and improvement in coverage indicators and debt protection metrics.
Negative: Lower than envisaged operating performance with lower demand growth and steel prices will be credit negative.

COMPANY PROFILE

Steel Authority of India Limited (SAIL) is amongst the largest steel-making companies in India and one of the ten Maharatnas of the country's Central Public Sector Enterprises. SAIL produces iron and steel at five integrated plants and three special steel plants, located principally in the eastern and central regions of India and situated close to domestic sources of raw materials. SAIL manufactures and sells a broad range of steel products.

The Government of India owns about 65% of SAIL's equity and retains voting control of the Company. The company is an integrated iron and steel maker, producing both carbon and special steel for various 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, viz, Alloy Steel Plant, Salem Steel Plant and Visvesvaraya Iron & Steel Plant.

KEY FINANCIAL INDICATORS (Consolidated)

Key Parameters	Units	FY 21-22 (Audited)	FY 20-21 (Audited)
Total Operating Income	Rs. Crore	103476.84	69113.61
EBITDA	Rs. Crore	21341.52	13599.41
PAT	Rs. Crore	12243.47	4183.13
Tangible Net Worth	Rs. Crore	52752.28	41922.64
Total debt/Tangible Net Worth	Times	0.25	0.90
Current Ratio	Times	0.76	0.90

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Instrument / Facilities	Current Rating (November 2022)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (Rs.Crs)	Rating	November 2021	Oct 29, 2020	Sep 23, 2019
NCDs	Long Term	5000	AA /Stable Reaffirmation	AA /Stable Reaffirmation with change in outlook from Negative to Stable	AA/Negative Reaffirmation	AA /Negative Reaffirmation
Total		5000	Rs. Five Thousand Crore Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

For more information, visit **www.brickworkratings.com/download/ComplexityLevels.pdf**

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Consolidation of Companies**
- **Manufacturing Companies**

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Annexure I

Key Covenants of the rated NCDs

Instruments	ISIN	Amt (Rs. Cr)	Issue Date	Maturity	Coupon
NCD BG	**INE114A07950**	1200	1-Aug-2016	1-Aug-2023	8.3%
NCD BH	**INE114A07968**	800	3-Aug-2016	3-Aug-2023	8.3%

Annexure II
List of entities consolidated

Name of the Entity	% Ownership	Extend of consolidation	Rationale for consolidated
SAIL Refractory Company Limited	100%	100%	Subsidiary
Chhattisgarh Mega Steel Limited	74%	74%	Subsidiary
Almora Magnesite Ltd	20%	20%	Associate
NTPC-SAIL Power Company Private Limited	50%	50%	Joint Venture
International Coal Ventures Private Limited	47.82%	47.82%	Joint Venture
Bastar Railway Private Limited	12%	12%	Joint Venture
SAIL RITES Bengal Wagon Industry Private Limited	50%	50%	Joint Venture
GEDCOL SAIL Power Corporation Limited	26%	26%	Joint Venture
mJunction Services Limited	50%	50%	Joint Venture
Bokaro Power Supply Company Private Limited	50%	50%	Joint Venture
Bhilai Jaypee Cement Limited	26%	26%	Joint Venture
SAIL Kobe Iron India Private Limited	50%	50%	Joint Venture
SAIL SCL Kerala Limited	49.26%	49.26%	Joint Venture
SAIL Bansal Service Centre Limited	40%	40%	Joint Venture
Prime Gold - SAIL JVC Limited	26%	26%	Joint Venture

For print and digital media
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