



RATING RATIONALE

12 November 2021

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. (SAIL or “the Company”)

Particulars:

Facility / Instrument	Amt (Rs. Cr)		Tenure	Rating*	
	Previous	Present		Previous	Present (Reaffirmation with change in outlook)
NCD	5000	5000	Long Term	BWR AA (Negative)	BWR AA (Stable)

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
NCD Issued for Rs 2000 crs.

RATING ACTION

BWR reaffirms the ratings of the NCD issues of Steel Authority of India Ltd. (SAIL) with the change in outlook from ‘Negative’ to ‘Stable’.

The change in outlook follows the strengthening of its Balance Sheet with the deleveraging by the Company supported by increased cash accruals from business operations on account of increase in volumes and EBITDA per ton influenced by improvement in steel industry outlook, global economic scenario and increase in commodity prices since 3QFY21 post recovery in pandemic situation. The steel demand is expected to be at elevated levels during FY22 which is expected to benefit the company.

The rating continues to derive strength that SAIL being 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, strong operating performance in FY21 and 1HFY21 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 cyclicity of steel industry and working capital intensive nature of the operations.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA: BWR has analysed SAIL on consolidated basis. For detailed rating criteria, kindly follow the link given at the end of the rating rationale.

KEY RATING DRIVERS

Credit Strengths:-

Majority GOI ownership: As on September 30, 2021 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), 21 Consignment Agents, 10 Customer Contact Offices (CCOs) and 43 Departmental Warehouses across India. Furthermore, the company has a dealer network of 2,122 dealers, including close to 1,000 rural dealers spread over 591 districts of the country.

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. During FY21, the sale of value added steel in total sales stood at 44.24% and the balance 55.76% pertains to commodity steel.

Last stage of Modernisation and Expansion (M&E) Plan: In order to improve the overall capacity as well as efficiency, SAIL had started M&E plan in FY10 with a total estimated cost of Rs.79,800 crore (including Rs.10,264 crore for augmenting raw material sources). The M&E plan entailed enhancing the overall production capacity from 12.8 MTPA to 21.4 MTPA of saleable steel. Till September 2021, SAIL had incurred a cumulative expenditure of Rs.66282 crore (including on mine development). As on September 30, 2021, the installed capacity of crude steel and saleable steel stood at 21.4 MT and 20.2 MT respectively.

The M&E plan is in the last phase and is expected to be completed by FY23, which is expected to substantially improve the operating performance of the company.

Improved operating performance for FY21 and 1HFY21: Despite Covid related disruptions faced by the company in 1HFY21, sales volumes for FY21 increased to 14.9 mmt (million metric ton) as against 14.2 mmt in FY20. Revenue for FY21 increased by 12% to Rs. 69114 Cr with EBITDA margin of 19.7% (FY20 EBITDA margin- 18.04%) with improvement in sales



realisations. Operating performance continued to improve in 1HFY22 with recovery in pandemic situations and improvement in economy. During 1HFY22, the company earned revenues of Rs. 47471 Cr (1HFY21 – Rs. 25993 Cr) with EBITDA margin of 29.3% (1HFY22 EBITDA margin – 7.5%). The sales volumes for 1HFY22 7.61 mmt.

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. 53802 Cr as on March 31, 2020 to Rs. 37677 Cr as on March 31, 2021 and further to Rs. 24702 Cr as on Sep 30, 2021. This led to improvement in gearing from 1.3x as on March 31, 2020 to 0.9x as on March 31, 2021 to 0.5x as on September 30, 2021.

Credit Risks:-

Inherent cyclicity 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.

Susceptibility of the operating margins to volatility in input cost and commodity price risk.

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, the coking coal requirement is largely met through imports which has shown volatility in prices impacting the company's margins over the years.

LIQUIDITY (Strong): The Company has cash and cash equivalent of Rs. 796.35 Cr as on Sep 30, 2021 with most of the debt being prepaid.

RATING SENSITIVITIES:

Positive: Consistent improvement in operating performance of the company on the back of implementation of M&E plan which will further improve coverage indicators and leverage with reduction in debt will be credit positive.

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 the largest steel-making company in India and one of the seven 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, Alloys Steels Plant, Salem Steel Plant and Visvesvaraya Iron & Steel Plant.

KEY FINANCIAL INDICATORS

(As per Annual Report 2020-21)

Key Financial Indicators	Units	Consolidated FY20	Consolidated FY21
Result Type		Audited	Audited
Total Operating Income	Rs. Crore	61664.16	69113.61
EBITDA	Rs. Crore	11121.51	13599.41
PAT / (Loss)	Rs. Crore	2120.71	4183.13
Tangible Net Worth	Rs. Crore	37861.55	41922.64
Total debt: Tangible Net Worth	Times	1.4	0.9
Current Ratio	Times	0.8	0.9

During 1HFY22, the company reported sales revenue of Rs.47471 Cr (P.Y Rs. 25993 Cr) with EBITDA of Rs.13893 Cr (P.Y Rs. 1955 Cr).

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS

Instrument / Facilities	Current Rating (October 2021)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (Rs.Crs.)	Rating	Oct 2020	Sep 2019	Sep 2018
NCDs	Long Term	5000	AA (Stable)	AA (Negative)	AA (Negative)	AA (Negative)
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](#)
- [Manufacturing Companies](#)

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Annexure I
Details of the NCDs rated by BWR

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%



For print and digital media

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