स्टील अथॉरिटी ऑफ इण्डिया लिमिटेड
STEEL AUTHORITY OF INDIA LIMITED

No.CA/Compliance/Cr.Rating/2023

7th April, 2023

The General Manager (MO) Bombay Stock Exchange Through BSE Listing Centre	The Assistant. Vice President National Stock Exchange of India Ltd. Through Neaps

Sub: Disclosure under Regulation 30 of SEBI (LODR), 2015 – Review, Reaffirmation and Assignment of Credit Rating of Bank Facilities by Care Ratings Ltd.

Dear Sir,

It is hereby informed that in terms of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Care Ratings Ltd. has, pursuant to Regulation 84(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, reviewed, reaffirmed and assigned the following ratings of SAIL:

Facilities	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities	8,500.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	30,000.00	CARE A1+ (A One Plus)	Assigned
Total Facilities	38,500.00		

The Rationale of Ratings is enclosed at Annexure-I.

Thanking You,

Yours faithfully,
For Steel Authority of India Limited

(M.B. Balakrishnan)
CGM (Finance) & Company Secretary

Encl: As Above

Annexure I

Steel Authority of India Limited

April 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	8,500.00	CARE AA; Stable	Reaffirmed
Short Term Bank Facilities	30,000.00	CARE A1+	Assigned
Bonds	-	-	Withdrawn ^

Details of instruments/facilities in Annexure-1.

^ CARE Ratings Limited (CARE Ratings) has withdrawn the outstanding rating assigned to the bond issue (ISIN - INE114A07943) of ₹1,185 crore, as the same has been fully redeemed/ repaid.

Rationale and key rating drivers

The rating assigned to the bank facilities of Steel Authority of India Limited (SAIL) continues to derive strength from its 'Maharatna' status, with the majority ownership by the Government of India (GoI) and the company's established position as one of the largest integrated and diversified steel producers in India with access to captive iron ore mines, long track record in the steel business, strong distribution network, and modernisation initiatives undertaken by the company to make the operations cost-efficient. The rating also takes into account accelerated deleveraging during FY22 (refers to the period from April 1 to March 31), which has been supported by its robust operating performance, marked by healthy profitability per tonne and growing sales volumes, thereby resulting in strong cash flows, which have been utilised to pay off the debt. Resultantly, its leverage, debt coverage, and liquidity indicators have improved in FY22. However, there has been moderation in the profitability of the company during 9MFY23 largely on account of declining steel prices post imposition of the export duty in May 2022 by the Government of India (GoI) as against high and volatile raw material prices (especially coking coal). Going forward, CARE Ratings expects improvement in profitability with net sales realisations aligning to the fluctuations in the raw material prices to some extent. Robust domestic demand along with improving exports volumes post removal of the export duty in November 2022 is expected to support steady volume growth.

The above rating strengths are, however, tempered by the susceptibility of the company's operating profitability margins to the volatility in coking coal and steel prices, competition from more efficient steelmakers, large working capital requirements, regulatory risks, and cyclicality inherent in the steel industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustenance of strong operating performance, with profit before interest, lease rentals, depreciation and taxation (PBILDT) per tonne above ₹12,000 and sales volumes above 17 million tonne per annum (MTPA).
- Total debt (TD)/PBILDT below 1 on a sustained basis and a significant build-up of liquidity.

Negative factors

- Decline in the sales volumes below 15.0 MT and PBILDT per tonne below ₹8,000 per tonne on a sustained basis.
- Any large debt-funded capex, resulting in an overall gearing ratio above 1.0x on a sustained basis.
- GoI diluting its controlling stake in the company.

Analytical approach

CARE Ratings has considered the standalone profile of SAIL along with factoring in government notching as per CARE Ratings' criteria on factoring linkages-government support.

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its strong market position, which coupled with favourable demand scenario in the domestic market shall enable it to sustain healthy business risk profile over the short to medium term.

Key strengths

Strong parentage and Maharatna status

SAIL is the largest state-owned steel producer in India with a majority stake of 65% held by the GoI as on December 31, 2022. The company enjoys 'Maharatna' status, which imparts greater autonomy to central public sector enterprises (CPSEs) in their investment and capital expenditure (capex) decisions. Such a status also aims at facilitating the expansion of its operations

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

both, in the domestic and global markets. The company also enjoys substantial financial flexibility due to government ownership and it has demonstrated the ability to raise funds at competitive rates.

Sizeable scale and integrated operations

SAIL is one of the largest integrated steel producers in India, with a crude steel capacity of 19.63 MTPA as on December 31, 2022, and has a high degree of vertical integration, since its entire requirement of iron ore is met from captive iron ore mines. The company also procures a very small quantity of coking coal from its captive mines, namely, the Chasnala and Jitpur mines. However, it is dependent on external sources for its coking coal requirements, with more than 95% being imported from Australia, the US, and New Zealand, and its joint venture (JV) International Coal Ventures Private Limited (ICVL, Mozambique), while in the domestic market, its major supplier is Coal India Limited (CIL) and the latter's different subsidiaries. SAIL mined a total of 31.04 MT of iron ore during FY22 (FY21: 30.06 MT). Furthermore, the company is undertaking expansion of its iron ore mines under its modernisation and expansion (M&E) project, which will ensure the availability of captive iron ore for its current and future capacities.

Geographically-diversified operations and rising emphasis on value-added products

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. The product portfolio for SAIL includes a variety of products, viz, hot-rolled (HR) coils, cold-rolled (CR) coils, PM plates, TMT bars, wire rods, and rails, etc. These products find applications in industries, including construction, engineering, power, railways, automotive, consumer durables, and defence. During FY22, the company produced 8.25 MT (PY: 6.40 MT) of value-added steel, which contributed to 51.10% of the total saleable steel production in FY22 (PY: 46.70%), whereas the balance pertained to commoditised steel products and semis. Moreover, the company increased its share of production of cost-efficient con-cast methods to 99% in FY22, from 97% in FY21 and 90% in FY20, reaping the benefits of its modernisation initiatives undertaken over the years.

Strong marketing network

The company has a strong central marketing organisation (CMO), which is responsible for marketing of the company's steel products, including carbon and alloy steel. The company's CMO consists of a network of four regional offices, 37 branch sales offices (BSOs), 10 customer contact offices (CCOs), and 43 operational warehouses (23 departmental and 20 consignment agents yards) across India, equipped with mechanised material handling systems. Furthermore, the company has a dealer network of more than 4,400 dealers as on March 31, 2022, including close to 1,000 rural dealers spread across the country, with a presence across all major districts of the country. However, the company has a relatively lower presence in export markets, which contributed only 6.8% to the total sales in FY22 (PY: 9.6%), contrary to major private steel producers that had substantially higher exports in FY22 in the backdrop of the buoyancy in global steel prices.

Strong operating performance in FY22 albeit moderation in 9MFY23

During FY22, the total operating income (TOI) increased significantly by 48% y-o-y, aided by higher sales volume and better sales realisations. The average sales realisation increased from ₹45,817 per tonne to ₹63,656 per tonne on the back of an increase in the steel prices and a better product mix, besides benefits accruing from a higher share of production from cost-efficient methods. Furthermore, lower coking coal prices in H1FY22 led to an improvement in its PBILDT margin, from 18.6% in FY21 to 20.63% in FY22. The overall sales volumes grew by 8% to 16.15 MT in FY22 (PY: 14.94 MT), while the PBILDT per tonne increased to ₹13,216 per tonne in FY22 (PY: ₹9,068 per tonne). Furthermore, the profit-after-tax (PAT) margin of SAIL improved from 5.56% in FY21 to 11.61% in FY22 on account of reduced interest expenses, in line with the reduction in total debt and better-operating margins.

During the period of 9MFY23, SAIL achieved TOI of ₹75,317 crore as against TOI of ₹72,715 in 9MFY22. The PBIDLT per tonne stood at ₹5,189 in 9MFY23 as compared with ₹15,354 in 9MFY22. The PBIDLT margins declined primarily due to declining steel prices as against high coking coal prices.

Sizeable deleveraging in FY22 albeit increase in debt level during 9MFY23

With higher sales volumes, better sales realisations, and consequent generation of higher cash accruals, coupled with healthy cash flows from operations, the company has been able to reduce its total debt (including acceptances) considerably to ₹29,363 crore as on March 31, 2022 (₹40,794 crore as on March 31, 2021). The continuous reduction in debt and accretion of profits to net worth has also led to an improved overall gearing of 0.30x as on March 31, 2022 (PY: 0.82x). The interest coverage ratio and the total debt to PBILDT ratio of the company improved significantly to 12.57x and 1.3x as on March 31, 2022 (PY: 4.57x and 3.2x, respectively), on account of its higher operating profits and reduced interest expenses in line with debt reduction.

The total debt (including acceptances) however again increased to ₹39,379 crore as on December 31, 2022, mainly due to increased working capital requirement on the back of increase in the coking coal prices coupled with increase in the inventory level. However, CARE Ratings expects the debt level to come down by ₹3,000-4,000 crore in Q4FY23 owing to inventory liquidation and lower coking coal prices.

Liquidity: Strong

SAIL is expected to earn sufficiently healthy cash accruals to take care of its scheduled term debt repayments of ₹2,036 crore in FY24 and ₹1,386 crore in FY25. The liquidity of SAIL remains strong, with free cash and cash equivalents and bank balances of over ₹85 crore as on December 31, 2022. Its unutilised bank lines are adequate to meet its incremental working capital needs over the next one year. SAIL further derives financial flexibility from its low gearing ratio and parentage of the GoI, which provides it easy access to funds at attractive rates. Capex during FY23 is expected to be funded through internal accruals while majority of capex during FY24 is expected to be funded through internal accruals with remaining capex though debt based on its internal accrual.

Key weaknesses

Susceptibility of the operating margins to volatility in input costs

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, thus impacting the company's margins over the years. Also, being a limited exporter, the company remains exposed to the foreign currency fluctuation risks on its coking coal imports, albeit the risk is somewhat mitigated due to the import parity pricing prevalent in the domestic steel industry. Furthermore, SAIL's relatively higher overheads and lower productivity vis-à-vis other integrated steel players have also led to suppressed profitability in the past, though the company is taking initiatives to become more cost-efficient.

Working capital-intensive operations

Being an integrated player with captive mines, the company had substantial inventories, although it reduced to 87 days in FY22 (PY: 137 days) amid destocking, aided by a better demand scenario. Its collection period also improved from 45 days in FY21 to 23 days in FY22, supported by better collection, particularly the recovery of dues from the Indian Railways. However, the company reported a certain increase in its creditor's period due to the increase in coking coal prices towards the end of the year. As a result, the working capital cycle of the company improved significantly, from 136 days in FY21 to 56 days in FY22.
Although working capital requirement again increased during 9MFY23, mainly due to increase in the coking coal prices coupled with increase in the inventory level, CARE Ratings expects it to reduce to some extent in Q4FY23 owing to inventory liquidation and lower coking coal prices.

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 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 high share of value-added products, provide better protection against the cyclicality and related fluctuations in the prices of commoditised steel products.

Regulatory risk

During November 2022, the GoI lifted the export duty imposed by it earlier in the month of May 2022 on iron ore, pellets, and few steel and steel intermediaries. This is expected to improve export sales, however, export sales for the year ended March 31, 2023, are expected to be in the range of 10-15% vis-à-vis 28% for FY22.

Environment, social, and governance (ESG) assessment

Parameter	Compliance and action by the company
Environment	• SAIL is certified with ISO 9000:2015 (quality management systems), ISO 14001:2015 (environmental management systems), SA 8000:2014 (Social accountability) and ISO 45001:2018 (occupational health and safety management systems). • SAIL measures and reports on GHG (Green House Gas) emissions as per WSA (World Steel Association) methodology and is also Climate Action member. • SAIL has voluntarily subscribed to the action points defined under the Charter on Corporate Responsibility for Environmental Protection (CREP), an MOEF&CC (Ministry of Environment, Forest and Climate Change) initiative. • SAIL was winner of "Golden Peacock Environment Management Award - 2021" in steel sector. • SAIL was 3rd joint winner of coveted 3rd National Water Award 2020 in the 'Best Industry' category for showcasing work and efforts towards water conservation. • SAIL was winner of the "21st Annual Greentech Environment & Sustainability Award 2021". • SAIL received ENCON Award 2021 for Energy Conservation for multiple units.
Social	• SAIL's business policies and actions are aligned with the ten universal Principles of UN Global Compact towards human rights, labour, environment, and anti-corruption. • SAIL uses numerous modes to engage with it's both internal and external stakeholders in a constructive manner and to captures their expectations. Interaction with suppliers allows the company to recognize focus areas and strengthen relationship with them. Customer satisfaction index and employee satisfaction are few of the metrics methodologies are adopted to gauge and quantify the stakeholder feedbacks.
Governance	• Despite 65% stake owned by Government of India, SAIL, by virtue of its 'Maharatna' status, enjoys significant operational and financial autonomy. The Board of Directors comprised of a Chairman, 5 whole time Directors and 8 Non-Executive Directors (consisting of 2 Government Nominee Directors and 6 Independent Directors). • SAIL has formulated various policies which ensure transparency, accountability, disclosures and reporting. Policies on anti-bribery management, MOU, enterprise risk management, CSR, safety, quality, corporate environment, occupational health and safety, energy management and social accountability and sustainable development are in place, in line with the requirement.