India Ratings Affirms Steel Authority of India at ‘IND AA’/Stable; Rates Term Loans

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India Ratings and Research (Ind-Ra) has affirmed Steel Authority of India Limited’s (SAIL) Long-Term Issuer Rating at ‘IND AA’. The Outlook is Stable. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Long-Term Issuer Rating	-	-	-	-	IND AA/Stable	Affirmed
Bonds*	-	-	-	INR10,780 (reduced from INR15,470)	IND AA/Stable	Affirmed
Public deposits	-	-	-	INR10,000	IND AA/Stable	Affirmed
Proposed bank loan	-	-	-	INR15,000 (reduced from INR20,000)	IND AA/Stable	Affirmed
Non-fund-based limits	-	-	-	INR50,000	IND AA/Stable	Affirmed
Non-fund-based working capital limits	-	-	-	INR50,000	IND A1+	Affirmed
Fund-based working capital limits	-	-	-	INR100,000	IND AA/ Stable /IND A1+	Affirmed
Commercial paper (CP)	-	-	Up to 180 days	INR80,000	IND A1+	Affirmed
Term loans	-	-	3 September 2029	INR5,000	IND AA/Stable	Assigned

*Details in Annexure

Analytical Approach

Ind-Ra continues to fully consolidate SAIL’s subsidiaries SAIL Refractory Company Limited (100% stake owned by SAIL) and M/s Chattisgarh Mega Steel Limited (74%), associate company Almora Magnesite Ltd and 14 joint ventures while factoring in the availability of support to the company from the government of India (GoI).

Detailed Rationale of the Rating Action

The affirmation reflects Ind-Ra’s expectation of an improvement in the net adjusted leverage in FY25 and thereafter to below 3.5x, resulting in a reduction of the adjusted debt levels led by a timely correction in the inventory and receivables, along with an improvement in the operating profitability from operating efficiencies. Despite an improvement in the profitability, the company’s credit metrics weakened in FY24 and 1QFY25 due to an increase in the working capital debt levels on account of higher inventory and receivables. However, there was a correction in the inventory and receivables in July and August 2024. Any additional stretch in its working capital cycle or a reduction in steel spreads will remain a key rating monitorable.

The ratings continue to reflect SAIL’s strong business profile, sustained revenues and moderate credit profile. SAIL’s expansion capex is likely to be incurred over FY27-FY31. While the company has a track record of incurring less-than-Ind-Ra-expected/-announced large capex historically, any increase in the capex intensity without a commensurate increase in the cash flows will adversely affect credit ratios, and remain a key rating monitorable.

List of Key Rating Drivers

Strengths
- Volume growth to sustain over FY25-FY26
- Margins likely to be maintained over FY25-FY26
- GoI support
- Improving techno economic parameters

Weaknesses
- High working capital requirement resulting in moderate credit metrics
- Debt-funded capex
- Industry risks
- Regulatory risks

Detailed Description of Key Rating Drivers

Volume Growth to Sustain over FY25-FY26: SAIL's sales volumes improved to around 17.02 million metric tonnes (mmt) in FY24 (FY23: 16.20mmt), led by a sustained improvement in the demand from the domestic market; however, the demand from the export market declined to 2% in FY24 (FY23: 3%). In 1QFY25, the sales volumes improved 3% yoy to 4.01mmt (1QFY24: 3.9mmt). The revenue, however, did not improve in the same proportion during FY24 (INR1,054 billion) and 1QFY25 (INR240 million; FY23: INR1,044 billion, 1QFY24: INR244 billion), due to a reduction in the realisation to INR61,014/tonne and INR59,845/tonne (FY23: INR64,474/tonne; 1QFY24: INR62,459/tonne). Ind-Ra expects FY25 revenues to be supported by an uptick in volumes in 2HFY25 as the steel sector typically witnesses an increase in the demand in the second half of the year, supported by robust domestic demand fundamentals.

Margins Likely to be Maintained over FY25-FY26: SAIL's EBITDA margins remained modest and improved to 10.6% in FY24 and 9.3% in 1QFY25 (FY23: 7.7%), supported by a reduction in the cost of production (COP), led by lower coal prices. SAIL's absolute EBITDA increased 39% yoy to INR111 billion in FY24 (FY23: INR80 billion) and 35% yoy to INR22.2 billion in 1QFY25. Consequently, the EBITDA per tonne improved 32% yoy to INR6,551 per tonne in FY24 (FY23: INR4,963) and 31% yoy to INR5,536/tonne in 1QFY25 (1QFY24: INR4,228/tonne). Ind-Ra expects the EBITDA to remain around INR6,000/tonne with the overall EBITDA margin to be around 10.0% over FY25-FY26, supported by higher volumes, operating efficiencies through the modernisation initiatives undertaken by the company, and range-bound spreads.

GoI Support: SAIL is a Maharatna public sector entity and the GoI owns a 65% stake in the company. Hence, SAIL continues to be a strategically important entity for the GoI and has been receiving support from the latter, largely through policy initiatives. There has been a visible track record of timely policy interventions on occasions when the company has faced sectoral issues such as minimum import price provisions in February 2016 and preference given to domestically-manufactured iron and steel products in government procurements, among others. Furthermore, one of SAIL's largest customers is Indian Railways; for which the prices are regulated by the GoI to ensure healthy returns on investments. From September 2019, SAIL has been allowed to undertake merchant sales of iron ore as well, which shall provide significant support to the company in the form of an additional revenue stream. Moreover, SAIL has high financial flexibility from large banks and capital markets.

Improving Techno Economic Parameters: The company continues to improve on its techno-economic parameters, although it remains slightly behind compared to other large steel makers. The improvement in techno economic parameters has been achieved through the use of efficient techniques such as coke dry quenching and coal dust injection, which has helped in bringing down the coke rate. The company has been incurring the necessary maintenance capex for technology upgradation and maintaining the condition of its plants, while using appropriate raw material as per specifications to maintain the specific energy consumption. The company is looking to increase the use of pellets in steel making to further improve the blast furnace productivity. Furthermore, the full replacement of Twin Hearth Furnaces used at its Bhilai Steel Plant and IISCO Steel Plant with energy efficient basic oxygen furnaces has had a favourable impact on the company's energy consumption. SAIL has also been replacing the energy intensive ingot teeming method with the continuous casting method.

High Working Capital Requirement Resulting in Moderate Credit Metrics: SAIL's total gross debt (including letters of credit

(LC) acceptances and lease liabilities) increased significantly to INR469 billion at end-1QFY25 from INR466 billion at end-FY24 (FY23: INR397 billion), mainly due to the increase in its working capital debt, led by an increase in its inventory and receivables, resulting in lower cash generation from its operations. This led to a moderation in its credit metrics with a net adjusted leverage (net adjusted debt/operating EBITDA) of 3.99x in 1QFY25 (trailing 12 months (TTM)) and 4.17x in FY24 (FY23: 4.93x), and a gross interest coverage (operating EBITDA/gross interest expenses) of 3.2x in 1QFY25 and 4.51x in FY24 (3.95x). Thus, an improvement in credit metrics from the timely correction in inventory and receivables, resulting in a reduction in the debt levels, remain a key rating monitorable. Ind-Ra expects the net adjusted leverage (including LC acceptances and lease liabilities) and gross interest coverage are likely to be 3x-3.5x and 3.5x-4.5x, respectively, over FY25-FY26. Furthermore, the company will avail long-term debt to fund the planned brownfield capex FY27 onwards. Any increase in capex intensity without a commensurate increase in cash flows will adversely affect credit ratios, and remain a key monitorable.

Debt-funded Capex: SAIL has indicated that it has planned the next round of expansion capex for increasing capacity to 35mmt by FY31-FY32 and expects a total outlay of around INR1,000 billion. Furthermore, the company plans to enhance its existing capacity with process and operating efficiencies. A majority of the capex will be undertaken in FY27 and FY28 and will be funded by a debt of around 50% and the rest through internal accruals. While the company has a track record of incurring a lower-than-Ind-Ra-expected/announced large capex, it has witnessed delays in execution and this will remain a key monitorable for the agency. SAIL also has INR40 billion-INR50 billion of annual maintenance capex liability which will be funded through internal accruals.

Industry Risks: SAIL's cash flows remain exposed to the cyclicality inherent in the steel industry and the volatility in the prices of raw materials, particularly coking coal. The company's inventory days also remain high, as it needs to maintain high raw material inventory levels to ensure an adequate availability of imported inputs. Moreover, when the demand is subdued, SAIL's finished goods inventories also increase as production cuts cannot be implemented swiftly. However, SAIL has a diversified customer base, as it caters to various industries such as construction, infrastructure, capital goods and consumer durables. Also, most of its customers have strong-to-adequate credit profiles, thereby mitigating its counterparty collections risk to some extent.

Regulatory Risks: Given SAIL is involved in mining operations, it is exposed to the Supreme Court of India's ruling of 14 August 2024 on the retrospective payment of tax demand on transactions made on or after 1 April 2005 on mineral rights and mineral bearing lands to the state governments. However, payments will be spread over 12 years, starting 1 April 2026. Additionally, interest and penalties on demands for the period before 25 July 2024, will be waived for all assesses. The states are yet to come out with their decision on imposition of such retrospective tax. As per the management, the annual cash outflow with regard to the tax liability is likely to be INR2,500 million-INR3,500 million. Ind-Ra will monitor the impact of the Supreme Court ruling with respect to the taxation of mineral rights and its impact on SAIL.

Liquidity

Adequate: The average maximum utilisation of the fund-based limits was around 43%, during the 12 months ended June 2024. The utilisation of the non-fund-based limits was around 63% over 1QFY24. At end-June 2024, SAIL had adequate unutilised limits of around INR34 billion from its working capital consortium and INR168 billion from its short-term limits (outside the consortium). SAIL had unrestricted cash and equivalents of INR0.69 billion at FYE24 (FYE23: INR0.57 billion). The net working capital cycle is likely to improve in FY25 from 90 days in FY24 (FY23: 64 days, FY22: 21 days), primarily due to a reduction in inventory and receivable days which increased to 127 (105, 87) and receivable days to 29 (19,17). Ind-Ra expects SAIL's cash flow from operations to remain positive in FY25 due to sustained EBITDA and working capital release. The cash flow from operations turned positive at INR10 billion in FY24 (FY23: negative INR72 billion; FY22: INR293 billion).

Ind-Ra opines SAIL's liquidity will be sufficient to meet its fund requirements over FY25-FY26. With the scheduled repayments of INR10.91 billion and INR7.25 billion in FY25 and FY26, respectively, Ind-Ra expects SAIL's operational debt service coverage ratio to be comfortable at 2x-3x over FY25-FY26.

SAIL has high financial transparency and flexibility for access to capital markets. The company has a long track record in the debt securities market and its financing needs are adequately met through a mix of securities and diversified bank funding. SAIL's forex risk arises largely from its overseas borrowing arrangements, which are primarily denominated in US dollar. The promoters did not have any shareholding pledged as on 30 June 2024.

Rating Sensitivities

Positive: An improvement in operating profitability and/or working capital cycle leading to a visibility of the consolidated net adjusted leverage improving below 2.0x, could be positive for the ratings.

Negative: The consolidated net adjusted leverage exceeding 3.5x, on a sustained basis, due to any large capex, and/or a stretch in the working capital cycle or an exceptional fall in the profitability, could lead to a negative rating action.

Any Other Information

Standalone Financials: SAIL earned a revenue of INR1,054 billion in FY24 (FY23: INR1,044 billion; FY22: INR1,035 billion) and an EBITDA of INR111 billion (INR80 billion; INR213 billion) with EBITDA margins of 10.6% (7.7%; 20.6%). The interest coverage remained strong at 4.5x in FY24 (FY23: 3.9x; FY22: 12.6x) with the net adjusted leverage (including LC acceptances and lease liabilities) of 4.18x (4.94x; 1.28x).

ESG Issues

ESG Factors Relevant to Rating: GHG Emissions and Air Quality under Environment has relevance and moderate impact to the credit rating of SAIL. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

SAIL is an integrated iron and steelmaker with five integrated steel plants: Bhilai Steel Plant, Durgapur Steel Plant, Rourkela Steel Plant, Bokaro Steel Plant and IISCO Steel Plant. It also has three special steel plants, alloy steel plants, Salem steel plant and Visvesvaraya iron and steel plant.

The company is one of the largest steelmakers in India, with a total crude steel and saleable steel capacity of 19.63 million tonnes per annum and 18.54 million tonnes per annum, respectively, as on 31 July 2024.

Key Financial Indicators

Particulars (Consolidated)	1QFY25	FY24	FY23
Revenue (INR billion)	240	1,054	1,044
EBITDA (INR billion)	22	111	80
EBITDA margin (%)	9.3	10.6	7.7
Interest coverage (x)	3.2	4.5	3.9
Net adjusted leverage (including LC acceptances and lease liabilities) (x)	4.0*	4.2	4.9
Source: Company, Ind-Ra * on TTM			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/ Outlook			Historical Rating/ Outlook		
	Rating Type	Rated Limits (in million)	Rating	5 September 2023	6 September 2022	7 September 2021
Issuer rating	Long-term	-	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Bonds	Long-term	INR10,780	IND AA/ Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Public deposits	Long-term	INR10,000	IND AA/ Stable	IND AA/Stable	IND AA/Stable	IND tAA/Stable
Proposed bank loans	Long-term	INR15,000	IND AA/ Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Non-fund-based limits	Long-term	INR50,000	IND AA/ Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable

Non-fund-based working capital limits	Short-term	INR50,000	IND A1+	IND A1+	IND A1+	IND A1+
Fund-based working capital limits	Long-/short-term	INR100,000	IND AA/ Stable /IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+
Commercial paper	Short-term	INR80,000	IND A1+	IND A1+	IND A1+	IND A1+
Term loan	Long-term	INR5,000	IND AA/ Stable	-	-	-

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bonds	Low
Non-fund-based working capital facilities	Low
Fund-based working capital facilities	Low
Public deposits	Low
Bank loans	Low
Non-fund-based limits	Low
Commercial paper	Low
Term loan	Low

For details on the complexity level of the instruments, please visit www.indiaratings.co.in/complexity-indicators.

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon rate	Maturity Date	Size of Issue (million)	Rating/Outlook
Bonds	INE114A07729*	9 September 2011	9.35	9 September 2026	4,550	WD
Bonds	INE114A07513	15 September 2009	8.75	15 September 2024	500	IND AA/Stable
Bonds	INE114A07869	14 October 2014	9.00	14 October 2024	10,000	IND AA/Stable
Bonds	INE114A07620	26 October 2009	8.80	26 October 2024	140	IND AA/Stable
Bonds	INE114A07638	26 October 2009	8.80	26 October 2025	140	IND AA/Stable

Source: SAIL
WD – Rating withdrawn
*Ind-Ra has withdrawn the ratings to the bond issue (ISIN: INE114A07729) of total INR4,550 million, as the call option was exercised and issues were fully redeemed on 9 August 2023.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process