स्टील अथॉरिटी ऑफ इण्डिया लिमिटेड
STEEL AUTHORITY OF INDIA LIMITED

BY COURIER

No.CA/Compliance/Cr.Rating/2019

November 19, 2019

The General Manager (MO)
Bombay Stock Exchange
Corporate Relationship Department
1st Floor, New Trading Ring,
Rotunda Building, P.P. Tower,
Dalal Street, Fort,
Mumbai-400001

The Asstt. Vice President
National Stock Exchange of India Ltd.
Plot No.C/1, G Block,
Bandra-Kurla Complex, Bandra (East),
Mumbai-400 051.

Sub: Revision of SAIL Rating by India Ratings & Research Pvt. Limited

Dear Sir,

As per the Regulation 84(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform that the rating of SAIL was reviewed by India Ratings & Research Pvt. Limited and revised as follows:

Sl No	Instrument	Amount(Rs in Cr)	Ratings/ Outlook	Remarks
1	Long Term Bond	9,507 (reduced from 11,443)	**IND AA- /Negative**	Affirmed; Outlook Revised to Negative from Stable
2.	Commercial Paper (Upto 180 days)	8,000	**IND A1+**	Affirmed
3	Non Fund Based Limits	5,000 (reduced from 7,000)	**IND AA- /Negative**	Affirmed; Outlook Revised to Negative from Stable
4	Fund Based Working Capital Limits	8,500 # (increased from 4,500)	**IND AA-/ Negative/IND A1+**	Affirmed; Outlook Revised to Negative from Stable
5.	Non Fund Based Working Capital Limits	5,000 (increased from 2,000)	**IND A1+**	Affirmed
6.	Bank Loan	2,000	**IND AA-/ Negative**	Affirmed; Outlook Revised to Negative from Stable
7	Public Deposit	1,000	**IND tAA/Negative**	Affirmed; Outlook Revised to Negative from Stable

Consortium Lead Bank Sanctioned limited Rs. 10,000 crore, as on date.

The Rationale of Ratings is enclosed at Annexure-I.

Thanking you,

Yours faithfully,
For Steel Authority of India Limited

(M.B.Balakrishnan)
Company Secretary

Encl: As above.

इस्पात भवन, लोदी रोड, नई दिल्ली 110 003, दूरभाष : 011-24367481-86 फैक्स : 011-2436 7015, वेबसाईट : www.sail.co.in
Ispat Bhawan, Lodi Road, New Delhi-110 003, Phone : 011-24367481-86, Fax : 011-24367015, Website : www.sail.co.in
PAN No. AAACS7062F
Corporate Identity No. L27109DL1973 GOI006454

Annexure I

KEY RATING DRIVERS

Weakening Demand; Inventory Pile up: Ind-Ra believes SAIL's sales volumes would remain flat at around 14.4 million tonnes (mt) in FY20 (FY19: 14.1mt), against the agency's earlier expectations of about 15.5mt. SAIL's volumes remained weak at about 6.5mt in 1HFY20, resulting in increased inventory levels. SAIL's production ramp-up plans for FY20 have been facing difficulties due to the slowing end-user industry demand. The company's inventory period is estimated to have elongated to around 160 days in 1HFY20 from 132 days in FY19 (121 days in FY18). Nevertheless, Ind-Ra expects SAIL's inventory levels to correct over 2HFY20 and crude steel production to increase by around 2% yoy in FY20 (FY19: up 7% yoy) as the company's production is equally distributed between flat and long products, thereby diversifying its end-user industries. Moreover, limited new capacity additions in the steel industry would offset the demand slowdown to some extent.

EBITDA/Tonne to Weaken over FY20: SAIL's EBITDA per tonne (excluding other income) are likely to weaken to around INR5,000 over FY20. The EBITDA per tonne fell to INR4,900 in 1QFY20 from an average of INR6,900 over FY19 (FY18: INR3,300, FY17: INR29, FY16: negative INR2,396). The agency expects SAIL's EBITDA per tonne to decline further in 2QFY20; however, recovery should begin from 3QFY20, with the likely firming up of net sales realisations (NSR) and additional revenue from iron ore sales. SAIL's EBITDA per tonne had improved on a yoy basis in FY19, in line with Ind-Ra's expectations of INR6,000, owing to the surge in net sales realisations (NSR). Ind-Ra expects the company's average gross margin per tonne to moderate by about INR2,500 over FY20, driven by 6%-7% yoy correction in NSR to around INR44,500/tonne (FY19: about INR47,500/tonne) owing to moderation in domestic steel demand. Moreover, global steel demand and trade have been impacting NSR and exports. SAIL's improving product mix and higher pricing for its sales to Indian Railways would partially offset the fall in NSR in some of the segments. As the company gradually ramps up its value-added production, it would increase the share of value-added products, such as cold-rolled coils and structural steel, over FY20-FY21.

However, considering there would be only a gradual ramp-up in production, operational improvements through raw material cost optimisation, manpower rationalisation and enhanced techno-economic parameters might be able to reduce the cost of production only marginally, by around INR500/tonne, over FY20, with a higher proportion to be achieved over 2HFY20. Nevertheless, these benefits would partially offset the likely moderation in SAIL's EBITDA per tonne over FY20.

Efforts to tackle Demand Headwinds: Over 2HFY20, SAIL has been focussing on high demand/ value-added products so as to reverse the inventory pile up . SAIL is also gearing to compensate for its reduced cash flows by enhancing its realisations on government orders and merchant sales of iron ore, as per the recent government of India (GOI) notifications, and effective working capital management by discounting letter of credit-backed customer bills. The company expects the sale of iron ore fines to be a highly profitable venture. The management expects to sell about 0.5 million tonnes per month starting from 4QFY20; this quantity could ramp up to 0.75 million tonnes per month from FY21 onwards. Ind-Ra expects this segment to generate an additional EBITDA of around INR2,500 million from FY21 onwards.

GOI Support: SAIL is a Maharatna public sector entity (PSU) and the GOI owns 75% stake in the company. Hence, SAIL continues to be a strategically important entity for the government, and has been receiving support from the latter, largely through policy initiatives. There has been a visible track record of timely policy interventions on the occasions when the company has faced sectoral issues. Some examples of the same are the minimum import price provisions in February 2016, and the preference given to domestically manufactured iron and steel products (DMI&SP) in government procurements, etc. Furthermore, one of SAIL's largest customers is the Indian Railways; the prices are regulated to ensure healthy returns on investments. From September 2019 onwards, 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 also enjoys high financial flexibility from large banks and capital markets.

Increased Leverage Risks: Ind-Ra expects SAIL's gross debt to remain flat in FY20 (FYE19: around INR450 billion), as the company's annual capex and working capital requirements should largely stabilise during the year. However, the agency expects SAIL to witness increased leverage risks due to a decline in the EBITDA. The net adjusted leverage (net adjusted debt/operating EBITDA) is likely to increasing to around 6.5x in FY20, assuming a total capex of around INR40 billion over FY20 and correction of inventory to normal levels. If the demand slowdown continues till 4QFY20 and other positive developments, such as the revenue streams expected from iron ore sales, also get delayed, Ind-Ra believes the company might witness leverage risks that are higher than the levels commensurate with SAIL's ratings in FY21. SAIL's net adjusted leverage had recovered to 4.6x in FY19 (FY18: 9.7x, FY17: 1,100x) and gross interest coverage (operating EBITDA/gross interest expenses) had improved to 2.2x (1.6x, 0.01x), supported by healthy growth in the EBITDA.

Liquidity Indicator - Adequate: SAIL's cash flow from operations increased to INR55.6 billion in FY19 (FY18: INR25.7 billion) due to healthy EBITDA generation, and its free cash flow turned positive at INR18.1 billion (negative INR39.4 billion) owing to moderation in its capex requirements. The average maximum utilisation of the working capital limits was around 45% and 43% for its fund-based and non-fund based limits, respectively, during the 12 months ended September 2019. It had unrestricted cash and equivalents of INR0.4 billion at FYE19, with adequate unutilised limits of INR35 billion out of the total of INR70 billion. SAIL's bank consortium has enhanced its fund-based working capital limits to INR100 billion from INR70 billion. Moreover, as of October 2019, unutilised term loans of INR70 billion were available to fund the company's capex requirements and general corporate purposes.

SAIL's liquidity is comfortable to meet its fund requirements over FY20–FY22. With the scheduled repayments of INR36.1 billion and INR26.4 billion in FY20 and FY21, respectively, Ind-Ra expects SAIL's operational debt service coverage ratio may remain inadequate at around 0.9x in FY20; however, unutilised term loans are available to meet the expected shortfall of around INR4.0 billion.

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. As of March 2019, the company had unhedged foreign exchange exposure (in USD and EURO) of INR67.5 billion (FY18: INR12.6 billion) (about 18% of its net worth and about 70% of its annual EBITDA), exposing SAIL to low-to-moderate forex risk. The promoters had no shareholding pledged as on 30 June 2019.

CP Program Liquidity Backup: Ind-Ra typically expects investment-grade commercial paper issuers to have full (100%) liquidity back-up available for the outstanding CP. Hence, in case of issuers rated 'IND AA-' or below, Ind-Ra usually requires CP to be carved out of the entity's fund-based working capital limits, given the higher refinancing frequency in CP. An exception has been made in the case of SAIL, given the agency's assessment that the company has strong funding flexibility and refinancing ability. Also, according to the management, SAIL will keep unutilised WC loans/term loans available above the CP program limit to ensure backup. The company has maintained a track record of the same in the 12 months ended October 2019.

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 (FY19:132 days), as it needs to maintain high inventory levels for raw material to ensure adequate availability of imported inputs. Moreover, when demand is subdued, SAIL's finished goods inventories also increase as the 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, and most of its customers have strong-to-adequate credit profiles, thereby mitigating its counterparty collections risk.