BY COURIER

No.CA/Compliance/Cr.Rating/2018 November 09, 2018

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Bombay Stock Exchange
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National Stock Exchange of India Ltd.
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(Fax No.022-26598237/38)

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	114.43	**IND AA-/Stable**	Affirmed; Outlook Revised to Stable from Negative
2.	Commercial Paper	8,000	**IND A1+**	Reaffirmed
3	Non Fund Based Limits	7,000	**IND AA-/Stable**	Affirmed; Outlook Revised to Stable from Negative
4	Fund Based Working Capital Limits	4,500	**IND AA-/Stable/IND A1+**	Affirmed; Outlook Revised to Stable from Negative
5.	Non Fund Based Working Capital Limits	2,000	**IND A1+**	Affirmed; Outlook Revised to Stable from Negative
6.	Bank Loan	2,000	**IND AA-/ Stable**	Affirmed; Outlook Revised to Stable from Negative
7	Public Deposit	1,000	**IND tAA/Stable**	Affirmed; Outlook Revised to Stable from Negative

The Rationale of Ratings is enclosed at Annexure-I.

Thanking you,

Yours faithfully,
For Steel Authority of India Limited

(M.C. Jain)
ED(F&A) and Company Secretary

Encl: As above.

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Corporate Identity No. L27109DL1973 GOI006454

Annexure-I.

Detailed Rationale & Key Rating Drivers

EBITDA/Tonne to Further Improve: Ind-Ra expects SAIL's EBITDA/tonne (excluding other income) to rise to INR6,000-7,000 in FY19 from INR3,300 in FY18 in view of strong gross margins, led by healthy NSR. Ind-Ra believes that range-bound coking coal prices, operating leverage benefits and SAIL's focus on operational efficiency improvements should enhance its profitability.
The rise in SAIL's EBITDA/tonne to INR3,300 in FY18 from INR29 in FY17 was in line with Ind-Ra's expectations. The rise was driven by an increase in NSR to INR40,880 in FY18 from INR33,933 in FY17 and was partially offset by volatile coking coal prices throughout the year. However, SAIL benefitted from low captive iron ore costs. There has been a significant uptick in SAIL's steel sales volume (FY18: 14.1 million tonnes; FY17: 13.1 million tonnes), though marginally lower than Ind-Ra's expectations of 14.5 million tonnes in FY18.

Steady NSR Expectations: Ind-Ra expects SAIL's NSR to benefit from strong and steady domestic steel prices across the long and flat segments. Ind-Ra revised the credit outlook for the steel sector to stable for FY19 from negative in FY18, in view of healthy domestic and global demand growth, along with ongoing capacity rationalisation in China. Moreover, an increase in the share of value-added products (such as cold-rolled coils and structural steel) in the product portfolio would further augment NSR.

Production Ramp-up to Pick up Pace: Logistical and integration challenges during the INR720 billion capex undertaken on the modernisation and expansion of capacities during FY10-FY18 led to a lower-than-expected ramp-up in production in FY17-FY18. However, Ind-Ra expects SAIL to pick up production pace in 2HFY19, given the majority of its new capacities are in the integration and stabilisation phase. Therefore, its production volume is likely to rise by about 10% and 9% in FY19 and FY20, respectively

Operating Leverage Benefits: The likely ramp-up in SAIL's production by about 10% yoy in FY19 and manpower optimisation will improve operating efficiencies, providing operating leverage benefits. An increase in production volume would lead to better fixed cost absorption. Therefore, Ind-Ra estimates fixed costs to reduce by about INR800/tonne in FY19, with a higher proportion of the reduction to be achieved over 2HFY19. These benefits would directly augment SAIL's EBITDA/tonne over FY19.

Significant Reduction in Debt Unlikely: SAIL's gross debt increased to INR454 billion in FY18 from INR414 billion in FY17 owing to the capex on the modernisation and expansion of capacities during FY10-FY18. Working capital efficiency kept a check on working capital financing, despite production volume growth, high coking coal prices and steel price recovery in FY18. Ind-Ra does not expect a significant reduction in SAIL's debt despite healthy fund flow from operations in view of an annual capex of about INR50 billion and increasing working capital requirements over FY19.

Improving Liquidity: SAIL has been in discussion with its lenders to enhance its fund-based working capital limits to INR100 billion from INR70 billion, aimed at improving its backup lines available for commercial paper instruments. Moreover, as on date, INR53 billion of liquidity is available from undisbursed term loans, in addition to free cash flow from operations, to support the capex requirements and redemption of commercial paper.
The focus of SAIL's management is to change the maturity profile of borrowings to strengthen its current ratio and liquidity profile. As of October 2018, 25% of SAIL's borrowings were short-term facilities, including commercial paper, about 75% (INR340 billion) were long-term loans and debentures. The management has informed Ind-Ra that it is trying to replace/reduce its short-term borrowings gradually by INR10 billion per quarter over 3QFY19-4QFY19. Therefore, Ind-Ra expects commercial paper utilisation to moderate in the near term.

Recovery in Credit Metrics: The recovery in EBITDA/tonne allowed SAIL to deleverage to some extent in FY18. Ind-Ra expects the increase in the sales volume and the likely healthy EBITDA/tonne in FY19 to help SAIL in reducing its net adjusted leverage (net adjusted debt/operating EBITDA) below 5.0x in FY19, assuming a total capex of about INR50 billion for the year.

SAIL's net adjusted leverage recovered to 9.7x in FY18 from 1,100.0x in FY17 and gross interest coverage (operating EBITDA/gross interest expenses) improved to 1.6x (0.01x). Considering the likely healthy EBITDA generation over FY19, Ind-Ra believes it to be sufficient to cover scheduled debt repayments.

Industry Risks: SAIL's cash flow remains exposed to the cyclicality inherent in the steel industry and the volatility in the prices of raw materials, particularly coking coal.

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