



BY COURIER

No.B&S/Shares/Cr.Rating/2017

August 5, 2017

The Assistant Manager-Listing Compliance,
National Stock Exchange of India Limited,
Exchange Plaza,
BandraKurla Complex, Bandra(E)
MUMBAI - 400 051.

Sub : Clarification-SAIL

Ref: Our Disclosure on Revision of SAIL Rating by India Ratings & Research Private Ltd.

Dear Sir/Madam,

Please refer to your email dated 4th August, 2017 on the above subject. Key Rating Drivers for downward rating given by the Indian Rating & Research Private Limited are reproduced as under:

KEY RATING DRIVERS

“Continued Lower-than-Expected EBITDA/t: EBITDA/t, albeit improved, at INR29 in FY17 (FY16: negative INR 2,396) remained lower than Ind-Ra's expectation. The improvement was due to higher volumes at 13.1 million tonnes (12.1 million tonnes), which led to better fixed cost absorption, and a marginal 5.1% yoy increase in NSR (FY17: INR33,933; FY16: INR32,274). This was offset by a significant rise in coking coal prices in 2HFY17.

Ind-Ra expects EBITDA/t to witness a healthy improvement in FY18 on account of a rise in sales volume, higher NSR due to Improved product mix and reasonably stable coking coal prices.

Moreover, SAIL is in the process of implementing a strategic plan to make operational improvements through raw material cost optimisation, manpower rationalisation and enhanced techno-economic parameters.

Significant Increase in Debt: SAIL's gross debt in FY17 remained significantly higher than Ind-Ra's expectation due to low EBITDA (FY 17: INR 380 million; FY16: negative INR28,994 million), ongoing capex and high working capital requirements during the period. Gross debt increased to INR 414 billion in FY17 (FY16: INR 351 billion), resulting in an extremely high net leverage. Ind-Ra expects a moderation in net leverage in FY18, though it would be still significantly higher than the category median. In addition, the agency expects SAIL to continue to rely on external borrowings and refinancing to meet interest and principal repayment obligations.

Refinancing of Short-Term Obligations: At FYE17, SAIL's short-term borrowings were INR 198 billion, including INR 80 billion in commercial paper.

Given weak EBITDA generation, Ind-Ra believes that EBITDA may be insufficient for debt repayments, leading to additional borrowings. In such a situation the short-term borrowings pose an enhanced credit risk.

To ease the near-term rollover and repayment pressure, SAIL is looking at the conversion of short-term borrowings into long-term loans. SAIL has received a sanction of long-term loans of INR 47 billion; this is likely to replace the commercial paper and working capital borrowings. Moreover, SAIL is in the process of getting additional long-term funds sanctioned to further reduce its short-term obligations. Although long-term funds would entails higher interest outgo, repayment commitments would fall during the period when capex benefits start accruing.

Net Losses; Extremely Low Interest Coverage: SAIL registered continued net losses at INR 31.86 billion for FY17 (FY16: INR 41.16 billion) owing to high interest cost and depreciation charges. EBITDA in FY17 resulted in a positive, albeit continued low, interest coverage of 0.01x during the period (FY16: negative 1.26x). Despite expectations of an improvement in EBITDA in FY18, Ind-Ra does not expect the bottom line to turn positive in FY18 owing to continued high interest and depreciation charges.



स्टील अथॉरिटी ऑफ इण्डिया लिमिटेड
STEEL AUTHORITY OF INDIA LIMITED

Government Support: The government of India (GOI) owns 75% of SAIL and SAIL has remained a strategically important entity. Timely intervention by the GOI through Minimum Import Price (MIP) policy demonstrates the policy level support provided by the GOI to the industry. In line with its 'Parent Subsidiary Linkage' methodology, Ind-Ra has factored into the ratings the support of the GOI to SAIL and the agency expects the government to provide financial support in case of further stress.

Capex Benefit to Flow Gradually: SAIL incurred INR654.2 billion in capex over FY07-FY17 towards the modernisation and expansion of its plants. Ind-Ra expects capex benefits to flow in more gradually than previously expected. The key benefits would get reflected in higher volumes and improved operating efficiency. Ind-Ra expects SAIL to register 10%-12% volume growth for FY18.

Marginal Improvement in Realisations: In FY17, SAIL's blended NSR marginally grew by 5.1% yoy, driven by sluggish demand (up 3.0% yoy in FY17 compared with 4.1% yoy in FY16) and significant excess capacity available. The capacity utilisation at the industry level was 77% in FY17. Given a 4.6% yoy rise in steel demand in 1QFY18, Ind-Ra expects blended NSR to further improve in FY18. However, SAIL's ability to raise prices is likely to remain impaired due to fairly low capacity utilisation prevailing in the industry."

RATING SENSITIVITIES

Positive: Higher-than-expected improvement in sales volume and EBITDA/t leading to an improvement in credit metrics could result in the Outlook being revised to Stable.

Negative: Lower-than-expected sales volume and/or EBITDA/t leading to further worsening of credit metrics could result in a negative rating action. The company's inability to manage debt structure leading to enhanced refinancing risk will also be negative for the ratings.

Thanking you,

Yours faithfully,


(M.C. Jain)

ED(F&A) & Secretary