

November 03, 2017

Rashtriya Ispat Nigam Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Commercial Paper/Short Term Debt Programme	2000.00	[ICRA]A2+ assigned
Total	2000.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a short-term rating of [ICRA]A2+ (pronounced ICRA A two plus)¹ to the commercial paper/short-term debt programme of Rashtriya Ispat Nigam Limited (RINL) aggregating to Rs. 2,000 crore².

Rationale

The rating takes into account RINL's advanced stage of project commissioning, and the steadily rising production levels, which is expected to result in higher asset sweating and a reduction in the company's operating leverage going forward. RINL is in the process of increasing its crude steelmaking capacity from 3 million tonne per annum (mtpa) to 7.3-mtpa by FY2019 closing, which would establish it as one of the largest domestic steel maker. In addition to RINL's large scale, the rating also derives comfort from the company's vertically-integrated nature of operations, supported by crude steelmaking facilities through the blast furnace-basic oxygen furnace route, captive coke and sinter-making facilities, captive power plant, and various downstream finished long steelmaking facilities, which ICRA believes would support cost-efficient operations after production levels gradually ramp-up. Coupled with a recovery in domestic steel prices, and an expected weakening of coking coal costs, the planned increase in RINL's production levels is expected to gradually improve its profitability and debt-protection metrics over the near to medium term. The rating also takes into account RINL's status as a 100%-owned Central Government Public Sector Undertaking (CPSU), its high financial flexibility, as reflected by its ability to raise loans at favourable terms, and the company's adequate liquidity buffer derived from undrawn working-capital lines, providing the necessary headroom to meet near-term cash-flow funding gaps. The rating is, however, constrained by RINL's leveraged capital structure on account of its sizeable debt funded capex, along with its loss-making operations in the last two years which have been partly funded by fresh borrowings. However, ICRA notes that the capital cost for the 4.3-mtpa expansion and modernisation programme remains competitive at around US\$ 590/MT, which would help keep the capital charges at a reasonable level, and support the company's profitability once production ramps up. The rating is also tempered by the lack of captive raw material sources for iron ore and coal, which exposes the company to the risks associated with price volatility and availability of raw material. The rating further reflects the highly competitive nature of the long-steel product segment, marked by the presence of many small-to-medium sized secondary producers. Going forward, RINL's ability to complete the expansion and modernisation project within the budgeted cost and time, gradually increase production volumes, and bring down the overall cost of production would remain key rating sensitivities.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Large scale and integrated nature of operations to support cost-efficient production** – RINL is in the process of increasing its crude steelmaking capacity from 3 mtpa to 7.3 mtpa by FY2019 closing, which would establish it as one of the largest domestic steel maker. In addition to RINL's large scale, the rating also derives comfort from the company's vertically-integrated nature of operations, supported by crude steelmaking facilities through the blast furnace-basic oxygen furnace route, captive coke and sinter-making facilities, captive power plant, and various downstream finished long steelmaking facilities, which ICRA believes would support cost-efficient operations after production levels gradually ramp-up. In H1 FY2018, RINL has been able to achieve a crude steel production of 2.2 mt, registering a 13% year-on-year (YoY) growth, and for the full year, the company is looking to produce 4.8 mt as against 4 mt in FY2017. In FY2019 and FY2020, RINL is looking to further ramp-up crude steel production to 5.8 mt and 7.3 mt respectively. Increasing plant-capacity utilisation levels would help RINL reduce its operating leverage going forward.
- **Status of the company as a 100% Central Government owned undertaking** – Being an erstwhile division of Steel Authority of India Limited (SAIL), RINL was incorporated as a separate entity in February 1982. RINL is a 100% Central Government owned undertaking under the administrative control of the Ministry of Steel. In FY1992, the company commissioned a 3-mtpa greenfield integrated steel plant at Vizag, specialising only in the long-product segment. In April, 2015, RINL completed a brownfield capacity of 3.3-mtpa, increasing the crude steel capacity to 6.3-mtpa. At present, RINL is undertaking a modernisation programme for the existing 3 mtpa facility, aiming to add an additional capacity of 1 mtpa. The modernisation plan is expected to be completed by FY2019 end, following which RINL would have an operational crude-steel capacity of 7.3-mtpa.
- **High financial flexibility, as reflected by its ability to raise loans at favourable terms** – Being a CPSU, RINL has demonstrated high financial flexibility over the years. RINL's established relationship with banks provides support to the rating. In FY2017, the company has successfully refinanced term loans of Rs. 2,183-crore, having bullet repayment in June, 2018, at a comfortable fifteen-year ballooning repayment tenure and a competitive interest rate.
- **Adequate liquidity buffer derived from undrawn working-capital lines to meet short-term cash-flow funding gaps** – RINL has sanctioned fund-based working capital lines of ~Rs. 11,329-crore, as against which between June, 2016 and September, 2017 the average utilisation has been ~Rs. 7,250-crore, and the peak utilisation has been Rs. 8,687-crore. This leaves a minimum liquidity buffer of over Rs. 2,500-crore to meet short-term cash flow funding gaps, as well as mitigate commercial-paper rollover risks.
- **Competitive capital cost for the expansion and modernisation project** – The budgeted completion cost for the 3.3 mtpa expansion programme is Rs. 12291-Crore, and for the 1 mtpa modernisation programme is Rs. 4200-Crore. ICRA notes that this pegs the capital cost for the 4.3 mtpa expansion and modernisation programme at around US\$ 590/MT, which remains at a competitive level, helping keep the capital charges at a reasonable level, which in-turn would support the company's profitability once production ramps up.
- **Expected improvement in profitability and debt-protection metrics going forward, supported by rising production, recovery in steel prices, and a moderation in coking coal costs** – Resilient Chinese steel demand, enforcement of steel capacity cuts by the Chinese Government, and global trade protection barriers have led to a recovery in international steel prices in CY2017 thus far. Domestic steel prices have also recovered from the FY2016 lows, supported both by improvement in global steel prices as well as reduction in Indian steel imports. Moreover, in H1 FY2018, domestic steel demand has been growing by a healthier 4.3% on a YoY basis against 2.6% in FY2017, helping RINL's average net sales realisations inch upwards by ~9% between FY2017 and H1 FY2018. Additionally, steadily rising sales volumes, an expected reduction in coking coal costs, greater usage

of cheaper pulverised coal injection (PCI), and higher captive power generation from waste-heat recovery and by-product gases are likely to result in significant cost savings for RINL, which would support a gradual improvement in profitability and debt-protection metrics going forward.

Credit weaknesses

- **Sizeable debt-funded capex, along with loss-making operations in the last two years have led to increasing leveraging and weak debt-protection metrics** – As the company started borrowing to fund the ongoing expansion project, RINL's capital structure has steadily deteriorated over the years, as reflected by its gearing increasing from 0.58 time in FY2013 to 1.88 time in Q1 FY2018. Moreover, given the large operating and net losses reported in FY2016 and FY2017, reliance on working capital borrowings have steadily increased to meet temporary cash-flow funding gaps, and debt-protection metrics remained adverse. However, as RINL is in the process of ramping up operations, ICRA expects RINL's performance to show an improving trend from H2 FY2018 onwards, which will support a gradual improvement in profitability and credit metrics over the medium term.
- **Lack of captive raw material sources expose the company to the risks associated with price volatility and availability of raw material** – Iron ore and coking coal remains the principal raw material used in steelmaking through the blast-furnace route. RINL does not have any captive iron ore or coking coal mines. The company procures its entire iron ore requirement from NMDC Limited's mines in Chhattisgarh. For coking coal, which accounts for 50-60% of RINL's overall raw material cost, the company relies largely on imports. However, ICRA notes that RINL's shore-based location leads to significant savings in inland freight costs, and a competitive landed cost of coking coal over peers. For thermal coal required in captive power generation, RINL has been receiving supply of ~ 2 mtpa of coal through long-term linkage with Central Coalfields Limited and South-Eastern Coalfields Limited, partially mitigating fuel availability and price volatility risks.
- **Highly competitive nature of the long-product segment** – RINL specialises only in the long product segment, which faces stiffer competition than the flat product segment due to the presence of greater number of small-to-medium sized secondary producers. ICRA notes that in FY2017, around 70% of the total domestic long steel production was by such secondary producers, with the balance 30% share from the large integrated players like RINL, SAIL, JSW Steel Limited, Tata Steel Limited, and Jindal Steel & Power Limited.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Ferrous Metals Companies](#)

About the company

RINL is a 100% CPSU under the administrative control of the Ministry of Steel. In FY1992, the company commissioned a 3-mtpa integrated steel plant at Vizag, specialising only in the long product segment. In April 2015, RINL completed a brownfield capacity of 3.3-mtpa, increasing the crude steel capacity to 6.3-mtpa. At present, RINL is undertaking a modernisation programme for the existing 3-mtpa facility, aiming to add an additional crude steel capacity of 1-mtpa. The modernisation is expected to be completed by FY2019, following which RINL would have an operational crude-steel capacity of 7.3-mtpa.

In FY2017, RINL reported a standalone net loss of Rs. 1,261.81-crore on an operating income of Rs. 11,068.25-crore, compared to a net loss of Rs. 1,603.71-crore on an operating income of Rs. 9,126.40-crore in the previous year.

Key Financial Indicators (Audited)

Standalone	FY2016	FY2017
Operating Income (Rs. crore)	9126.40	11068.25
PAT (Rs. crore)*	-1603.71	-1261.81
OPBDIT/ OI (%)	-10.81%	-5.01%
RoCE (%)	-9.01%	-6.46%
Total Debt/ TNW (times)	1.05	1.66
Total Debt/ OPBDIT (times)	-10.53	-25.61
Interest coverage (times)	-1.46	-0.72
NWC/ OI (%)	11%	11%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

*NWC: Net Working Capital; *excludes prior period items*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
									Nov 2017
1	Commercial Paper/Short Term Debt	Short Term	2000.00	2000.00	[ICRA]A2+	-	-	-	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-*	Commercial Paper/Short- Term Debt	-*	-*	-*	2000.00	[ICRA]A2+

**the rated facilities are yet to be placed*

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