## Proposal Summary

Founded in 1901, United States Steel Corporation is a leading steel producer

Project cost is estimated at $**583.66 million** and US Steel intends to apply for a loan of $**338.52** dollar for Project finance facility’

**Next-Generation Steel Mill**: U.S. Steel is constructing a highly sustainable and technologically advanced steel mill in Osceola, Arkansas. [This facility will feature two electric arc furnaces (EAFs) with a combined annual capacity of 3 million tons, an endless casting and rolling line, and advanced finishing capabilities1](https://www.ussteel.com/next-generation-steel-mill)

Rest $**245.14 million USD** will be met using Sponsor Equity and retained earnings

The total cost estimate of the project as per project plan furnished by Tata Steel is as below:

|  |  |
| --- | --- |
| **Item** | **Estimated Cost (Crores INR)** |
| Land | 25 |
| Civil and Structural Works | 75 |
| Plant Machinery | 350 |
| Producer Gas Plant | 50 |
| Engineering & Project Management | 50 |
| Pre-Operative Expenses | 25 |
| Working Capital Requirement | 8.66 |
| **Total Capital Cost** | **583.66** |

## US Steel Industry Outlook

The U.S. steel industry is navigating a complex landscape with several key trends and factors influencing its outlook for 2024 and beyond:

After a slight decline in 2022, U.S. steel demand rebounded by 1.3% in 2023 and is expected to grow by 2.5% in 20241. This growth is driven by sectors such as public infrastructure and energy production. Production Levels: As of August 2024, domestic raw steel production was 1,754,000 net tons, with a capability utilization rate of 79.0%2. This represents a slight increase from the previous year, indicating stable production levels.

The steel market has experienced significant price volatility due to supply chain disruptions, geopolitical tensions, and fluctuating demand3. Prices reached record highs in 2021 but have since stabilized. Industry Consolidation: Consolidation within the industry has led to improved supply discipline and strategic investments, which have strengthened operational profiles and through-the-cycle margins4.High inflation, rising interest rates, and global economic uncertainties continue to impact the steel industry3. These factors contribute to cautious market outlooks and potential fluctuations in demand. Government stimulus packages and infrastructure investments are expected to support steel demand, particularly in the U.S. and Europe3.

The industry is increasingly focusing on sustainability, with investments in renewable energy and environmentally friendly production methods3. This shift is driven by regulatory pressures and growing demand for green steel. Companies are investing in advanced technologies to improve efficiency and reduce environmental impact. This includes the development of electric arc furnaces (EAFs) and other innovative production techniques3. The U.S. steel industry is poised for modest growth in 2024, supported by infrastructure spending and strategic investments. However, it faces challenges from economic uncertainties and price volatility. The industry’s focus on sustainability and technological innovation will be crucial in navigating these challenges and maintaining competitiveness.

## US Steel: Company Profile

With an unwavering focus on safety, the company’s customer-centric Best for All® strategy is advancing a more secure, sustainable future for U. S. Steel and its stakeholders. With a renewed emphasis on innovation, U.S. Steel serves the automotive, construction, appliance, energy, containers, and packaging industries with high-value-added steel products such as U.S. Steel’s proprietary XG3® advanced high-strength steel. The company also maintains competitively advantaged iron ore production and has an annual raw steelmaking capability of 22.4 million net tons. U. S. Steel is headquartered in Pittsburgh, Pennsylvania, with world-class operations across the United States and in Central Europe.

### Business Mission & Vision:

U.S. Steel’s mission is to deliver profitable steel solutions for people and the planet. [This mission is supported by their commitment to safety, trust and respect, environmental stewardship, excellence and accountability, and lawful and ethical conduct1](https://www.ussteel.com/2023-sustainability-report/introduction/our-mission-and-values).

U.S. Steel’s vision is to provide differentiating, profitable, and sustainable solutions to their customers. [They aim to go beyond steel, working to deliver what’s best for their employees, customers, communities, and the environment2](https://www.ussteel.com/about-us/bigsteeloverview).

### Management Team of Tata Steel Ltd.

Here’s an overview of the management team at U.S. Steel:

1. **David B. Burritt** - President & Chief Executive Officer
2. **Daniel R. Brown** - Senior Vice President of Advanced Technology Steelmaking and Chief Operating Officer of Big River Steel Works
3. **James E. Bruno** - Senior Vice President – Business Development & President – USSK
4. **Scott D. Buckiso** - Senior Vice President & Chief Manufacturing Officer – North American Flat-Rolled Segment
5. **Tara Carraro** - Senior Vice President & Chief Communications Officer
6. **Christian Gianni** - Senior Vice President of Sustainability and Chief Technology Officer
7. **John Gordon** - Senior Vice President, Raw Materials and Sustainable Resources
8. **Jessica T. Graziano** - Senior Vice President and Chief Financial Officer
9. **Duane D. Holloway** - Senior Vice President, General Counsel, and Chief Ethics & Compliance Officer
10. **Manpreet S. Grewal** - Vice President, Controller & Chief Accounting Officer
11. **Scott M. Dorn** - Vice President – Tubular Solutions
12. **Arne S. Jahn** - Vice President - Treasurer & Chief Risk Officer
13. **Karl G. Kocsis** - Vice President – Chief Labor Relations Officer
14. **Kevin M. Lewis** - Vice President – Finance & Strategy
15. **Robert (Bob) C. Rudge, Jr.** - Vice President – Chief Safety and Security Officer
16. [**J. Michael Williams** - Vice President & Chief Human Resources Officer](https://www.ussteel.com/about-us/leadership)[1](https://www.ussteel.com/about-us/leadership).

This team is responsible for steering U.S. Steel towards its strategic goals and ensuring operational excellence across its global operations.

### Legal Structure and ownership

**Legal Structure**

U.S. Steel is structured as a **corporation**, which means it is a legal entity separate from its owners. This structure allows it to own assets, incur liabilities, and enter into contracts independently of its shareholders.

**Ownership**

The ownership of U.S. Steel is divided among several key groups:

1. **Institutional Investors**: These include mutual funds, pension funds, and other large entities that collectively own a significant portion of the company’s shares. As of the latest data, institutional investors hold approximately **87.56%** of U.S. [Steel’s shares2](https://www.wallstreetzen.com/stocks/us/nyse/x/ownership).
2. [**Insiders**: This group includes the company’s executives, directors, and other key employees who own about **3.08%** of the shares2](https://www.wallstreetzen.com/stocks/us/nyse/x/ownership).
3. [**Retail Investors**: Individual shareholders, including employees and the general public, own around **9.36%** of the shares2](https://www.wallstreetzen.com/stocks/us/nyse/x/ownership).

### Financial Analysis

#### **Credit Rating**

|  |  |  |
| --- | --- | --- |
| **Credit Rating agency** | **Rating** | **Outlook** |
| Fitch Ratings | BB | Stable |
| S&P Global Ratings | BB | Stable |
| Moody’s | Ba2 | Stable |

**Key insights:**

* A ‘BB’ rating from Fitch indicates that U.S. Steel is less vulnerable in the near term but faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions. The stable outlook suggests that Fitch expects U.S. Steel to maintain its current credit profile over the medium term.
* Similar to Fitch, S&P’s ‘BB’ rating reflects U.S. Steel’s relatively high credit risk. The stable outlook indicates that S&P believes U.S. Steel will continue to manage its financial obligations effectively despite potential challenges in the steel industry.
* Moody’s ‘Ba2’ rating suggests that U.S. Steel is subject to substantial credit risk but has the capacity to meet its financial commitments. The stable outlook implies that Moody’s expects U.S. Steel’s financial situation to remain steady without significant deterioration or improvement in the near future.

#### **Financial Ratios**

|  |  |
| --- | --- |
| **Metric** | **Tata Steel** |
| Current Ratio | 1.72 |
| Debt to Equity Ratio | 0.36 |
| Net Profit Margin (%) | 3,4 |
| Interest Coverage Ratio | 12.9x |
| Debt Service coverage ratio | 3.13 |

**Key Insights:**

#### **Peer comparison**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Metric** | **U.S. Steel** | **Cleveland-Cliffs Inc. (CLF)** | **Steel Dynamics, Inc. (STLD)** | **Reliance Steel & Aluminum Co. (RS)** | **Commercial Metals (CMC)** | **Carpenter Technology (CRS)** |
| **Market Cap (₹ Cr)** | ₹62,250 | ₹53,5501 | ₹1,55,2051 | ₹1,57,5851 | ₹51,7501 | ₹60,5852 |
| **Current Ratio** | 1.722 | 1.873 | 2.354 | 2.103 | 4.245 | 3.413 |
| **Debt to Equity Ratio** | 0.365 | 0.486 | 0.336 | 0.406 | 0.277 | 0.438 |
| **Net Profit Margin (%)** | 3.4%3 | 1.78%9 | 4.75%9 | 6.50%9 | 5.3%10 | 4.82%11 |
| **Interest Coverage Ratio** | 12.9x12 | 8.5x8 | 10.2x8 | 11.5x8 | 9.0x9 | 4.21x1 |

**Key Insights:**

* **Liquidity**:  U.S. Steel has a current ratio of 1.72, indicating it has sufficient short-term assets to cover its short-term liabilities. While this is a positive sign of liquidity, it is lower compared to some of its peers, suggesting there is room for improvement in managing short-term financial obligations.
* **Leverage** With a debt to equity ratio of 0.36, U.S. Steel maintains a moderate level of financial leverage. This indicates a balanced approach to using debt, which can be beneficial for growth while not overly exposing the company to financial risk.
* **Profitability**: U.S. Steel’s net profit margin of 3.4% shows that the company is profitable, but there is potential for higher profitability. This margin is lower compared to some competitors, suggesting that U.S. Steel could focus on improving operational efficiency and cost management to enhance profitability.
* **Debt Servicing**: An interest coverage ratio of 12.9x indicates that U.S. Steel has a strong ability to cover its interest expenses with its earnings. This high ratio reflects robust debt servicing capacity, suggesting that the company is well-positioned to manage its debt obligations without financial strain.

## **Financial Viability of Project**

### Financial Leverage

The Debt to Equity Ratio of the project is 1.4 which indicates that for the project, the company is relatively fine and healthy with its borrowings compared to its assets

|  |  |
| --- | --- |
| **Parameter** | **Value** |
| Loan Requested | 338.52 Crore INR |
| Equity Sponsor and Retained Earnings | 245.15 Crore INR |
| Debt to Equity Ratio | **1.4** |

### Debt Service Coverage

Average Debt Service Coverage Ratio of **0.65** indicates that the Project will not generate enough operating income over a period of time to pay the debt obligations. This may not be viable for the project.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Particulars** | **Year 1** | **Year 2** | **Year 3** | **Year 4** |
| **DSCR** | 1.84 | 0.30 | 0.33 | 0.37 |
| **Average DSCR** | 0.65 | | | |

### Current Ratio

Current Ratio of **0.49** indicates that the Project does not have enough current assets to meet its short term debt obligations. This may not be viable for the project.

|  |  |
| --- | --- |
| Current Ratio | 0.49 |

### Net Profit Margin

Net Profit Margin of 36.54% followed by subsequent years of increase in profit as per the projection shows that the Project will be able to generate good long term sales revenue after covering all of its costs including interest and taxes

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** |
| Net Profit Ratio | 36.54% | 44.11% | 45.30% | 49.82% | 54.33% |

## **Final Inference**

Although Tata Steel as a company is a proven reputed organization, with adequate capacity to meet financial obligations, lower current ratio and modest debt coverage ratios raise question on viability of meeting future obligations.

From the project standpoint, lending to Tata Steel for the intended project will be a risky proposition on account of the following factors:

* Lower Debt Service Coverage ratio indicating that the project will not generate enough operating income over a period of time to pay the debt obligations
* Lower Current ratio indicates that the Project does not have enough current assets to meet its short term debt obligations