

October 04, 2022

Tata Metaliks Limited: Update on Material Event; Ratings continue to remain under Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	230.00	230.00	[ICRA]AA&; Continues to remain Under Watch with Developing Implications
Non-fund based facilities	428.00	428.00	[ICRA]A1+&; Continues to remain Under Watch with Developing Implications
Total	658.00	658.00	

*Instrument details are provided in Annexure-1; & denotes rating on watch with developing implications

Rationale

The Board of directors of Tata Steel Limited (TSL, rated at [ICRA]A1+), in their meeting held on September 22, 2022, considered and approved a scheme of amalgamation of Tata Metaliks Limited, Tata Steel Long Products Limited (TSLPL, rated at [ICRA]A1+&), The Tinplate Company of India Limited (TCIL, rated at [ICRA]AA&/[ICRA]A1+&), TRF Limited, The Indian Steel & Wire Products Limited (ISWPL, rated at [ICRA]A&/[ICRA]A1&), Tata Steel Mining Limited (TSML), S&T Mining Company Limited (STMCL) into TSL, subject to receipt of requisite statutory and regulatory approvals. The board of TML has simultaneously considered and approved the withdrawal of the scheme of amalgamation of TML into TSLPL which was earlier announced on November 13, 2020.

The amalgamation of the listed group entities, which includes TSLPL (public shareholding of 25.09%), TML (public shareholding of 39.97%), TCIL (public shareholding of 25.04%), and TRF Limited (public shareholding of 65.88%), would be entirely through a share swap¹ arrangement. However, the amalgamation of ISWPL would be through a cash payout² to its 4.98% minority shareholders. TSML and STMCL are wholly owned subsidiaries of TSL and therefore will not entail any cash/ non-cash consideration to be paid. Following the completion of the aforesaid amalgamation, the shareholding of Tata Sons Private Limited in Tata Steel Limited is estimated to marginally reduce by 0.75% to 33.18% from 33.93%.

Through the proposed amalgamation, the management aims to simplify the Group's organisational structure, fast-track management decision-making, and realize synergies associated with greater operational integration of products/ raw materials across the steelmaking value-chain, common procurement systems, shared marketing/distribution systems, and rationalisation of logistics costs. In addition, pooling of financial and technical resources is expected to support faster execution of the Group's planned expansion projects. ICRA notes that following the amendment to the MMDR Act on March 28, 2021, TML and TSLPL incurred an additional regulatory expense accumulating to Rs. 543 crore in FY2022 towards procurement of iron ore from TSL's captive mines. Following the amalgamation, the Group will be able to significantly reduce its regulatory expenses associated with the consumption of captive iron ore for its various steelmaking units. Given the amalgamation of the

¹ Considering swap ratio of: a) 67 equity shares of TSL for 10 equity shares of TSLPL, b) 33 equity shares of TSL for 10 equity shares of TCIL, c) 79 equity shares of TSL for 10 equity shares of TML, d) 17 equity shares of TSL for 10 equity shares of TRF Limited

² Rs.426 per share leading to a total cash outflow of Rs.12.71 crore

seven entities with its parent having a stronger credit profile, and the expected synergy benefits, which when materialized, would have a favourable impact on the credit profile of the Group.

ICRA has taken note of the above event and has continued to place the outstanding ratings of [ICRA]AA (pronounced ICRA Double A) and [ICRA]A1+ (pronounced ICRA A one plus) under watch with developing implications. ICRA will continue to monitor the development of the amalgamation process and the timelines involved and will take appropriate rating action as may be required.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click Here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Parent/Group Company: Tata Steel Limited (TSL) TML is a 60.03% subsidiary of TSL, with proven track record of receiving financial support from the parent in the past. However, going forward, ICRA does not envisage any requirement of financial support.
Consolidation/Standalone	For arriving at the ratings, ICRA has analysed TML on a standalone basis.

About the company

TML was set up as a joint venture (JV) between TSL and West Bengal Industrial Development Corporation (WBIDC) in 1991 to manufacture pig iron. The company had two manufacturing units – one in Kharagpur, West Bengal and the other in Redi, Maharashtra. However, the Redi unit was closed in FY2013 due to sustained losses. TML is a part of the Tata Group of Companies, with TSL owning 60.03% of the company's equity capital. TML also manufactures DIP at its Kharagpur plant, a forward integration unit of the pig iron business. The DIP business was set up in 2007 in collaboration with Kubota Corporation of Japan (KC) and Metal One Corporation of Japan (MOC). The respective stakes of TML, KC and MOC in the JV stood at 51%, 44% and 5%, respectively. Subsequently, TML increased its stake in the DIP business to 100%, making it a wholly-owned subsidiary. TML merged the wholly-owned subsidiary, Tata Metaliks DI Pipes Limited, with itself, with effect from April 1, 2016.

Key financial indicators (Audited)

TML Standalone	FY2021	FY2022
Operating Income (Rs. crore)	1,916.7	2,745.5
PAT (Rs. crore)	219.81	237.45
OPBDIT/OI (%)	20.5%	13.8%
PAT/OI (%)	11.5%	8.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times) (excluding lease liability)	0.0	0.0
Interest Coverage (times)	15.8	15.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023				Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Oct 4, 2022	July 11, 2022	Jun 20, 2022	Apr 29, 2022		Nov 24, 2020	June 29, 2020	
1	Fund-based limits	Long Term	230.00	-	[ICRA]AA&	[ICRA]AA&	[ICRA]AA&	[ICRA]AA-&	[ICRA]AA-&	[ICRA]AA-&	[ICRA]AA-(Stable)	-
2	Term Loan	Long Term	0.00	-	-	-	-	-	--	-	[ICRA]AA-(Stable) Withdrawn	-
3	Non-fund based facilities	Short Term	428.00	-	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+	-
4	Commercial Paper	Short Term	0.00	-	-	-	-	ICRA] A1+&; Withdrawn	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+	-

& denotes rating on watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits	Simple
Non-fund based facilities	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based limits	NA	NA	NA	230.00	[ICRA]AA&
NA	Non-fund based facilities	NA	NA	NA	428.00	[ICRA]A1+&

Source: Company; & denotes rating on watch with developing implications

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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