

October 04, 2022

Tata Steel Long Products Limited: Update on Material Event; Rating placed under Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	1500.00	1500.00	[ICRA]A1+&; Rating placed under Watch with Developing Implications
Total Limits	1500.00	1500.00	

*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 Steel Long Products Limited, The Tinplate Company of India Limited (TCIL, rated at [ICRA]AA&/[ICRA]A1+&), Tata Metaliks Limited (TML, 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 TSLPL has simultaneously considered and approved the withdrawal of the scheme of amalgamation of TML and ISWPL 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 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.

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

ICRA has taken note of the above event and has placed the outstanding rating of [ICRA]A1+ (pronounced ICRA A One Plus) under rating 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 Company: Tata Steel Limited (TSL) ICRA expects TSL to be willing to extend financial support to TSLPL, should there be a need, given its strategic importance to the Tata Steel Group, and out of its need to protect its reputation. Both TSLPL and TSL also share the common 'Tata Steel' name, which in ICRA's opinion, would persuade TSL to provide financial support to TSLPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	TSLPL has no operating subsidiaries as on March 31, 2022. TSIL Energy Limited, the non-operating subsidiary of TSLPL is currently under liquidation. However, the company has acquired a 93.71% stake in NINL in the current fiscal (FY2023), and ICRA has assessed the consolidated financial profile of TSLPL and NINL while arriving at the rating.

About the company

Tata Steel Long Products Limited (TSLPL) was originally set up as a joint venture between Tata Steel Limited (TSL) and Industrial Promotion & Investment Corporation of Orissa Limited in 1982. At present, TSLPL is a 74.91% subsidiary of TSL. The company is one of the early entrants in the domestic sponge iron industry, with a plant in Keonjhar district of Odisha having an installed capacity of 4,65,000 mtpa. In April 2019, through a slump sale by Usha Martin Limited, TSLPL acquired the former's 1-mtpa integrated alloy steel plant in Jamshedpur. Around 60-65% of TSLPL's sales mix (by value) is accounted from alloy/ high carbon steel sold to the automotive, tractors and other agriculture equipment, lifting and excavation, general engineering, railways, construction (reinforcement), and power (transmission and distribution) sectors. On January 31, 2022, TSLPL was declared as the winning bidder for the acquisition of NINL's 1-mtpa steel plant located at Kalinganagar, at Jajpur in Odisha and the acquisition was completed on July 4, 2022. The operations at NINL has started in the first week of October 2022.

Key financial indicators (audited)

TSLPL Standalone	FY2020	FY2021	FY2022
Operating Income (Rs. crore)	3490.0	4749.9	6801.6
PAT (Rs. crore)	-516.3	572.0	629.9
OPBDIT/OI (%)	4.9%	23.7%	17.7%
PAT/OI (%)	-14.8%	12.0%	9.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.1	1.3	5.2
Total Debt/OPBDIT (times)	16.1	1.3	11.2
Interest Coverage (times)	0.6	4.8	10.9

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	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	
					Oct 4, 2022	Feb 14, 2022	Feb 9, 2022	Feb 26, 2021	Nov 24, 2020	Jan 13, 2020	Aug 30, 2019
1	Fund Based – Cash Credit	Long Term	-	-	-	-	-	-	-	[ICRA]AA-(Stable)* (Withdrawn)	[ICRA]AA-(Stable)
2	Non-Fund Based Limits	Short Term	-	-	-	-	-	-	-	[ICRA]A1+* (Withdrawn)	[ICRA]A1+
3	Commercial paper programme	Short Term	1500.00	0.00	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Fund Based – Proposed Term Loan	Long Term	-	-	-	-	-	-	-	-	-

*Ratings withdrawn; &: Rating watch with developing implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper	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
Not placed	Commercial Paper	-	-	-	1500.00	[ICRA]A1+&

Source: Company; &: Rating watch with developing implications

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

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Branches



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