

October 04, 2022

The Indian Steel & Wire Products 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 Facilities | 30.00 | 30.00 | [ICRA]A&; Continues to remain Under Watch with Developing Implications |
| Non-fund Based Facilities | 7.00 | 7.00 | [ICRA]A1&; Continues to remain Under Watch with Developing Implications |
| Total | 37.00 | 37.00 | |

*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 The Indian Steel & Wire Products Limited (ISWPL), Tata Steel Long Products Limited (TSLPL, rated at [ICRA]A1+&), 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, 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 ISWPL has simultaneously considered and approved the withdrawal of the scheme of amalgamation of 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

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]A (pronounced ICRA A) and [ICRA]A1 (pronounced ICRA A one) 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 Rating Approach - Implicit support from Parent or Group |
| Parent/Group Support | Parent Company: Tata Steel Limited (TSL) ISWPL's ratings are supported by the strong parentage of TSL, which holds a 95.01% stake in the company and the presence of top TSL executives on the board of ISWPL. There are considerable operational, financial, and managerial linkages between ISWPL and TSL. |
| Consolidation/Standalone | The ratings are based on the standalone financial profile of the company. |

About the company

The Indian Steel & Wire Products Limited (ISWPL) primarily works as a conversion agent for Tata Steel Limited (TSL) in the wires, TMT rebars and wire rods segments through its wire division. In addition, the company manufactures industrial rolls and engineering castings through its JEMCO division and produces welding products and nails through its direct business division. At present, TSL has a 95.01% stake in the company.

Key financial indicators (Audited)

| ISWPL Standalone | FY2020 | FY2021 |
|------------------------------------------------------|--------|--------|
| Operating Income (Rs. crore) | 279.4 | 283.2 |
| PAT (Rs. crore) | 27.9 | 12.0 |
| OPBDIT/OI (%) | 8.6% | 6.2% |
| PAT/OI (%) | 10.0% | 4.2% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.7 | 0.5 |
| Total Debt/OPBDIT (times) | 0.0 | 0.0 |
| Interest Coverage (times) | 189.6 | 270.7 |

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 Mar 31, 2022 (Rs. crore) | Date & Rating in FY2022 | Date & Rating in FY2022 | Date & Rating in FY2021 | | Date & Rating in FY2020 |
| | | | | | Oct 4, 2022 | Dec 3, 2021 | Nov 24, 2020 | Oct 16, 2020 | Oct 10, 2019 |
| 1 | Fund Based Facilities | Long-term | 30.00 | - | [ICRA]A& | [ICRA]A& | [ICRA]A& | [ICRA]A (Stable) | [ICRA]A (Stable) |
| 2 | Non-fund Based Facilities | Short-term | 7.00 | - | [ICRA]A1& | [ICRA]A1& | [ICRA]A1 & | [ICRA]A1 | [ICRA]A1 |

&: Rating watch with developing implications

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---------------------------|----------------------|
| Fund Based Facilities | 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](https://www.icra.in)

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 Facilities | NA | NA | NA | 30.00 | [ICRA]A& |
| NA | Non-fund Based Facilities | NA | NA | NA | 7.00 | [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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