January 05, 2023

Tata Steel Downstream Products Limited (erstwhile Tata Steel Processing and Distribution Limited): Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	553.00	100.00	[ICRA]AA (Stable); reaffirmed
Term Loans	217.00	0.00	-
Non-fund-Based Facilities	95.00	50.00	[ICRA]A1+; reaffirmed
Total	**865.00**	**150.00**	

Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings factors in the strong parentage of Tata Steel Downstream Products Limited (TSDPL), a wholly-owned subsidiary of Tata Steel Limited (TSL, rated [ICRA]A1+) and the strategic importance of the company to its parent to cater to its processing requirements in the flat steel segment. TSDPL's business plans are closely synchronised with the operations of TSL, which along with limited sensitivity of TSDPL's profitability to steel price volatility, also supports the ratings. ICRA also notes the demonstrated financial support received from TSL to support TSDPL's operations. The entire outstanding debt of TSDPL comprises loans extended from the parent. The ratings also consider the take-or-pay arrangement with TSL for the tolling contracts at some of its operating locations, which reduce the offtake risk to an extent. The ratings further note TSDPL's established market position in the domestic steel servicing and processing business, which enables it to get repeat businesses over the years. The company posted its best-ever operating and financial performances in FY2022 with the profit touching an all-time high, aided by record volumes processed, both in the tolling and the distribution business along with better spread in the distribution business. The healthy performance continued in H1 FY2023 with tolling and distribution volumes remaining strong. ICRA expects TSDPL's financial performance to remain healthy for the remainder of FY2023 as well with the company well poised to witness a volume growth in both the tolling and distribution businesses on a year-on-year basis. The volumes in the tolling business would remain supported by TSL's increasing domestic steel production. The volumes in the distribution business, which account for about ~30% of the overall volumes, would also get a fillip from the demand tailwinds in the commercial vehicle (CV) industry, which accounts for the major share in the distribution vertical. TSDPL's operations stand to benefit as its primary customer in the distribution business is Tata Motors Limited (TML, rated [ICRA]AA-(Stable)/[ICRA] A1+), the market leader in the domestic CV industry.The ratings factor in TSDPL's healthy capital structure, as reflected by a gearing of 0.2 times as on March 31, 2022 and its comfortable debt protection metrics, as reflected by an interest coverage of 8.4 times in FY2022.

The above strengths are, however, offset by the company's exposure to the cyclicality associated with the steel and the CV industries. While the tolling volumes do not exhibit much volatility due to TSL's demonstrated ability of running its plants at optimum capacity across cycles, the volumes in the distribution business remain inherently cyclical (as it is exposed to the cyclicality of the CV industry) and has close linkages to the level of economic activity, industrial growth, investments in infrastructure and regulatory changes (emission norms, scrappage policy etc). In addition, TSDPL remains exposed to high client concentration risk in the distribution business with TML accounting for about ~35% of the total distribution volumes in FY2022, rendering the business operations vulnerable to TML's performance.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's credit metrics would continue to remain at comfortable levels going forward, aided by steady accruals and moderate dependence on debt.

Key rating drivers and their description

Credit strengths

Status as a subsidiary of TSL with strategic importance – TSDPL's status as a wholly-owned subsidiary of TSL imparts considerable financial flexibility to the company. TSDPL was set up to cater to its parent's processing requirements in the flat steel segment. TSDPL's business plans are also closely synchronised with the operations of TSL as the major part of TSL's processing requirements are met by TSDPL under the tolling arrangement. At present, around 72% of TSDPL's volumes are generated from the tolling work carried out for TSL.

Established market position in the domestic steel servicing and processing business – TSDPL is one of the largest players in the steel servicing and processing business in India, with a production capacity of around 4.2 million metric tonnes per annum (mtpa). Its manufacturing units are spread across nine locations, in proximity to customers. The company undertakes tolling on behalf of TSL and is the distributor of TSL's branded products in the flat steel segment. TSDPL is also a leading supplier of processed steel to major auto OEMs in India through its VSM division. The company gets repeat orders from its clientele, which demonstrates its strong market position as an established steel processor.

Limited sensitivity of profitability to steel price volatility; take-or-pay arrangement with TSL at some of its operating locations reduces offtake risk – Under the tolling arrangement, TSDPL processes steel for TSL and receives a processing fee. Besides being entirely insulated from the impact of steel price volatility in the tolling business, TSDPL is assured of a guaranteed volume offtake at some of its operating locations due to its take-or-pay arrangement. This compensates TSDPL against all fixed costs (including depreciation and interest charges) and reduces the offtake risk to an extent. However, in the VSM business, which accounts for close to half of TSDPL's distribution volumes, the company purchases raw materials (steel coils) and then processes the same as per clients' requirements. The price risk associated with the distribution business is also limited by a material price pass-on clause. However, in the branded goods segment, which contributes the balance to the distribution volumes, TSDPL remains exposed to price risks. Overall, the company's exposure to adverse price movements of steel is on the lower side.

Comfortable financial risk profile – The net worth base of the company remained healthy, which coupled with moderate debt levels, resulted in a healthy capital structure, as reflected in a gearing of 0.2 times as on March 31, 2022. The coverage indicators, too, remained healthy, as reflected by an interest coverage of 8.4 times in FY2022. The company has an expansion plan worth around Rs.400 crore from FY2024 mainly onwards setting up a steel service centre at Sanand and a door/window manufacturing facility at Gopalpur. However, TSDPL is expected to maintain its comfortable financial risk profile, aided by steady accruals and moderate dependence on debt to fund its growth plans.

Credit challenges

Significant client concentration risk in the distribution division – TSDPL remains exposed to the high client concentration risk in the distribution business with TML accounting for about ~35% of the total distribution volumes in FY2022. As a result, TSDPL's business operations are vulnerable to the performance of TML.

Exposed to cyclicality associated with steel and CV industries – The tolling volumes do not exhibit much volatility due to TSL's demonstrated ability of running its plants at optimum capacity across the cycles. However, the volumes in the distribution business remain inherently cyclical (for being exposed to the cyclicality of the CV industry) and have close linkages to the level of economic activity, industrial growth, investments in infrastructure and regulatory changes (emission norms, scrappage policy etc).

Liquidity position: Adequate

TSDPL's liquidity position has been assessed as **adequate** with free cash/bank balances of around Rs.54 crore as on end September, 2022 and healthy fund flow from operations expected over the medium term. Against these sources of cash, the company has nominal capex commitments, mainly for maintenance requirements and debt repayment obligations of ~Rs.22 crore in FY2023. Overall, ICRA expects TSDPL to be able to comfortably meet its capex commitments and service its debt obligations through internal sources of cash. In addition, TSDPL's liquidity profile is supported by the financial flexibility that it enjoys for being a strategically important entity of the Tata Steel Group.

Rating sensitivities

Positive factors – ICRA may upgrade TSDPL's rating if a sustained improvement in the end-user demand leads to a significant improvement in the company's turnover and profit margins. Additionally, ICRA may upgrade TSDPL's rating if there is an improvement in the credit risk profile of the parent.

Negative factors – Pressure on TSDPL's ratings may arise if there is a material decline in profitability and cash accruals due to weak demand from the end-user industries. A consolidated interest coverage of less than 7 times on a sustained basis may also be a trigger for a negative rating action. Any deterioration in the credit risk profile of the parent may also put pressure on the ratings.

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) TSDPL is supported by the strong parentage of TSL, which has a 100% stake in the company and the presence of top Tata Steel Group executives on the board of TSDPL. There are considerable operational, financial and managerial linkages between TSDPL and TSL.
Consolidation/Standalone	The consolidated financials have not been prepared by the company as these entities are consolidated at the TSL level. However, the ratings are based on TSDPL's consolidated financial profile, for which ICRA has consolidated the financials of TSDPL, along with its two JVs - Jamshedpur Continuous Annealing & Processing Co. Pvt Ltd (JCAPCPL) and Tata Blue Scope Steel Private Limited (TBSPL), which have been consolidated under the equity method by ICRA.

About the company

Tata Steel Downstream Products Limited (TSDPL), a wholly-owned subsidiary of Tata Steel Limited (TSL), was initially established in 1997 under the name of Tata Ryerson Limited, a 50:50 joint venture between TSL and Ryerson Inc., primarily to cater to TSL's processing requirements. Ryerson Inc. sold its equity stake to TSL in June 2009. The company was subsequently renamed as Tata Steel Processing and Distribution Limited in 2009. With nine processing centres spread across the country, TSDPL has a production capacity of around 4.2 million tonnes per annum. At present, around 72% of TSDPL's volume is generated from the tolling work carried out for TSL. The balance volume is generated from its distribution division, which operates under two models — Vendor Service Model (VSM) and Branded Goods. Under the distribution business, the company primarily purchases hot rolled /cold-rolled coils and supplies processed steel mainly to the auto industry. The company was renamed as Tata Steel Downstream Products Limited in December 2019.

Key financial indicators

TSDPL	Standalone			Consolidated*	
	FY2021 (Audited)	FY2022 (Audited)	H1 FY2023 (Provisional)	FY2021 (Audited)	FY2022 (Audited)
Operating Income (Rs. crore)	3,620.8	6,805.8	3,807.7	3,620.8	6,805.8
PAT (Rs. crore)	80.9	143.9	151.3	80.9	143.9
Total Comprehensive Income (TCI) (Rs. crore)	80.5	144.5	152.0	134.5	487.5
OPBDIT/OI (%)	4.3%	3.8%	3.1%	4.3%	3.8%
PAT/OI (%)	2.2%	2.1%	4.0%	2.2%	2.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3	-	0.3	0.3
Total Debt/OPBDIT (times)	2.9	2.3	-	2.9	2.3
Interest Coverage (times)	7.0	8.4	6.0	7.0	8.4

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Consolidated by ICRA based on JV accounting for JCAPCPL and TBSPL based on the equity method*

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 FY2023	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					Jan 05, 2023	Oct 26, 2021	Sep 06, 2021	Jan 12, 2021	Jul 17, 2020	-
1	Fund-based – Long-term facilities	Long-term	100.00	148.9	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
2	Fund-based – Term Loans	Long-term	0.00	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-
3	Non-fund based – Working capital facilities	Short-term	50.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Commercial Paper	Short-term	0.00	-	-	-	-	-	[ICRA]A1+; Withdrawn	-

Amount in Rs. crore

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, are available on ICRA's website: [Click Here]

Annexure-1: Instrument details

ISIN	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	100.00	[ICRA]AA (Stable)
NA	Non-fund-Based Facilities	NA	NA	NA	50.00	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Jamshedpur Continuous Annealing and Processing Company Private Limited	51.00%	Equity Method
Tata BlueScope Steel Private Limited	50.00%	Equity Method

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About ICRA Limited:

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