

August 28, 2023

Tata Steel Utilities and Infrastructure Services Limited: Long-term rating upgraded to [ICRA]AA-(Stable), short-term rating reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|-----------------------------------|----------------------------------|---|
| Long-term - Fund based – Cash Credit | 20.00 | 20.00 | [ICRA]AA-(Stable); Upgraded from [ICRA]A+(Stable) |
| Short-term - Non-fund based – Others | 65.00 | 65.00 | [ICRA]A1+; reaffirmed |
| Long Term/Short Term – Unallocated Limits | 115.00 | 115.00 | [ICRA]AA- (Stable); Upgraded from [ICRA]A+(Stable)/ [ICRA]A1+; reaffirmed |
| Total | 200.00 | 200.00 | |

*Instrument details are provided in Annexure-1.

Rationale

The long-term rating upgrade considers Tata Steel Utilities and Infrastructure Services Limited's (Tata Steel UISL) improved business risk profile, as reflected by an increased revenue base, which is likely to witness a steady growth in the future, supported by regular business from its parent (100% holding), Tata Steel Limited (TSL). The entity continues to derive strategic importance within the Group as a utility and infrastructure services cluster company. The ratings continue to draw comfort from Tata Steel UISL's strong business and financial linkages with its parent, TSL (rated at [ICRA]A1+), which has a strong credit profile. The company's business profile derives strength from its diversified business segments, including Power Services business, Engineering Procurement and Construction (EPC) business and Municipal Services business. ICRA notes that Tata Steel UISL receives the major portion of its annual revenues from TSL for various services provided in Jharkhand (particularly in Jamshedpur) and Odisha. While the company's operations are limited by its customer base and geography, strong customer profile and business expansion within the TSL Group provide significant comfort. Further, the company's comfortable debt coverage metrics, supported by its nearly debt free status, stable margins and healthy cash accruals provide significant support to the assigned ratings. ICRA believes that Tata Steel UISL would continue to benefit from its strong linkages with its parent, TSL, which would support its revenue growth and profitability in the future.

The ratings continue to remain constrained by Tata Steel UISL's range-bound profitability, though it has remained stable over the years. While the company has maintained diversified business verticals, the concentration of the major part of its business to limited customers and geography impacts its future growth potential. The ratings also consider the risks associated with project execution in the EPC segment due to any delay, and its likely impact on Tata Steel UISL's revenues, profitability and financial flexibility. ICRA also notes that revenues in the EPC segment are stable in the recent years. Nevertheless, the same has been partially offset by higher growth in revenues from other businesses. The company would remain exposed to regulatory risks associated with power distribution. Any adverse regulatory changes, resulting in any major liability on Tata Steel UISL, would impact the company's credit profile. The company's ability to scale up its operations in a profitable manner and efficiently manage its working capital requirements and liquidity, are the key rating sensitivities.

The Stable outlook on the long-term rating reflects ICRA's opinion that Tata Steel UISL will continue to benefit from the strong operating and financial linkages with its parent (TSL), also a major customer, and its extensive track record of managing the operations, which would continue to support a steady revenue growth and stable profitability.

Key rating drivers and their description

Credit strengths

Diversified business profile and growing revenue base – Apart from Municipal Services within Jamshedpur, Tata Steel UISL manages power distribution for the Saraikela-Kharsawan area, which mainly houses industrial units. Tata Steel UISL continues to add new consumers, largely industrial, in the power distribution space, which has supported its revenue base to a large extent. Additionally, Tata Steel UISL acts as an EPC contractor for various clients (mainly TSL), primarily in the urban infrastructure segment. A diversified business profile with a steady revenue growth and stable profitability provides comfort. However, the concentration of its major business in terms of customer as well as geography limits its future business potential.

Strong customer profile and satisfactory operating performance – Tata Steel UISL's major customer in two of the three business verticals is majorly its parent, TSL, which has a strong credit profile. Further, the consumers in its power distribution business are mainly industrial units, which provide significant comfort in terms of high collection efficiency. Overall, the customer profile of the company in all its business verticals is strong, which is reflected by moderate debtor levels and low working capital requirements. Further, the company has been generating additional revenues in the form of performance incentives against meeting certain performance criteria set by its parent, TSL.

Comfortable liquidity position and debt protection metrics – The company has maintained a comfortable liquidity position and healthy debt protection metrics, as evident from the low utilisation of external working capital borrowings. Besides, zero debt level and stable margin have translated into healthy coverage indicators with OPBDITA/Interest of 12.4 times as on March 31, 2023.

Status of the company for being a part of Tata Steel Group with strong strategic importance – Tata Steel UISL is strategically important to TSL as it provides municipal services to the city of Jamshedpur, where TSL's steel plant and employee housing are located. Additionally, it implements various projects related to municipal infrastructure such as roads, drains, streetlights, water supply and sewerage in multiple campuses of TSL as well as for other clients across geographies. Further, the company has been positioned as the holding company for the Group's utility vertical, as reflected by the recent transfer of a large number of TSL's subsidiaries to Tata Steel UISL. However, any material liability/investments arising on to Tata Steel UISL in relation to these subsidiaries could impact its financial position. Nevertheless, the name sharing of TSL with Tata Steel UISL and its strengthened position within the Group has increased the reputation sensitivity for the TSL Group as well as Tata Steel UISL's strategic importance. ICRA notes that TSL's credit profile has improved significantly in the last two fiscals, as reflected in its reduced balance sheet leverage, aided by strong cash flow generation on the back of remunerative steel spreads.

Credit challenges

Range-bound profitability – Tata Steel UISL has been generating stable revenues from its municipal services and power distribution businesses along with a steady growth. However, its OPBDITA margin remains moderate in the range of 6-7% due to strong competition in the EPC business and a cost-plus profit percentage model adopted with orders received from its parent company. Moreover, the company's business remains concentrated to limited customers as well as geography, which restricts its future business potential.

Risks associated with project execution – The company is exposed to execution risks associated with the EPC projects. Any major delay in such projects along with a sharp decline in fresh orders would impact Tata Steel UISL's financial position and flexibility to a certain extent. Further, some of the EPC customers, especially government clients, could have a longer payment period, which could stretch Tata Steel UISL's working capital cycle.

Exposed to regulatory risks – The company is exposed to regulatory risks associated with power business in terms of tariff setting as any major delay or inadequate tariff revision with increasing costs could impact its profitability. Further, the municipal services provided by the company on behalf of TSL was mandated by the state government. An adverse change in this status, leading to creation of any major liabilities on Tata Steel UISL, would be a key credit negative.

Liquidity Position – Strong

Tata Steel UISL’s liquidity has remained comfortable, supported by free cash and equivalent of Rs. 77.1 crore (as on March 31, 2023), healthy cash accruals, low working capital requirements and nil repayment obligations (except lease liabilities). The company’s working capital utilisation has remained almost nil during the last twelve months period ended in May 2023. However, for its EPC business, the company has been utilising its non-fund based limits (mostly bank guarantee), utilisation of which has remained at around 98%. ICRA believes that Tata Steel UISL will continue to benefit from the support of its parent, TSL, as reflected by the strong financial and operational linkages.

Rating sensitivities

Positive factors – The long-term rating could be upgraded if the company is able to maintain a significant growth in its revenues and cash accruals while maintaining a comfortable liquidity position and debt protection metrics. The rating may also be upgraded if there is any improvement in the credit profile of the company’s parent, TSL. Specific credit metrics that may trigger ratings upgrade include ROCE above 22% on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is a significant decline in revenues from its core operations, resulting in lower cash accruals, adversely impacting its liquidity and debt protection metrics. Any weakening in the linkages with the parent could also result in ratings downgrade. Further, any deterioration in the credit profile of the company’s parent, TSL, would be a key credit negative.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Construction Entities Power Distribution Utilities |
| Parent/Group Support | ICRA has factored in the strong linkages of Tata Steel UISL with its parent, Tata Steel Limited (TSL), which is Tata Steel UISL’s 100% shareholder. |
| Consolidation/Standalone | Standalone |

About the company

Tata Steel UISL, a wholly-owned subsidiary of TSL, was incorporated in 2003 to develop and manage the municipal services of Jamshedpur. Later, Tata Steel UISL expanded its operations into other business verticals and geographies. Tata Steel UISL’s operations are divided into four verticals - solid waste management (SWM), power distribution (PD), operation and maintenance of industrial units, engineering procurement and construction (EPC) for various infrastructure projects. Tata Steel UISL is governed by a board of directors, with members appointed by the parent company, TSL. The company’s regular operations are supervised by the Managing Director, who is supported by various departmental heads.

Key financial indicators

| Tata Steel UJSL | FY2021 | FY2022 | FY2023 |
|--|--------|---------|---------|
| Operating Income (Rs. crore) | 946.3 | 1,140.7 | 1,422.5 |
| PAT (Rs. crore) | 34.5 | 86.5 | 91.0 |
| OPBDIT/OI | 7.0% | 7.1% | 6.2% |
| PAT/OI | 3.6% | 7.6% | 6.4% |
| Total Outside Liabilities/Tangible Net Worth (times) | 3.4 | 0.7 | 0.7 |
| Total Debt/OPBDIT (times) | 0.0 | 0.0 | 0.2 |
| Interest Coverage (times) | 10.3 | 12.9 | 12.4 |

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

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Current Rating (FY2024) | | | | Chronology of Rating History for the past 3 years | | |
|----------------------------|-------------------------|--------------------------|--|------------------------------------|---|----------------------------|--------|
| | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) as on June 30, 2023 | Date and Rating on Aug 28, 2023 | Date & Rating | | |
| | | | | | FY2023 | FY2022 | FY2021 |
| 1 Fund based – Cash Credit | Long-term | 20.00 | - | [ICRA]AA-(Stable) | [ICRA]A+(Stable) | [ICRA]A(Stable) | - |
| 2 Fund based – Term Loans | Long-term | - | - | - | - | [ICRA]A(Stable) | - |
| 3 Non-fund based – Others | Short-term | 65.00 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1 | - |
| 4 Unallocated Limits | Long-term / Short-term | 115.00 | - | [ICRA]AA-(Stable)/[ICRA]A1+ | [ICRA]A+(Stable)/[ICRA]A1+ | [ICRA]A(Stable) / [ICRA]A1 | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|----------------------|
| Long-term - Fund based – Cash Credit | Simple |
| Short-term - Non-fund based – Others | Very Simple |
| Long Term/Short Term – Unallocated Limits | Not Applicable |

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 | Long Term-Fund Based – Cash Credit | NA | NA | NA | 20.00 | [ICRA]AA-(Stable) |
| NA | Short Term- Non-Fund Based Limits – Bank Guarantee | NA | NA | NA | 65.00 | [ICRA]A1+ |
| NA | Long-term/Short-term – Unallocated Limits | NA | NA | NA | 115.00 | [ICRA]AA-(Stable)/ [ICRA]A1+ |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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