July 22, 2021 Revised

The Tinplate Company of India 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
Fund-based – Long-term facilities	135.00	150.00	[ICRA]AA(Stable); Upgraded from [ICRA]AA-(Stable)
Short-term – Fund-based interchangeable	(115.00)	0.00	-
Fund-based – Short-term facilities	15.00	0.00	-
Non-fund based – Working capital facilities	243.75	183.75	[ICRA]A1+; Reaffirmed
Total	**393.75**	**333.75**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term rating upgrade factors in the improvement in The Tinplate Company of India Limited's (TCIL) financial risk profile, reflected in the company's healthy revenue growth, a rise in operating profits and an improvement in the profit margin of the company in FY2021. The strong performance continued in Q1 FY2022 with the company posting its best ever quarterly performance in the recent years with a ~15% growth in revenues and a ~19% growth in operating profits on a QoQ basis. Additionally, ICRA believes that TCIL's business outlook for FY2022 remains buoyant, supported by the favourable operating environment for tinplate manufacturers as the underlying demand from the addressable markets remains buoyant. Besides, there are expected supply side constraints on account of the government's enforcement of Steel & Steel Products' Quality Control Order (SSPQCO), effective July 17, 2021, mandating usage of prime grades of BIS[1] certified tinplate. ICRA notes that foreign suppliers have not been able to obtain certification due to restrictions amid Covid-19, which may lead to a demand-supply gap given that 35-40% of the domestic demand is met through imports. Though tinplate consumption in India decreased significantly in FY2021 primarily due to demand shrinkage in bulk packs of oil cans (one of the largest end user segments of tinplate) as hotels, restaurants and canteens were shut for the major part of H1 FY2021, the company managed to post a marginal growth in volumes in FY2021 by ramping up exports, which posted a growth of 29% over the previous financial year. Although TCIL's domestic sales volumes declined by 4% in FY2021 over the previous year primarily due to restricted economic activities in H1 of FY2021, demand recovered sharply in the remaining part of the year following the gradual easing of lockdown restrictions. The company's credit profile remained healthy, as indicated by its debt free status as on March 31, 2021, and strong credit metrics. In addition, healthy earnings in the last fiscal and reduction in working capital intensity aided TCIL to channelise its free cash flows to strengthen its balance sheet liquidity. Consequently, TCIL's liquidity profile remains strong, as reflected in the large cash balance and liquid investment portfolio, which impart a high degree of financial flexibility to the company. The ratings also continue to factor in TCIL's dominant market position as the largest domestic manufacturer of tinplate with a capacity to produce 0.38 million tonnes per annum and an estimated market share of ~40% in the domestic tinplate market. The ratings also continue to factor in the operational, financial and managerial linkages of TCIL with Tata Steel Limited (TSL, rated [ICRA]A1+), which holds a 74.96% equity stake in the company. The domestic tinplate market remains

[1] Bureau of Indian Standards (BIS)

oligopolistic with few participants, leading to a strong bargaining power enjoyed by the company with its customers, as reflected in its ability to swiftly pass on the impact of increase in raw material prices. This has helped in maintaining the spreads within a specific range consistently over several quarters. The share of TCIL's premium product portfolio, which includes value added/downstream products, has been increasing during the last few years, driven by increased focus on innovation and customer-centric approach, which ensured better pricing flexibility and aided in margin expansion. The long-term growth prospects of the packaging industry are expected to remain healthy, so ICRA believes that the demand outlook for the tinplate industry is likely to remain favourable.

The long-term rating, however, continues to be constrained by the exposure of the company to earnings volatility due to its linkages with the cyclicality of the steel sector. While the demand for tinplate is not directly correlated with steel cycles, the company nonetheless remains exposed to earnings volatility due to volatility in scrap prices, which moves in tandem with steel cycles. The ratings also factor in the company's vulnerability to competitive pressures from cheaper packaging materials such as plastic, paper and glass. Additionally, the low duty structure on imports of tinplate (primarily cheaper non-prime tinplate) exposes the domestic producers to competition with imports catering to around 35-40% of the domestic demand.

Key rating drivers and their description

Credit strengths

Status as a Tata Steel Group company and market leader in domestic tinplate industry – TCIL is supported by the strong parentage of TSL and the presence of top executives of TSL on the board of TCIL. Moreover, the company has access to the research base, technology and global best practices of Tata Steel Europe Limited (erstwhile Corus), a leading tinplate producer in Europe. TCIL has a dominant position in the market as it is the largest domestic manufacturer of tinplate with a capacity to produce 0.38 million tonnes per annum (MTPA). TCIL also has a cold rolling mill (CRM) capacity of 0.39 million tonnes per annum, which provides better backward integration and eliminates its dependence on imported tin milled black plate (TMBP).

Healthy financial performance in FY2021, expected to sustain in FY2022 – Though tinplate consumption in India decreased significantly in FY2021 primarily due to demand shrinkage in bulk packs of oil cans (one of the largest end use segments of tinplate) as hotels, restaurants and canteens were shut for the major of H1 FY2021, the company managed to post a marginal growth in volumes in FY2021 by ramping up exports, which posted a growth of 29% over the previous financial year. TCIL posted a ~8% growth in its operating revenues and a ~15% growth in its operating profits in FY2021 on the back of improved realisations (with corresponding increase in raw material prices), higher scrap prices and cost savings initiatives undertaken. The operating margin stood at 8.2% in FY2021, increasing from 7.8% in FY2020. The strong performance continued in Q1 FY2022 with the company posting its best quarterly performance in the recent years with a ~15% growth in revenues and a ~19% growth in operating profits on a QoQ basis. ICRA expects the demand momentum to sustain in the current year, supported by the favourable operating environment for tinplate manufacturers given that the underlying demand from the addressable markets remains buoyant and the expected supply side constraints on account of the government's enforcement of SSPQCO, effective July 17, 2021, mandating usage of prime grades of BIS certified tinplate. Foreign suppliers have not been able to obtain certification due to restrictions amid Covid-19, which may lead to a demand-supply gap given that 35-40% of the domestic demand is met through imports.

Debt free status and strong liquidity – TCIL has remained debt free since FY2017. This acts as a credit positive for the company that operates in an industry with cyclical trends. TCIL' debt-free status translated into strong debt protection metrics for the company, which is reflected in an interest coverage of 24.3 times in FY2021. Healthy earnings in the last fiscal coupled with a reduction in the working capital intensity aided TCIL to channelise its free cash flows to strengthen its balance sheet liquidity. Consequently, TCIL's liquidity profile remains strong, as reflected in the large cash balance and liquid investment portfolio of ~Rs.324 crore as on March 31, 2021, which impart a high degree of financial flexibility for the company. Additionally, the company had undrawn fund-based working capital lines of ~Rs. 135 crore as on March 31, 2021.

Favourable long-term demand outlook – About 70% of the domestic tinplate is consumed for packaging of edible oil and processed food items. Hence its growth is linked to India's food-processing industry, which has witnessed a steady increase in demand over the years. Going forward, growth of the packaging industry in India is expected to be augmented by high growth in modern retail/ecommerce, FDI in multi-brand retail, and the Government's thrust on the food processing industries.

Oligopolistic nature of the domestic tinplate market enables strong bargaining power with customers – The domestic tinplate market remains oligopolistic with few participants, leading to a strong bargaining power enjoyed by the company with its customers, as reflected in its ability to swiftly pass on the impact of increase in raw material prices. This has helped in maintaining the spreads within a specific range consistently over several quarters.

Widening portfolio of premium products driven by increased focus on value-added products – The share of TCIL's premium product portfolio, which includes value added/downstream products, has been increasing during the last few years, driven by increased focus on innovation and customer-centric approach. This ensured better pricing flexibility and aided in margin expansion.

Credit challenges

Exposed to earnings volatility due to linkages with the cyclicality of the steel sector – While demand for tinplate is not directly correlated with steel cycles, the company nonetheless remains exposed to earnings volatility due to volatility in scrap prices, which move in tandem with steel cycles. The tinplate manufacturing process generates significant scrap and as a result, scrap sales as a proportion of OPBDITA have historically remained high and stood at around 82% in FY2021.

Threat from competing packaging media and cheaper imports pose competition to domestic players – The demand for tinplate remains vulnerable to competition from cheaper packaging materials such as plastic, paper and glass. Notwithstanding the same, the demand for tinplate has grown moderately except for FY2021 given that it is among the most tolerant/durable packaging materials due to its steel base. The low duty structure on imports of tinplate (primarily cheaper non-prime tinplate) exposes the domestic producers to competition as imports account for around 35-40% of the domestic demand. However, with the government's initiatives through enforcement of SSPQCO effective July 17, 2021, mandating usage of prime grades of BIS certified tinplate from domestic as well as overseas mills, cheaper imports are expected to reduce.

Sizeable tinplate capacity addition in pipeline – The domestic tinplate capacity is expected to increase by around 2.5 lakh tonnes by FY2023, which is equivalent to almost ~35% of the prevailing domestic market size. Given the expected huge increase in domestic capacities, the tinplate market could swing from a deficit to a surplus situation going forward, unless domestic demand increases gradually and absorbs new capacities. The same will remain a key rating monitorable.

Liquidity position: Strong

TCIL's liquidity profile remains strong, as reflected in the large cash balance and liquid investment portfolio of ~Rs.324 crore as on March 31, 2021, which impart a high degree of financial flexibility to the company. Additionally, the company had undrawn fund-based working capital lines of ~Rs. 135 crore as on March 31, 2021. Further, ICRA estimates that the company will generate free cash flows in FY2022 on the back of healthy earnings growth expected which would further boost its liquidity in the absence of any debt repayment obligations.

Rating sensitivities

Positive factors – ICRA may upgrade TCIL's ratings if a sustained improvement in end-user demand in terms of volumes leads to a significant improvement in turnover and profit margins of the company. The specific trigger for an upgrade would be RoCE above 25% on a sustained basis. Additionally, ICRA could upgrade TCIL's rating if there is an improvement in the credit risk profile of the parent.

Negative factors – Pressure on TCIL's ratings may arise if profitability and cash accruals are lower than expected due to a fall in sales volume emanating from weak demand in end-user industries. Any large debt funded capex, leading to a sustained deterioration in capital structure and business return indicators, could also result in a downgrade. 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) TCIL's rating is supported by the strong parentage of TSL, which holds a 74.96% stake in the company and the presence of top TSL executives on the board of TCIL. There are considerable operational, financial and managerial linkages between TCIL and TSL.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of TCIL.

About the company

TCIL is the largest manufacturer of tinplate in India with a capacity to produce 0.38 MTPA at its plant in Jamshedpur, Jharkhand. TCIL is a 74.96% subsidiary of TSL and has significant operational linkages with the parent company. TCIL had doubled its tinplate manufacturing capacity to 0.38 MTPA in 2008-09 and had also implemented a 0.2 MTPA cold rolling mill project in December 2011.

Key financial indicators (Audited)

TCIL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	2118.7	2293.3
PAT (Rs. crore)	95.0	98.1
OPBDIT/OI (%)	7.8%	8.2%
PAT/OI (%)	4.5%	4.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.6
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	15.7	24.3

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 (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					July 22, 2021	Aug 7, 2020	-	Mar 27, 2019	Mar 14, 2019
1	Fund-based – Long-term facilities	Long-term	150.00	-	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Short-term – Fund-based interchangeable	Short-term	0.00	-	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
3	Fund-based – Short-term facilities	Short-term	0.00	-	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
4	Non-fund based – Working capital facilities	Short-term	183.75	-	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Long-term facilities	Simple
Non-fund based – Working capital 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: 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 – Long-term facilities	NA	NA	NA	150.00	[ICRA]AA (Stable)
NA	Non-fund based – Working capital facilities	NA	NA	NA	183.75	[ICRA]A1+

Source: *Company*

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

Corrigendum

Rationale dated July 22, 2021 has been revised with changes as below:

'Rating Methodology for Entities in the Ferrous Metals Industry' has been added in the Analytical Approach section.

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About ICRA Limited:

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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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