

October 04, 2022

The Tinplate Company of India Limited: Ratings placed under Watch with Developing Implications; [ICRA]A1+& assigned for the enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	150.00	150.00	[ICRA]AA&; Rating placed under Watch with Developing Implications
Non-fund based facilities	183.75	258.75	[ICRA]A1+&; Rating placed under Watch with Developing Implications; [ICRA]A1+& assigned for enhanced amount
Total	333.75	408.75	

*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 [ICRA]A1+), in their meeting held on September 22, 2022, considered and approved a scheme of amalgamation of The Tinplate Company of India Limited (TCIL), Tata Steel Long Products Limited (TSLPL, rated at [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 amalgamation of the listed Group entities, which includes TCIL (public shareholding of 25.04%), TSLPL (public shareholding of 25.09%), TML (public shareholding of 39.97%) and TRF Limited (public shareholding of 65.88%), would be done entirely through a share swap¹ arrangement. However, the amalgamation of ISWPL would be done 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 realise 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 of the MMDR Act on March 28, 2021, TML and TSLPL incurred an additional regulatory expense worth 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

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

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 noted the above development and has placed TCIL's outstanding long-term rating of [ICRA]AA and short-term rating of [ICRA]A1+ 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.

The ratings 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 (mtpa) and an estimated market share of ~47% in the domestic tinplate market. The ratings also continue to factor in the operational, financial and managerial linkages of TCIL with Tata Steel Limited, which holds a 74.96% equity stake in the company. The company posted its best-ever operating and financial performance in FY2022 with the profitability touching an all-time high, aided by record dispatches, better product spreads, and superior scrap realisations. Though the domestic tinplate market was growing by a meagre 4% in FY2022, TCIL was able to record a much higher 18% growth in dispatches, aided by all-time high export sales as well as consolidation of its domestic market share due to import substitution as imports saw a steep reduction after the implementation of the Steel & Steel Products' Quality Control Order (SSPQCO), effective July 17, 2021, mandating usage of prime grades of BIS³ certified tinplate. The company's credit profile remained healthy, as indicated by its debt free status as on March 31, 2022, and strong credit metrics. In addition, healthy earnings in the last fiscal and 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 by the large cash balance and liquid investment portfolio of ~Rs. 675 crore as on March 31, 2022, which impart a high degree of financial flexibility to the company. The domestic tinplate market remains oligopolistic with few participants, leading to a strong bargaining power enjoyed by the company with its customers. This is reflected in its ability to swiftly pass on the impact of the increase in raw material prices. 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 better spreads. The long-term growth prospects of the packaging industry are expected to remain healthy, which makes ICRA believe that the demand outlook for the tinplate industry is likely to remain favourable over the medium term.

The long-term rating, however, continues to be constrained by the exposure of the company to earnings volatility due to its linkages with the cyclical nature of the steel sector. While the demand for tinplate is not directly correlated with the steel cycles, nonetheless, TCIL remains exposed to earnings volatility due to fluctuation in scrap prices, which move in tandem with steel cycles. The ratings also factor in the company's vulnerability to competitive pressure from cheaper packaging materials such as plastic, paper and glass. Additionally, low duty structure on imports of tinplate exposes the domestic producers to competition, notwithstanding the steep reduction in imports witnessed in FY2022. ICRA further observes that the imposition of a 15% export duty on tinplate exports from May 22, 2022, is expected to reduce the attractiveness of supplying to overseas markets, which would negatively impact the company's earnings in the current fiscal. The ratings also remain constrained by the execution and operational risks associated with the large-scale capex programme towards the upcoming brownfield expansion for expanding the capacity by 0.3 mtpa. Notwithstanding TCIL's sizeable capex plans, ICRA expects the company to benefit from TSL's strong project execution capabilities, which, along with its demonstrated track record of financially supporting the growth plans of its subsidiaries, mitigates operating and financing risks to a large extent.

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

³ Bureau of Indian Standards (BIS)

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 mtpa and a market share of ~47%. 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).

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's debt-free status translated into strong debt protection metrics for the company, which is reflected in an interest coverage of 63.2 times in FY2022. Healthy earnings in the last fiscal and 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. 675 crore as on March 31, 2022, which impart a high degree of financial flexibility for the company. Additionally, the company had undrawn fund-based working capital lines of Rs.150 crore as of end August, 2022.

SSPQCO remains structurally positive for the domestic tinplate industry – The government's enforcement of Steel & Steel Products' Quality Control Order (SSPQCO), effective July 17, 2021, mandating usage of prime grades of BIS-certified tinplate remains structurally positive for domestic tinplate manufacturers given that imports (primarily cheaper non-prime tinplate) accounted for almost 35-40% of the domestic demand pre-implementation of the SSPQCO, which has now reduced to almost 22% of the domestic demand post implementation of the SSPQCO.

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. India's per-capita tinplate consumption of around 0.55 kg is significantly lower than many other Asian countries (4.75 kg for China, 7.25 kg for Thailand, and 9 kg for Malaysia). Going forward, growth of the packaging industry in India is expected to be augmented by the high growth in modern retail/e-commerce, FDI in multi-brand retail, and the Government's thrust on the food processing industries, which augurs well for domestic tinplate demand.

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 the increase in raw material prices.

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 better spreads.

Credit challenges

Exposed to earnings volatility due to linkages with the cyclicity 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 69% in FY2022.

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, except in FY2021, the demand for tinplate has grown at a moderate rate as it is among the most tolerant/durable packaging materials due to its steel base and excellent barrier properties. The low duty structure on imports of tinplate exposes the domestic producers to competition as imports accounted for around 22% of the domestic demand in FY2022, notwithstanding the reduction from the earlier levels of ~35-40% following the SSPQCO order.

Sizeable tinplate capacity addition in pipeline – The domestic tinplate capacity is expected to increase by around 2.5 lakh tonnes in FY2023, and by another 3 lakh tonnes due to TCIL’s planned expansion capex, to be executed over 3-4 years, entailing a capacity addition of almost 5.5 lakh tonnes over the medium term, which is equivalent to almost ~88% of the prevailing domestic market size. Given the expected large increase in domestic capacities, unless domestic demand and export footprint increases gradually to absorb these new upcoming capacities, it could lead to over-capacity, going forward. The same will remain a key rating monitorable.

Sizeable capex plans and associated risks – The company has announced a capex programme worth around Rs.2,254 crore (gross of input tax credit⁴), to be incurred over the next 3-4 years for brownfield expansion of its tinplate capacity from the present level of 0.38 mtpa to 0.68 mtpa along with expansion of the cold rolling mill. The capex plans are large vis-à-vis TCIL’s current balance sheet size and hence remains exposed to operational and execution risks. However, ICRA takes comfort from TSL’s (parent company) established track record of successfully commissioning large greenfield/brownfield steel capacities. TCIL has applied for PLI benefits available for investments in special steel, which if approved by the Government, could result in an additional inflow linked to the incremental production, reducing the overall payback period. The capex will be funded by a mix of internal accruals and loans from TSL.

Tax on tinplate exports will impact near-term spreads – The recent imposition of a 15% tax on exports of tinplate remains a credit negative for TCIL given its sizeable export share. As a result, ICRA expects TCIL’s contribution levels to moderate from the high level of FY2022, leading to a moderation in FY2023 earnings.

Liquidity position: Strong

TCIL’s liquidity profile remains strong, as reflected in the large cash balance and liquid investment portfolio of ~Rs.675 crore as on March 31, 2022, which, along with its status as a strategically important entity of the Tata Steel Group, impart a high degree of financial flexibility to the company. Additionally, the company had undrawn fund-based working capital lines of Rs.150 crore as of end August, 2022, which further strengthens its liquidity position. TCIL has been consistently generating positive retained cash flows over the last several years, which is expected to continue going forward as well. This would lower TCIL’s dependence on external sources of funds to finance the upcoming capex and remains a positive from the liquidity perspective.

Rating sensitivities

Positive factors – ICRA may upgrade TCIL’s rating if a sustained improvement in the 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 company.

Negative factors – Pressure on TCIL’s ratings may arise if there is a decline in profitability and cash accruals. Any large debt funded capex, leading to a sustained deterioration in capital structure and credit metrics, could also result in ratings downgrade. Any deterioration in the credit risk profile of the parent may also put pressure on the ratings.

⁴ Net of GST, the capex stands at ~Rs. 1,800 crore

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 ratings are 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. The company is now looking to expand its manufacturing capacity by 0.3 mtpa, to be executed over 3-4 years, entailing an investment of Rs. 2,254 crore (gross of input tax credit).

Key financial indicators (Audited)

TCIL Standalone	FY2021	FY2022	Q1 FY2023
Operating Income (Rs. crore)	2293.3	4268.7	1006.5
PAT (Rs. crore)	98.1	352.9	84.9
OPBDIT/OI (%)	8.2%	12.1%	11.9%
PAT/OI (%)	4.3%	8.3%	8.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.7	-
Total Debt/OPBDIT (times)	0.0	0.0	-
Interest Coverage (times)	24.3	63.2	55.2

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 FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Oct 4, 2022	Jun 22, 2021	Aug 7, 2020	-
1	Fund-based limits	Long-term	150.00	-	[ICRA]AA&	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-
2	Short-term – interchangeable	Short-term	0.00	-	-	-	[ICRA]A1+	-
3	Short term loans	Short-term	0.00	-	-	-	[ICRA]A1+	-
4	Non-fund based facilities	Short-term	258.75	-	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	-

& denotes rating on watch with developing implications

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	150.00	[ICRA]AA&
NA	Non-fund based facilities	NA	NA	NA	258.75	[ICRA]A1+&

Source: Company; & denotes rating on watch with developing implications

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

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Priyesh Ruparelia

+91 22 6169 3328

priyesh.ruparelia@icraindia.com

Ritabrata Ghosh

+91 33 7150 1107

ritabrata.ghosh@icraindia.com

Deepayan Ghosh

+91 33 7150 1220

deepayan.ghosh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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