April 12, 2017

Tata Metaliks Limited

Instrument*	Rated Amount (in crore)	Rating action
Fund-based bank facilities	Rs. 148.00 crore (enhanced from Rs. 103.00 crore)	[ICRA]A+ reaffirmed; outlook revised from ‘Stable’ to ‘Positive’
Term loans	Rs. 171.67 crore	[ICRA]A+ reaffirmed; outlook revised from ‘Stable’ to ‘Positive’
Non-fund based bank facilities	Rs. 648.00 crore (enhanced from Rs. 605.00 crore)	[ICRA]A1+; upgraded from [ICRA]A1

*Instrument Details are provided in Annexure-1

Rating action

ICRA has upgraded the short-term rating of the Rs. 648.00 crore (enhanced from Rs. 605.00 crore) non-fund based bank facilities from [ICRA]A1 (pronounced ICRA A one) to [ICRA]A1+ (pronounced ICRA A one plus). ICRA has reaffirmed the long-term rating of the Rs. 171.67-crore[1] term loan and Rs. 148.00 crore (enhanced from Rs. 103.00 crore) fund-based bank facilities of Tata Metaliks Limited (TML) at [ICRA]A+ (pronounced ICRA A plus)[2]. The outlook on the long-term rating has been revised from ‘Stable’ to ‘Positive’.

Rationale

The rating action takes into consideration the company’s healthy financial performance in 9MFY2017, which is expected to continue going forward, particularly given the cost savings and synergies emanating from the merger of TML with its 100% subsidiary, Tata Metaliks DI Pipes Limited (TMDIPL). Also in the recent past, TML has commissioned a 10-MW power plant, based on waste heat gas from the coke oven plants, which would significantly reduce the power cost going forward. As a result, the capital structure and debt coverage are expected to improve further given its healthy cash accruals on the back of increasing profitability. In Q3FY2017, although coking coal costs increased substantially, the impact was offset to a large extent by the healthy performance of the ductile iron pipes (DIP) business. During 9MFY2017, healthy accretion to reserves resulted in further improvement in the capital structure. The ratings continue to be supported by the company’s status as Tata Steel Limited’s (TSL) 50.09% subsidiary, financial support received from TSL in the past and access to bank finance at competitive borrowing rates.

The ratings, however, remain constrained by the moderate capital structure of the company on account of historical losses, and a lowest bidder (L-1)-based nature of the DIP market, which keeps realisations under check for all DIP players, including TML. The ratings are also constrained by the cyclicality in the pig iron business, which leads to variability in profits and cash flows. The presence in the DIP business, demand outlook for which is favourable, mitigates this risk to a certain extent, since demand from DIP division accounts for more than 40% of the total hot metal production by the company. Although the company has plans to increase DIP’s capacity, the company would still remain exposed to the cyclicality of the pig-iron business, to an extent, going forward. ICRA, however, notes that these risks are partially

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[1] *100 lakh = 1 crore = 10 million*

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

offset by the established position of TML in the domestic foundry grade pig-iron industry. In addition, cost benefits of the merger, continuous focus on process-improvement initiatives and availability of captive power are expected to keep the cash flows comfortable relative to debt obligations of the company.

Key rating drivers

Credit strengths

- Status of the company as a part of the Tata Group
- Improvement in cost structure on a sustainable basis with commissioning of coke oven plant and power plant
- Operating synergies accruing on the back of merger of wholly-owned subsidiary during the year
- High capacity utilisation and improvement in operating efficiency of the DIP business
- Favourable demand outlook for DIP in India; healthy order book position for the company
- Improvement in debt-coverage indicators and capital structure on the back of healthy accretion to reserves

Credit weaknesses

- Exposure of profit and cash flows to the cyclical nature of the pig-iron business; however, presence in the DIP business mitigates this risk to a certain extent
- L-1 based bidding system for orders results in range-bound profitability in the DIP business
- Moderate capital structure, notwithstanding improvement in recent years, on account of large losses suffered by the company in the past

Description of key rating drivers highlighted above:

TML manufactures pig iron and ductile iron pipes in its Kharagpur plant (West Bengal). TML is a leading player in the domestic pig iron industry and is one of the largest producers of foundry grade pig iron in the country. The two primary raw materials required for manufacturing of pig iron are coke and iron ore. Earlier, TML used to meet its coke requirements through a mix of imports and domestic purchases. However, the company has set up a 120,000-MTPA coke oven plant and a 10-MW power plant in H2 FY2017, which would lead to a material improvement in the cost structure. However, pig iron business, being cyclical in nature, is exposed to margin risks arising from temporary mismatch in prices of raw materials and pig iron, causing volatility in profitability and cash flows. Nonetheless, the company’s presence in the DIP business, which in turn uses pig iron as its primary raw material, has mitigated this risk to some extent.

During the year, the DIP business, which was earlier run under its wholly-owned subsidiary, TMDIPL, has been merged with TML. The merger is expected to result in cost savings going forward. In the DIP business, most of the sales take place through tenders where the lowest bidder is awarded the contract. This results in significant priced-based competition. Moreover, some of the orders are fixed price in nature, which exposes the company’s profitability and cash flows to fluctuation in input raw material costs. Nonetheless, the firm’s end-product realisations and process-improvement initiatives taken at the plant led to an improved cost structure, resulting in healthy financial performance of the company. During 9MFY2017, healthy accretion to reserves led to further improvement in gearing levels to ~2.7 times as on December 31, 2016 compared to ~4.4 times as on March 31, 2016. Further, debt coverage indicators also witnessed improvement with interest cover at 5.94 times in 9MFY2017 compared to 4.66 times in FY2016.

Analytical approach: While assigning the ratings, ICRA has considered the status of the company as a part of Tata Group of Companies and the fact that it is a 50.09% subsidiary of TSL.

Links to applicable Criteria
Corporate Credit Rating –A Note on Methodology
Rating Methodology for Entities in the Ferrous Metals Industry

About the company:
TML was set up as a joint venture between TSL and West Bengal Industrial Development Corporation (WBIDC) in 1991 to manufacture pig iron. The company had two manufacturing units – one in Kharagpur, West Bengal and other in Redi, Maharashtra. However, due to sustained loss in the Redi unit, the company closed it in FY2013. TML is a part of the Tata Group of Companies, with TSL owning 50.09% of the company's equity capital. TML also manufactures DIP in its Kharagpur plant, a forward integration unit of the pig-iron business. Earlier the DIP business was run under its wholly-owned subsidiary, TMDIPL, which has been merged with TML with effect from April 1, 2016.

TML posted a profit after tax (PAT) of Rs. 75.69 crore on an operating income (OI) of Rs. 930.44 crore in 9MFY2017, compared to a PAT of Rs. 74.14 crore on an OI of Rs. 936.44 crore in 9MFY2016. TML posted a consolidated PAT of Rs. 122.79 crore on an OI of Rs. 1301.38 crore in FY2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016		Month- year & Rating in FY2015		Month-year & Rating in FY2014
				April 2017	March 2016	August 2015	February 2015	June 2014	April 2013
1	Fund based bank facilities	Long Term	148.00	[ICRA]A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A%	[ICRA] A-%	[ICRA] BBB+%	[ICRA] BBB%
2	Term Loans	Long Term	171.67	[ICRA]A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A%	[ICRA] A-%	[ICRA] BBB+%	[ICRA] BBB%
3	Non-fund based bank facilities	Short Term	648.00	[ICRA]A1+	[ICRA] A1	[ICRA] A1%	[ICRA] A2+%	[ICRA] A3+%	[ICRA] A3%

%: placed on rating watch with positive implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based bank facilities	NA	NA	NA	148.00	[ICRA]A+ (Positive)
Term Loans	NA	NA	Fully repayable by FY2022	171.67	[ICRA]A+ (Positive)
Non-fund based bank facilities	NA	NA	NA	648.00	[ICRA]A1+

Source: Company; NA: Not available

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