

## Tata Steel Processing and Distribution Limited

December 26, 2017

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	420.00	420.00	[ICRA]AA- (Stable) outstanding
Fund-based facilities	250.00	250.00	[ICRA]AA- (Stable) outstanding
Non-fund based facilities	95.00	95.00	[ICRA]A1+ outstanding
Commercial Paper	100.00	200.00	[ICRA]A1+ assigned/outstanding
<b>Total</b>			

### Rating action

ICRA has assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 200-crore<sup>1</sup> (enhanced from Rs. 100 crore) commercial paper programme of Tata Steel Processing and Distribution Limited (TSPDL or the company)<sup>2</sup>. ICRA has a long-term rating of [ICRA]AA- outstanding on the Rs. 420-crore term loan and Rs. 250-crore fund-based facilities of the company. The outlook on the long-term rating remains stable. ICRA also has a short-term rating of [ICRA]A1+ outstanding on the Rs. 95-crore non-fund based facilities of the company.

### Rationale

The ratings takes into account TSPDL's strong market position as an established steel processor facilitated by its status as a 100% subsidiary of TSL as well as its conservative gearing at present, which provides a high degree of financial flexibility to the company. The ratings also reflect the limited sensitivity of TSPDL's profitability to steel price volatility in both its tolling and VSM divisions. The guaranteed volume off-take arrangement under the tolling arrangement with TSL reduces off-take risks as well. The company, however, remains exposed to significant sales-concentration risks, with tolling earmarked primarily for TSL and a large part of distribution sales catering to Tata Motors Limited (TML). The ratings also continue to factor in TSPDL's sizeable capex plans of around Rs. 700 crore over the next five years. The capex is expected to be funded by a mix of debt and internal accruals. Project risks are also mitigated to some extent, given the experience of TSPDL in executing large projects, successfully.

### Outlook: Stable

The stable outlook reflects ICRA's expectation that TSPDL will continue to maintain its healthy financial risk profile, characterised by conservative gearing levels and comfortable debt-coverage indicators on an absolute basis, notwithstanding the deterioration in FY2017. The outlook may be revised to 'Positive' if a substantial increase is noted in off-take from the existing and upcoming facilities, while sustaining profitability and liquidity at the current levels. The outlook may be revised to 'Negative' if case weakness in the end-user industries of steel and automotive adversely impact operations.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Established market position and strong parentage as a wholly-owned subsidiary of TSL** – TSPDL is one of the largest players in the steel servicing and processing business in India, with a production capacity of around 3.2 million metric tonnes per annum (mtpa). With the presence of ten processing centres across the country, TSPDL's reputation as a quality processor and its status as a TSL subsidiary, result in distinct competitive advantages for the company. TSPDL's business planning is also synergised with the business and growth plans of TSL, as reflected in the fact that a major part of TSL's processing requirements are met by TSPDL under the tolling arrangement.

**Financial flexibility derived from favourable capital structure at present** – The company's total debt has been increasing in the past on account of debt availed for planned capacity expansion. From FY2016, the company availed debt not only to part finance its capex, but also to meet its increased working-capital requirements. Nonetheless, the company's capital structure has continued to remain conservative, with a gearing of 0.81 times as on September 30, 2017. Favourable capital structure and status as a Tata Group company impart a high degree of financial flexibility to TSPDL.

**Limited sensitivity of profitability to steel-price volatility** – Under the tolling arrangement, TSPDL processes steel for TSL and receives a processing income, wherein the entire raw material price risk is on TSL. Thus, the impact of steel price volatility is limited. However, in the VSM business, which accounts for almost two-thirds of TSPDL's distribution volumes (60% in H1 FY2018), the company purchases the raw materials (steel coils) and then processes them as per client requirements. The price risk associated with the distribution business is nonetheless, also limited by a material price pass-on clause. In the branded-goods segment, however, which contributes to the balance distribution volumes, TSPDL acts a distributor for TSL's branded products, and remains exposed to price risks.

**Guaranteed volume off-take arrangement with TSL for contracts negotiated from FY2016 reduces off-take risks** – From FY2015, all contracts under the tolling model have been undertaken on a take-or-pay model which guarantees a threshold Return on Equity (ROE). Under this model, TSPDL is assured of a guaranteed volume off-take, wherein irrespective of the volume processed, the company would be compensated against all variable and fixed costs (including depreciation and interest charges), thus, ensuring assured cash flow for the company.

### Credit challenges

**Large-sized capex plans over the near to medium term** - TSPDL has a sizeable capex plans of around Rs. 727 crore over the next three years, which are quite significant relative to its gross block of around Rs. 502 crore as on March 31, 2017. The capex is expected to be funded by a mix of debt and internal accruals. Project risks are also mitigated to some extent, given the experience of TSPDL in executing large projects successfully.

**Significant sales-concentration risks** – TSPDL remains exposed to significant sales-concentration risks, with tolling operations earmarked primarily for Tata Steel Limited and a large part of distribution sales catering to Tata Motors Limited.

**Inherent cyclicity in the steel and automobile businesses leads to some variability in cash flows** – While the cash flows and margins of the company remain exposed to the cyclicity inherent in the steel and automotive industries, the guaranteed off-take arrangements with TSL mitigate the risks to some extent.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Rating Methodology for Entities in the Ferrous Metals Industry](#)

**About the company:**

Tata Steel Processing and Distribution Limited (TSPDL), a wholly-owned subsidiary of Tata Steel Limited (TSL), was set up in 1997 as Tata Ryerson Limited, a 50:50 joint venture between Tata Steel and Ryerson Inc., primarily to cater to TSL's processing requirements. Ryerson Inc. sold its equity stake to TSL in June, 2009. With the presence of ten processing centres spread across the country, TSPDL has a production capacity of around 3.2 million tonnes per annum (mtpa). At present, more than three-fourth of TSPDL's volumes are generated from the tolling work carried out for TSL. The balance volumes are generated from its distribution division, which operates under two models—Vendor Service Model (VSM) and Branded Goods. Under the VSM model, the company primarily purchases hot rolled(HR)/cold-rolled (CR) coils and supplies processed steel to institutional customers. Under the Branded Goods model, the company trades in TSL's branded products.

In FY2017, the company reported a net profit of Rs. 40.41 crore on an operating income of Rs. 2,467.57 crore. In H1 FY2018, the company reported a net profit of Rs. 24.49 crore on an operating income of Rs. 1,346.30 crore.

**Key financial indicators**

	FY 2017	H1 FY 2018*
Operating Income (Rs. crore)	2467.57	1346.30
PAT (Rs. crore)	40.41	24.49
OPBDIT/ OI (%)	4.1%	4.7%
RoCE (%)	10.89%	11.93%
Total Debt/ TNW (times)	0.76	0.81
Total Debt/ OPBDIT (times)	4.05	3.60
Interest coverage (times)	4.98	5.31
NWC/ OI (%)	20%	19%

\*Provisional

**Status of non-cooperation with previous CRA: Not applicable**
**Any other information: None**
**Rating history for last three years:**

		Current Rating (FY2018)		Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating December 2017	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 December 2015	Date & Rating in FY2015 February 2015	
1	Term Loans	Long Term	420.00	189.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)

2	Fund based facilities	Long Term	250.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Non-fund based facilities	Short Term	95.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short Term	200.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

### 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](http://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	Commercial Paper	NA	NA	7-365 days	50	[ICRA]A1+
NA	Commercial Paper	NA	NA	7-365 days	50	[ICRA]A1+
NA	Commercial Paper*	NA	NA	NA	100	[ICRA]A1+
NA	Term Loan 1	02-Aug-2017	NA	14-Aug-2027	190	[ICRA]AA- (Stable)
NA	Term Loan 2	25-Sep-2013	NA	31-Dec-2021	75	[ICRA]AA- (Stable)
NA	Term Loan 3	16-Mar-2013	NA	31-Dec-2018	44	[ICRA]AA- (Stable)
NA	Term Loan 4	11-Dec-2015	NA	30-Sep-2021	20	[ICRA]AA- (Stable)
NA	Term Loan**	NA	NA	NA	91	[ICRA]AA- (Stable)
NA	Fund-Based Limits	NA	NA	NA	250	[ICRA]AA- (Stable)
NA	Non-Fund Based Limits	NA	NA	NA	95	[ICRA]A1+

\*Yet to be issued

\*\*Yet to be sanctioned

Source: Tata Steel Processing and Distribution Limited

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