

The Tinplate Company of India Limited

March 27, 2019

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|-----------------------------------|----------------------------------|----------------------------------|
| Fund-based – Long-term Facilities | 141.00 | 141.00 | [ICRA]AA- (Stable); outstanding |
| Short-term fund based interchangeable | (95.00) | (95.00) | [ICRA]A1+; outstanding |
| Fund based - Short term facilities | 15.00 | 15.00 | [ICRA]A1+; outstanding |
| Non-fund Based-Working Capital Facilities | 172.00 | 262.00 | [ICRA]A1+; assigned/ outstanding |
| Total | 328.00 | 418.00 | |

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings reflects the dominant market position of The Tinplate Company Of India (TCIL) as the largest domestic manufacturer of tinplate with a capacity to produce 0.38 million tonnes per annum. The ratings also consider the near debt free status of the company, which along with the healthy cash accruals, resulted in a conservative capital structure and healthy debt protection metrics for TCIL. While reaffirming the ratings, ICRA has taken note of the decline in operating profitability during 9MFY2019, primarily on account of a weak performance in Q2, which was compensated to an extent by the recovery witnessed in Q3. At an absolute level, nonetheless, TCIL's profitability and cash flows remained healthy. The ratings also continue to factor in the operational, financial and managerial linkages of TCIL with Tata Steel Limited (TSL), which holds a 74.96% stake. The long-term rating is, however, constrained by the inherent cyclicity in the tinplate business, vulnerability of the company's profitability to adverse movements in raw material (hot rolled coils and tin) prices relative to tinplate prices and threat from competing packaging materials. The constant inflow of imported tinplate, especially non-prime grade, resulted in an intensely competitive domestic business environment for the company. Nonetheless, the demand outlook on tinplate packaging is positive, supported by the growth in organised modern retail and processed food industries. To cater to this growing demand, the company has plans to expand its manufacturing capacity. ICRA however has not factored in the impact of the same at present since the exact plans are yet to be finalised.

Outlook: Stable

ICRA believes that TCIL will continue to benefit from its dominant position in the domestic tinplate market and its status as a Tata Steel Group company. The outlook may be revised to Positive if a favourable trend in tinplate realisations, relative to HRC prices, results in a substantial growth in revenue and profitability on a sustainable basis. The outlook may be revised to Negative if there is a significant weakening in margins, leading to lower profits and cash accruals than expectations, or if a large part of the capex is funded by debt, which adversely impacts its capital structure and debt coverage indicators.

Key rating drivers

Credit strengths

Status as a Tata 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 reputed tinplate producer with global capacity. 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. TCIL also has a CRM capacity of 0.39 million, which provides better backward integration with no dependence on imported TMBP.

Conservative capital structure lends considerable financial flexibility - The company has a conservative capital structure with nil gearing as of end-FY2018 which imparts considerable financial flexibility. Negligible debt along with healthy cash flow from operations resulted in comfortable debt coverage indicators for the company. Total debt/OPBITDA remained nil, while interest cover stood at 52.56 times in FY2018.

Healthy profits and cash flows of the company, notwithstanding some moderation in profitability witnessed in 9M FY2019 - The company reported a significant growth in its topline which stood at Rs. 1929.79 crore in FY2018 on account of its transition from the conversion arrangement with TSL to an own sales model from July 1, 2017. Healthy growth in sales volumes along with an uptrend in tinplate realisations led to an improvement in TCIL's OPBITDA to Rs. 173.53 crore in FY2018, implying an OPM of 8.99%, from Rs. 106.02 crore in FY2017 (OPM of 12.55%). Healthy operating profit along with a low interest outgo on account of nominal utilisation of working capital facilities led to a comfortable interest cover of 52.56 times in FY2018.

In the first half of the current fiscal, TCIL's operating profitability declined to 3.30% due to an adverse movement in raw material prices, particularly in Q2 FY2019. Nonetheless, TCIL's operating profit margin recovered to 6.23% in Q3 FY2019 on the back of a favourable trend in input prices compared to end-product realisations. In 9M FY2019 TCIL's operating profit margin stood at 4.29%. Despite a deterioration in profitability, interest cover remained comfortable at 14.01 times in 9M FY2019.

Healthy demand outlook - Indian tinplate demand is estimated at about 6,80,000 tonne per annum, with a per-capita consumption significantly lower than that of developed countries, thus indicating its growth potential going forward. About 50% of the domestic tinplate is consumed for packaging of edible oil and processed food items, and hence, its growth is linked to India's food processing industry. Other major demand sectors are paints, pesticides, lubricants and crown corks.

Credit challenges

Vulnerability to adverse movements in raw material prices relative to tinplate - The company is exposed to the risk of volatility in prices of raw materials (HRC and tin) relative to tinplate prices; however, such mismatches are generally temporary in nature with tinplate prices being aligned with raw material prices, albeit with a lag, which typically in the past has been around three months.

Threat from competing packaging media and cheaper imports pose intense competition to domestic produce - Cheaper packaging materials such as plastic, paper and glass impact the bargaining power of the company with its customers. Moreover, the low import duty structure exposes domestic producers to intense competition with imports catering to around 45% of the domestic demand for tinplate. However, TCIL's produce is almost entirely in the prime category, whereas imports are mostly (~75%) non-prime category. Moreover, with additional capacities being set up in the domestic market, tinplate imports are expected to decline further.

Liquidity position

Healthy cash flow from operations and nominal capex led to a sizeable cash and investment portfolio which stood at Rs. 97.3 crore as of end-FY2018. In addition, absence of long-term debt and low utilisation of the working capital limit support its liquidity position. While ICRA notes that the company has capex plans, part of which would be financed by debt, TCIL's capital structure is expected to remain healthy. In addition, given the healthy accruals from existing facilities and the status that the company enjoys as a Tata Steel Group company, funding risks are expected to be minimal.

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/Group Company: Tata Steel Limited (TSL) TCIL 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 | The ratings are based on the standalone financial profile of the company. |

About the company

TCIL is the largest manufacturer of tinplates in India with a capacity to produce 0.38 million tonnes per annum 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 million tonnes per annum in 2008-09 and had also implemented a 0.2-million-tonnes-per-annum cold rolling mill project in December 2011.

In FY2018, TCIL had reported a net profit of Rs. 73.16 crore on an operating income of Rs. 1,929.79 crore against a net profit of Rs. 27.86 crore on an operating income of Rs. 844.72 crore in FY2017. TCIL reported a net profit of Rs. 30.36 crore on the back of an operating income of Rs. 1,856.68 crore in 9M FY2019 against a net profit of Rs. 44.70 crore on the back of an operating income of Rs. 1,223.54 crore in 9M FY2018.

Key financial indicators (audited)

| | FY2017 | FY2018 | 9M FY2018 | 9M FY2019 |
|------------------------------|--------|----------|-----------|-----------|
| Operating Income (Rs. crore) | 844.72 | 1,929.79 | 1223.54 | 1856.68 |
| PAT (Rs. crore) | 27.86 | 73.16 | 44.70 | 30.36 |
| OPBDIT/OI (%) | 12.55% | 8.99% | 8.63% | 4.29% |
| RoCE (%) | 6.40% | 17.04% | | |
| Total Debt/TNW (times) | 0.00 | 0.00 | | |
| Total Debt/OPBDIT (times) | 0.00 | 0.00 | | |
| Interest coverage (times) | 34.27 | 52.56 | 47.97 | 14.01 |

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| Current Rating (FY2019) | | | | | | Chronology of Rating History for the Past 3 Years | | |
|--|------------|--------------------------|--------------------------------|--------------------|--------------------|---|----------------------|---------------------|
| Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating | Date & Rating in | Date & Rating in | Date & Rating in |
| | | | | March 2019 | March 2019 | FY2018 November 2017 | FY2017 November 2016 | FY2016 October 2015 |
| 1 Fund-based – Long-term Facilities | Long Term | 141.00 | NA | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) |
| 2 Short-term fund based interchangeable | Short Term | (95.00) | NA | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 3 Fund based- Short term facilities | Short Term | 15.00 | NA | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 4 Non-fund Based- Working Capital Facilities | Short Term | 262.00 | NA | [ICRA]A1+ | [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

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 | 141.00 | [ICRA]AA-(Stable) |
| NA | Short-term fund based interchangeable | NA | NA | - | (95.00) | [ICRA]A1+ |
| NA | Fund based- Short term facilities | NA | NA | - | 15.00 | [ICRA]A1+ |
| NA | Non-fund Based-Working Capital Facilities | NA | NA | - | 262.00 | [ICRA]A1+ |

Source: The Tinsplate Company Of India Limited

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