

August 03, 2017

Tata Sponge Iron Limited

Tata Sponge Iron Limited (TSIL) has announced its quarterly results on July 21, 2017.

During Q1 FY2018, TSIL reported a net profit of Rs. 30.56 crore on an operating income of Rs. 175.02 crore against a net profit of Rs. 10.53 crore on an operating income of Rs. 107.92 crore in Q1 FY2017. The results are almost in line with expectations.

ICRA has ratings of [ICRA]AA(Stable) and [ICRA]A1+ outstanding at present for the Rs. 727.50-crore bank lines of the company. The ratings reflect TSIL's established position in the sponge-iron industry, its status as a 54.5% subsidiary of Tata Steel Limited (TSL) and its strong operating profile characterised by superior quality of products that allows the company to command a premium price over prevailing market rates. The ratings are also supported by the presence of captive power-generation facilities that reduce TSIL's operational costs. Income from sale of power and returns on investments provide additional sources of revenue, which are relatively more stable than the cash flow from the commodity sponge iron operations. However, the ratings continue to factor in TSIL's exposure to the cyclical nature inherent in the steel industry which makes its cash flows and margins volatile. The operating margins of the company are likely to remain susceptible to any changes in prices of imported non-coking coal as well as fluctuations in the exchange rate.

While announcing the Q1 FY2018 results, TSIL has plans of obtaining statutory clearances for setting up a steel plant of up to 1.5 MTPA, in phases, at Kenjhar, Odisha, subject to the financial viability of the project. ICRA thus notes that the company is exposed to significant project-related risks in the medium term, though the same is at a nascent stage at present, given that it has large capital expenditure plans relative to its current balance sheet size. However, TSIL's highly conservative capital structure, its strong debt-protection metrics and a comfortable liquidity position, given a large cash balance and liquid investment portfolio, impart a high degree of financial flexibility to the company.

The previous rating rationale is available on the following link: [Click here](#)

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