Tata Metaliks Limited

Instrument	Amount (in Rs crores)	Rating Action
Fund based bank facilities	Rs. 103.00 crore	Revised to [ICRA]A+ (Stable); rating placed on rating watch with positive implications removed
Term loans	Rs. 171.67 crore	Revised to [ICRA]A+ (Stable); rating placed on rating watch with positive implications removed
Non-fund based bank facilities	Rs. 605.00 crore	[ICRA]A1; rating placed on rating watch with positive implications removed

ICRA has revised upwards the long term rating of the Rs 171.67 crore[1] term loan and Rs 103.00 crore fund based bank facilities of Tata Metaliks Limited (TML) [2] from [ICRA]A (pronounced ICRA A), which had been on rating watch with positive implications, to [ICRA]A+ (pronounced ICRA A plus). The outlook on the long term rating is Stable. ICRA has retained the short term rating of the Rs 605.00 crore non fund based bank facilities at [ICRA]A1 (pronounced ICRA A one), which had been on rating watch with positive implications. ICRA has removed the above ratings from rating watch.

The rating action takes into consideration the improvement in consolidated profitability in the first nine month of the current year (9MFY16). Moreover, the ratings were earlier placed on rating watch because of TML's proposed merger with TSL. The ratings have now been removed from rating watch because of a lack of certainty on the timeliness of the merger. The rating action is primarily driven by the healthy performance of the DIP business (which is carried out by the 100% subsidiary company - Tata Metaliks DI Pipes Limited (TMDIPL)) and savings in input costs to TML. Although the prices of pig iron witnessed some deterioration from third quarter of the previous year, the decline in input raw material prices cushioned the impact to a certain extent. ICRA also notes that post notification of the minimum import prices (MIP) for some steel items including pig iron, there has been some improvement in the current pig iron prices which is likely to support TML's profitability at least over the short term. Moreover, the consolidated performance remained healthy driven by the strong performance of the DIP business. Healthy accretions to reserves over the last 2 years have led to consolidated net worth turning positive in the current year, which coupled with scheduled debt repayment in the current year have led to further improvement in the capital structure, both on a standalone and consolidated basis. TML's standalone cost structure has witnessed an improvement over the last 2 years driven by increased usage of sinter plant post commissioning of the sinter manufacturing facilities in April 2013. In addition, the process improvement initiatives taken in the DIP business has also resulted in cost savings on a consolidated basis. Moreover, with the planned capital expenditure in TML towards backward integration and capacity expansion planned both in TML and TMDIPL over the next 6-9 months or so, cost structure is expected to witness further improvement. ICRA expects the planned capital expenditure to be largely funded from internal cash generation. With further improvement in cost structure expected, post the capital expenditure programme, TML's debt coverage indicators is expected to witness further improvement.

Notwithstanding the improvement in capital structure, in the last 2 years, it still remains aggressive because of large losses reported in the past. However ~35% of the total debt, at the consolidated level, is from the parent company viz. TSL in the form of preference shares and inter corporate deposits, with repayments only over the medium term, thus providing some financial flexibility. 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 through its wholly owned subsidiary, TMDIPL, mitigates this risk to a certain extent, since demand from TMDIPL accounts for around 30% of the total hot metal production by TML. Although the capacity expansion planned in TMDIPL would lead to increased requirement of hot metal from TML, on a consolidated level, TML would still remain exposed to the-cyclicality of the pig iron business going forward. ICRA, however, notes that these risks are partially offset by the established position of TML in the domestic foundry grade pig-iron industry, status of the company as TSL's 50.09% subsidiary, the financial support received from TSL in the past in form of capital infusion through Preference Shares, access to bank finance at competitive borrowing rates and the proposed merger with TSL.

[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

Company Profile

TML was set up as a joint venture between Tata Steel Limited (TSL) and WBIDC (West Bengal Industrial Development Corporation) 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, it had been closed in FY13. TML is a part of the Tata group of companies with TSL owning 50.09% of the equity capital of the company. TML has a wholly owned subsidiary, Tata Metaliks DI Pipes Limited (TMDIPL), involved in the manufacture of ductile iron pipes which is primarily a forward integration unit of TML's pig iron business. TMDIPL (erstwhile Tata Metaliks Kubota Pipes Ltd, TMKPL) was initially formed as a joint venture (JV) between TML, Kubota Corporation of Japan (KC) and Metal One Corporation of Japan (MOC). The respective stakes of TML, KC and MOC in the JV was 51%, 44% and 5%. However, KC and MOC exited the JV agreement and TML had taken over their stake in FY14. Also, as per the declaration to the stock exchanges, the company along with its subsidiary, TMDIPL, is proposed to be merged with TSL with effect from April 1, 2013.

Recent Results

On a standalone basis, TML has posted a profit after tax (PAT) of Rs. 24.88 crore on an OI of Rs. 702.82 crore in 9MFY16, as against PAT of Rs. 73.15 crore on an OI of Rs. 812.80 crore in 9MFY15.

On a consolidated basis, TML has posted a profit after tax (PAT) of Rs. 74.17 crore on an OI of Rs. 940.42 crore in 9MFY16, as against PAT of Rs. 80.70 crore on an OI of Rs. 1030.37 crore in 9MFY15.

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