# Tata Metaliks Limited

| Instrument | Amount (in Rs crore) | Rating Action |
|---|---|---|
| *Fund based bank facilities* | *Rs. 103.00 crore (enhanced from Rs 100.00 crore)* | *Upgraded to [ICRA]A; continues to be on rating watch with positive implications* |
| *Term loans* | *Rs. 171.67 crore (enhanced from Rs 65.00 crore)* | *Upgraded to [ICRA]A; continues to be on rating watch with positive implications* |
| *Non-fund based bank facilities* | *Rs. 605.00 crore (enhanced from Rs 425.00 crore)* | *Upgraded to [ICRA]A1; continues to be on rating watch with positive implications* |

ICRA has upgraded the long term rating of the Rs 171.67 crore[*] term loan (enhanced from Rs. 65.00 crore earlier) and Rs 103.00 crore fund based bank facilities (enhanced from Rs. 100.00 crore earlier) of Tata Metaliks Limited (TML) [†] from [ICRA]A- (pronounced ICRA A minus) to [ICRA]A (pronounced ICRA A) . ICRA has also upgraded the short term rating of the Rs 605.00 crore non fund based bank facilities (enhanced from Rs. 425.00 crore earlier) from [ICRA]A2+ (pronounced ICRA A two plus) to [ICRA]A1 (pronounced ICRA A one). The ratings continue to be on rating watch with positive implications.

The rating action takes into consideration the significant improvement in profitability and coverage indicators in FY15, driven by firm pig iron prices, particularly in the first half of the year, and healthy performance of the DIP business (which is carried out by the 100% subsidiary company - Tata Metaliks DI Pipes Limited (TMDIPL)). Although the prices of pig iron witnessed a decline from Q3 onwards, which affected standalone profitability; the consolidated performance remained healthy driven by the strong performance of the DIP business. Also the decline in input raw material prices cushioned the effect of the lower pig iron realisations during H2FY15 and Q1FY16. Healthy accretions to reserves over the last 2 years have led to consolidated networth turning positive in Q1FY16. This coupled with debt repayment in the last 2 years have led to 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 12-15 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 stretched because of large losses reported in the past. However 30% 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,

[*] 100 lakh = 1 crore = 10 million

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

access to bank finance at competitive borrowing rates and the impending merger with TSL. The rating continues to be on Watch with Positive Implication on account of the impending merger.

**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. 6.81 crore on an OI of Rs. 228.12 crore in Q1FY16, as against PAT of Rs. 32.38 crore on an OI of Rs. 284.75 crore in Q1FY15. During FY15, TML had reported a net profit of Rs. 83.66 crores on an OI of Rs. 1,099.09 crores.

On a consolidated basis, TML has posted a profit after tax (PAT) of Rs. 26.64 crore on an OI of Rs. 315.40 crore in Q1FY16, as against PAT of Rs. 34.31 crore on an OI of Rs. 353.40 crore in Q1FY15. During FY15, TML had reported a net profit of Rs. 109.14 crores on an OI of Rs. 1,422.05 crores.

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