September 15, 2017

Tata Metaliks Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating action
Fund-based bank facilities	Rs. 148.00 crore	[ICRA]A+ (Positive); reaffirmed
Term loans	Rs. 171.67 crore	[ICRA]A+ (Positive); reaffirmed
Non-fund based bank facilities	Rs. 648.00 crore	[ICRA]A1+; reaffirmed

*Instrument Details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of the Rs. 171.67-crore[1] term loan and Rs. 148.00-crore fund-based bank facilities of Tata Metaliks Limited (TML) at [ICRA]A+ (pronounced ICRA A plus)[2]. ICRA has also reaffirmed the short-term rating of the Rs. 648.00-crore non-fund based bank facilities at [ICRA]A1+ (pronounced ICRA A one plus). The outlook on the long-term rating is 'Positive'.

Rationale

The rating action takes into consideration the expected improvement in the company's capital structure and coverage indicators in the near term following healthy profitability and debt repayments. In H2 FY2017, TML commissioned a 10-MW power plant, based on waste heat gas from the coke-oven plants, which has significantly reduced the power cost of the company. Additionally, the merger of the subsidiary company, Tata Metaliks DI Pipes Limited, with itself in the last year is likely to improve its cost structure in the current year. However, ICRA notes that the company remains exposed to commodity prices of pig iron and coke. An extraordinary rise in international coking coal prices in the recent past has dented TML's operating margin in Q1 FY2018, which declined to ~12.8% compared to ~19.4% in Q1 FY2017. The said impact on the company was, however, mitigated to an extent by the healthy performance of its ductile iron pipes (DIP) business. ICRA also notes that the company is planning other cost-reduction measures, which are expected to support profitability, going forward. The ratings continue to be supported by the company's status as Tata Steel Limited's (TSL) 50.09% subsidiary, and established relationships with banks, leading to financial flexibility.

The long-term rating, however, remains constrained by the moderate capital structure of the company, notwithstanding improvement in recent years, and a lowest bidder (L-1)-based nature of the DIP market, which keeps realisations under check for all DIP players, including TML. 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, demand outlook for which is favourable, mitigates this risk to a certain extent. While the company has plans to increase DIP's capacity over the medium to long term, the company would remain exposed to the cyclicality of the pig-iron business, till the enhanced DIP capacities are commissioned. Notwithstanding such risks, the established position of TML in the domestic foundry grade pig-iron industry, and continued focus on process-improvement / cost-reduction initiatives are expected to keep the cash flows comfortable relative to debt obligations of the company. ICRA expects the overall debt metrics of the company to improve, going forward.

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[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

Key rating drivers

Credit strengths

- **Improvement in cost structure on a sustainable basis –** In addition to the sinter plant setup in FY2013, the company has commissioned coke-oven plants and a 10-MW power plant in FY2017. The power plant is based on flue gas generated during the coke-manufacturing process, and has resulted in sustainable cost savings to the company.
- **High capacity utilisation and improvement in operating efficiency of the DIP division –** The DIP division has been operating at full capacity levels in the last couple of years. Besides, a number of process-improvement initiatives were undertaken in the DIP division, which resulted in significant cost savings in the past few years.
- **Favourable demand outlook for DIP in India; healthy order book position for the company –** The demand outlook for DIP is likely to remain favourable at least over the medium term, given the government's thrust on infrastructure development. Moreover, TML has a healthy order book, which is expected to keep the capacity-utilisation levels at an elevated level, going forward.
- **Improvement in capital structure and interest-coverage indicator -** Healthy accretion to reserves led to further improvement in gearing levels to ~2.6 times as on March 31, 2017 compared to ~4.4 times as on March 31, 2016. Interest coverage indicator also improved from ~4.66 times in FY2016 to ~6.14 times in FY2017. With healthy accruals, the debt metrics is expected to improve further.
- **Status of the company as a part of the Tata Group –** TML is a 50.09% subsidiary of Tata Steel, with proven track record of financial support received from the parent in the past. The company is one of the largest producers of foundry-grade pig iron in the country with an installed capacity of 500,000 metric tonnes per annum (MTPA). The pig iron produced by TML is primarily used by the foundry industry to manufacture castings.

Credit weaknesses

- **Exposure of profit and cash flows to the cyclical nature of the pig-iron business -** Raw material costs account for a major portion of the cost of operations for pig iron players, including TML, and are thus important determinants of profitability. The pig-iron sector, being a cyclical industry, is exposed to margin risks arising from temporary mismatch in prices of raw materials and pig iron, causing volatility in profitability and cash flows. The backward as well as forward-integration facilities available with the company mitigate such risks to an extent.
- **L-1 based bidding system for orders results in range-bound profitability in the DIP division -** Most of DIP's sales take place through tenders where the lowest bidder is awarded the contract. This results in significant price-based competition, which tends to keep profitability under check.
- **Aggressive capital structure -** Notwithstanding improvement in capital structure, it still remains aggressive. This is primarily on account of large losses reported by the company in the past which had severely impaired the net worth of the company.

Analytical approach: While assigning the ratings, ICRA has considered the status of the company as a part of Tata Group of Companies and the fact that it is a 50.09% subsidiary of TSL.

Links to applicable criteria

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Ferrous Metals Industry

About the company:
TML was set up as a joint venture between TSL and West Bengal Industrial Development Corporation (WBIDC) in 1991 to manufacture pig iron. The company had two manufacturing units – one in Kharagpur, West Bengal and the other in Redi, Maharashtra. However, due to sustained loss in the Redi unit, the company closed it in FY2013. TML is a part of the Tata Group of Companies, with TSL owning 50.09% of the company’s equity capital. TML also manufactures DIP in its Kharagpur plant, a forward-integration unit of the pig-iron business. The DIP business was set up in 2007 in collaboration with Kubota Corporation of Japan (KC) and Metal One Corporation of Japan (MOC). The respective stakes of TML, KC and MOC in the JV stood at 51%, 44% and 5%, respectively. Subsequently, TML increased its stake in the DIP business to 100%, making it a wholly-owned subsidiary (WOS). During FY2017, TML merged the wholly-owned subsidiary, Tata Metaliks DI Pipes Limited, with itself with effect from April 1, 2016.

TML posted a profit after tax (PAT) of Rs. 116.05 crore on an operating income (OI) of Rs. 1,336.73 crore in FY2017, compared to a PAT of Rs. 112.27 crore on an OI of Rs. 1,298.28 crore in FY2016. The company reported a PAT of Rs. 30.56 crore on an operating income (OI) of Rs. 387.12 crore in Q1FY2018 against a PAT of Rs. 34.51 crore on an operating income (OI) of Rs. 314.74 crore in Q1FY2017.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1298.28	1336.73
PAT (Rs. crore)	112.27	116.05
OPBDIT/ OI (%)	17.17%	17.23%
RoCE (%)	53.20%	34.78%
Total Debt/ TNW (times)	4.29	2.60
Total Debt/ OPBDIT (times)	1.91	2.34
Interest coverage (times)	4.86	6.14
NWC/ OI (%)	4%	12%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. Crores)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016		Date & Rating in FY2015	
				Sept 2017	Mar 2017	Mar 2016	Aug 2015	Jan 2015	Jun 2014
1	Fund based bank facilities	Long Term	148.00	[ICRA] A+ (Positive)	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A%	[ICRA] A-%	[ICRA] BBB+%
2	Term Loans	Long Term	171.67	[ICRA] A+ (Positive)	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A%	[ICRA] A-%	[ICRA] BBB+%
3	Non-fund based bank facilities	Short Term	648.00	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	[ICRA] A1%	[ICRA] A2+%	[ICRA] A3+%

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

Instrument	Date of Issuance/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Fund based bank facilities	-	-	-	148.00	[ICRA]A+ (Positive)
Term Loans	-	-	Fully repayable by FY2022	171.67	[ICRA]A+ (Positive)
Non-fund based bank facilities	-	-	-	648.00	[ICRA]A1+

Source: Tata Metaliks Limited

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About ICRA Limited:
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