November 27, 2017

Tata Metaliks Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating action
Fund-based bank facilities	Rs. 148.00 crore	Upgraded to [ICRA]AA-; from [ICRA]A+, outlook revised from 'Positive' to 'Stable'
Term loans	Rs. 171.67 crore	Upgraded to [ICRA]AA-; from [ICRA]A+, outlook revised from 'Positive' to 'Stable'
Non-fund based bank facilities	Rs. 648.00 crore	[ICRA]A1+; reaffirmed

*Instrument Details are provided in Annexure-1

Rating action

ICRA has upgraded 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) from [ICRA]A+ (pronounced ICRA A plus) to [ICRA]AA- (pronounced ICRA double A minus)[2]. The outlook on the long-term rating has been revised from 'Positive' to 'Stable'. ICRA has reaffirmed the short-term rating of the Rs. 648.00-crore non-fund based bank facilities at [ICRA]A1+ (pronounced ICRA A one plus).

Rationale

The rating action takes into consideration the improvement in the company's profits and cash flows during Q2 (both on y-o-y as well as q-o-q basis) on the back of healthy realizations of pig iron and cost savings accruing from the 10-MW power plant, based on waste heat gas from the coke-oven plants, which was commissioned towards the end of the last financial year. Additionally, the merger of the subsidiary company, Tata Metaliks DI Pipes Limited, with itself towards the end of the last calendar year has also resulted in improvement in its cost structure in the current year. The improvement in profitability during Q2 has resulted in profits for H1 FY2018 being higher than the corresponding period of the previous year notwithstanding the deterioration witnessed in Q1. ICRA notes that the company is planning other cost-reduction measures, which are expected to support profitability, going forward.

The ratings continue to favourably factor in the established presence of the company in the ductile iron pipes (DIP) business, outlook for which is favourable, thus mitigating the risks associated with the cyclicality in the pig iron business. 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. Although the lowest bidder (L-1)-based nature of the DIP business, keeps realisations under check for all DIP players, including TML, the company's focus on process and quality improvement and cost-reduction initiatives are expected to further strengthen the operating profile of the DIP business of the company. The long term rating continues to be tempered by the moderate capital structure of the company, notwithstanding improvement witnessed in recent times. While ICRA notes that company has capital expenditure plans, towards cost improvement initiatives as well as capacity addition, part of which is expected to be funded by debt, the capital structure is not expected to deteriorate from current levels given the healthy accruals from business. Debt coverage indictors are also expected to improve 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.

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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 –** The company has commissioned coke-oven plants (under BOOT basis) and a 10-MW power plant in FY2017. The power plant is based on flue gas generated during the coke-manufacturing process. The recently commissioned coke oven and power plants along with the sinter plant, in operations from FY2013, 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 ~2.1 times as on September 30, 2017 compared to ~2.6 times as on March 31, 2017. Interest coverage indicator remained healthy at ~6.2 times in H1 FY2018. With healthy accruals, the debt metrics is expected to further improve. ICRA expects gearing to improve to ~1.2x as at end of FY2018.
- **Established presence in the pig iron and DIP business; status of the company as a part of the Tata Group –** 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). A significant portion (~45%) of the hot metal produced is used in the DIP business, and the rest of the pig iron, primarily of the foundry grade, is used by the foundry industry to manufacture castings. 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 also has established relationships with banks, which provides some degree of financial flexibility.

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, however, 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.
- **Moderate capital structure -** Notwithstanding improvement in capital structure, it still remains moderate. 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 reported a profit after tax (PAT) of Rs. 64.17 crore on an operating income (OI) of Rs. 841.82 crore in H1 FY2018 against a PAT of Rs. 56.17 crore on an operating income (OI) of Rs. 633.76 crore in H1 FY2017. The company posted a 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.

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	
				November 2017	September 2017	March 2017	March 2016	August 2015	January 2015	June 2014
1	Fund based bank facilities	Long Term	148.00	[ICRA] AA- (Stable)	[ICRA] A+ (Positive)	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A%	[ICRA] A-%	[ICRA] BBB+%
2	Term Loans	Long Term	171.67	[ICRA] AA- (Stable)	[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] 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]AA- (Stable)
Term Loans	-	-	Fully repayable by FY2022	171.67	[ICRA]AA- (Stable)
Non-fund based bank facilities	-	-	-	648.00	[ICRA]A1+

Source: Tata Metaliks Limited

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
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