Tata Metaliks Limited

September 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
CP Programme[1]	-	100.00	[ICRA]A1+; Assigned
LT- Fund-based limits	148.00	148.00	[ICRA]AA-(Stable) outstanding
LT- Term Loan	171.67	171.67	[ICRA]AA-(Stable) outstanding
ST- Non-fund based limits	648.00	648.00	[ICRA]A1+ outstanding
Total	**967.67**	**1067.67**	

Rating action

ICRA has assigned the [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs. 100-crore Commercial Paper Programme of Tata Metaliks Limited (TML)[2]. TML has outstanding ratings of [ICRA]AA- (pronounced ICRA double A minus) and [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 967.67-crore[3] fund-based and non-fund based bank facilities of Tata Metaliks Limited (TML)[4]. The outlook on the long-term rating is Stable.

Rationale

The rating action takes into consideration the continuous improvement in the company's profits and cash flows during FY2018 on the back of healthy realisation and higher production of pig iron (post relining of one mini-blast furnace) 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 FY2017). Additionally, the merger of the subsidiary company, Tata Metaliks DI Pipes Limited with itself towards the end of CY2016 also resulted in improvement in its cost structure in the last financial year. However, ICRA notes that the company remains exposed to commodity prices of pig iron and coke. An increase in raw material cost impacted the operating margin during FY2018 to an extent, nonetheless, the same continued to remain healthy. ICRA also notes that the company is planning other cost-reduction measures, which are expected to further strengthen its operating profile, going forward.

The ratings also consider the established presence of the company in the 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 the capacity of DIP over the medium to long term, it 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 of all DIP players, including TML, under check, 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. 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 the company has capital expenditure plans towards cost improvement initiatives as well as capacity addition, a part of which is expected to be funded by debt, the capital structure is not likely

[1] *While assigning the rating, ICRA notes that the proceeds from the rated CP Programme are intended to be utilized for funding the working capital requirements, as per the objects of the issue. A deviation from the above that has the effect of exerting pressure on the asset-liability position of the company would be a rating sensitivity.*

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

[3] *100 lakh = 1 crore = 10 million*

to deteriorate from the current levels given the healthy accruals from business. Debt coverage indictors are 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 relationship with banks, leading to financial flexibility.

Outlook: Stable

ICRA believes that TML will continue to benefit from the established track record in the pig iron and DIP business and favourable demand outlook for the DIP business. The outlook may be revised to Positive on timely execution of capital expenditure towards cost-reduction measures, which are likely to support the operating profitability in the medium term. The outlook may be revised to Negative if there is a sharp deterioration in the financial performance due to a reversal in industry conditions.

Key rating drivers

Credit strengths

Healthy financial performance of the company – The financial performance remained strong with continuous improvement in the company's profits and cash flows during FY2018 and in Q1 FY2019 on the back of healthy realisations and higher production of pig iron besides cost savings accruing from the power plant. The operating margin was impacted during FY2018 owing to higher raw material cost but it continued to remain robust. Healthy accretion to reserves led to further improvement in gearing levels to ~1.33 times as on March 31, 2018 compared to ~2.6 times as on March 31, 2017. Interest coverage indicator remained comfortable at ~5.9 times during FY2018. With healthy accruals, the debt metrics is expected to improve further. ICRA expects the company's gearing to improve to below ~1.0 times as of end FY2019.

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, resulted in sustainable cost savings to the company. In addition, TML is planning other cost improvement initiatives in the next two-three financial years, which are expected to further strengthen its operating profile, going forward.

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.

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 tonne per annum (MTPA). A significant portion (~39%) 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, leading to high financial flexibility.

Credit weaknesses

Exposure of profit and cash flows to the cyclical nature of the pig-iron business - Raw materials account for a major portion of the cost of operations for pig iron players, including TML, and are thus important determinants of profitability. Since pig-iron business is cyclical in nature, it 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 hit the net worth of the company.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

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 losses 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. TML merged the wholly-owned subsidiary, Tata Metaliks DI Pipes Limited, with itself with effect from April 1, 2016.

The company posted a Total Comprehensive Income (TCI) of Rs. 159.11 crore on an operating income (OI) of Rs. 1873.32 crore in FY2018, compared to a TCI of Rs. 114.23 crore on an OI of Rs. 1,338.67 crore in FY2017.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	1338.67	1873.32
PAT (Rs. crore)	116.05	159.18
OPBDIT/ OI (%)	17.30%	15.14%
RoCE (%)	35.02%	33.09%
Total Debt/ TNW (times)	2.60	1.33
Total Debt/ OPBDIT (times)	2.33	1.68
Interest coverage (times)	5.97	5.90
NWC/ OI (%)	13%	12%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S.No	Name of Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
		Type	Rated amount (Rs. Crores)	Amount Outstanding (Rs crore)- FY2018	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016	
					September 2018	November 2017	September 2017	April 2017	April 2016	September 2015
1	Fund based bank facilities	Long Term	148.00	--	[ICRA]AA- (Stable); outstanding	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A%
2	Term Loans	Long Term	171.67	--	[ICRA]AA- (Stable); outstanding	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A%
3	Non-fund based bank facilities	Short Term	648.00	---	[ICRA]A1+; outstanding	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1%
4	Commercial Paper Programme	Short Term	100.00	--	[ICRA]A1+; Assigned	-	-	-	-	-

%- Under rating watch with positive implications

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Bank Facilities	NA	NA	NA	148.00	[ICRA]AA- (Stable)
NA	Term Loan	FY2015-FY2018	NA	FY2022	171.67	[ICRA]AA- (Stable)
NA	Non-Fund Based facilties	NA	NA	NA	648.00	[ICRA]A1+
NA	Commercial Paper	Unplaced	Unplaced	Unplaced	100.00	[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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