Tata Metaliks Limited

February 28, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
CP Programme[1]	100.00	100.00	[ICRA]A1+; Reaffirmed
LT- Fund-based limits	148.00	218.00	[ICRA]AA- reaffirmed; outlook revised from Stable to Positive
LT- Term Loan	171.67	177.78	[ICRA]AA- reaffirmed; outlook revised from Stable to Positive
ST- Non-fund based limits	648.00	580.00	[ICRA]A1+; Reaffirmed
Total	**1067.67**	**1075.78**	

**Instrument details are provided in Annexure-1*

Rationale

The rating action takes into consideration the healthy financial performance of the company in 9M FY2019, which is expected to sustain going forward given the significant cost savings emanating from the recently commissioned pulverised coal injection (PCI) plant, coupled with healthy order book of the ductile iron pipe (DIP) business at remunerative prices. ICRA notes that the overall profitability continued to remain firm at ~14.6%, notwithstanding some moderation in 9M FY2019 on the back of a significant increase in pig iron prices, which had offset the rise in international coking coal prices to a large extent. Profitability of the DIP business, however, was impacted owing to the fixed-price nature of orders. Debt coverage indicators remained strong with an interest cover of more than 7.0 times, debt to OPBDITA at 1.61 times, and the capital structure remained healthy with a debt to equity of ~ 1.05 times as of December 2018. The overall business returns were also robust with an RoCE of 30.0% in 9M FY2019. While revising the outlook, ICRA has taken note of the capital expenditure (capex) plans of the company over the medium term. With planned equity infusion over the medium term to fund the major portion of capex, together with healthy cash accruals, the capital structure would improve further. In addition, it would further strengthen the operating profile of the company with increasing share of revenue from the value-added DIP business and further improvement in the operating cost structure.

The ratings continue to favourably factor in the integrated nature of business, which reduces the vulnerability of the company's cash flows to fluctuation in input prices. The ratings further consider the established presence of the company in the DIP business, the outlook for which is favourable, thus mitigating the risks associated with the cyclicality in the pig iron business to an extent. For the pipe business, TML has a healthy order book of around 10 months, which is expected to keep the capacity utilisation at an elevated level, going forward. While the company has plans to increase the capacity of DI pipes over the medium term, it would remain exposed to the cyclicality of the pig-iron business till the enhanced DIP capacities are commissioned. Moreover, the fixed price lowest bidder (L-1)-based nature of the DIP business keeps realisations under check for all DIP players, including TML. While the large capex plans expose the company to project implementation risks, the experience of the management in setting up and managing such facilities in the past mitigate such risks to a large extent. The healthy demand outlook for the DIP business also reduces demand

[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.*

related risks once the enhanced facilities are commissioned. Nonetheless, timely execution of the project without any material cost escalation remains a key factor for the overall credit profile of the company. ICRA expects TML's cash flows to remain comfortable relative to its debt service obligations, 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 high financial flexibility.

Outlook: Positive

The Positive outlook underpins ICRA's expectation that the company's performance would continue to remain healthy, particularly given the cost savings emanating from commissioning of the PCI plant, coupled with healthy order execution in the DIP business at remunerative prices. The outlook may be revised to Stable if profitability and cash accruals are lower than envisaged. The outlook may be revised to Negative if there is a significant reversal in the industry conditions on a sustained basis. In addition, timely execution of the project without any material cost escalation would remain a key rating sensitivity.

Key rating drivers

Credit strengths

Favourable financial risk profile – The financial performance remained healthy with continuous improvement in the company's profit and cash flows in FY2018 and 9M FY2019 on the back of healthy realisations and higher production of pig iron, besides cost savings accruing from the power plant. The operating margin continued to remain firm at ~14.6%, notwithstanding some moderation in 9M FY2019 on the back of a significant increase in pig iron prices, which had offset the rise in international coking coal prices to a large extent. However, the profitability of the DIP business was impacted owing to the fixed-price nature of orders. Healthy accretion to reserves led to a further improvement in the gearing levels to ~1.33 times as on March 31, 2018 and ~1.05 times as on December 31, 2018. Interest coverage indicator also remained comfortable at ~5.9 times in FY2018 and 7.01 times in 9M FY2019. 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.

Integrated nature of operations reduces the vulnerability of cash flows to fluctuation in input prices - The company is one of the largest producers of foundry-grade pig iron in the country with an installed capacity of 550,000 metric tonnes 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. Over the years, TML has taken various cost improvement initiatives viz. commissioning of a sinter plant in FY2013, and a 10-MW power plant in FY2017, which operates on the flue gas of coke-oven plants (set up under BOOT basis). In January 2019, the company has commissioned a coal injection plant to partially replace coke with pulverised coal, which is expected to significantly save costs for the company. TML is planning other cost improvement initiatives in the next two-three financial years, which are likely to further strengthen its operating profile, going forward.

Favourable demand outlook for DIP in India; healthy order book position for the company – The DIP division has been operating at its full capacity for the last couple of years. 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 of around 9-10 months, which is expected to keep the capacity utilisation levels high, going forward.

Planned capital expenditure likely to further strengthen the operating profile of the company, going forward- The company has large capex plans over the medium term towards cost improvement initiatives as well as capacity addition for the DI Pipe. Such capex, a part of which is planned to be debt funded, would limit the improvement in capital structure over the medium term. However, over the long term, it would strengthen the operating profile of the company with increasing share of revenue from the value-added DIP business and further improvement in the operating cost structure. The internal rate of return (IRR) for the expansion project is expected to be around 19%. The healthy demand outlook for the DIP business also reduces demand related risks once the enhanced facilities are commissioned. Nonetheless, timely project execution without any material cost escalation would remain a key rating sensitivity.

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 from the parent in the past. The company also has established relationships with banks, leading to high financial flexibility.

Credit challenges

Profit and cash flows exposed to the cyclical nature of the pig-iron business - Raw materials account for a major portion of the operational cost 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 keeps profitability under check. However, healthy demand outlook is expected to keep capacity utilisation of players at a healthy level.

Liquidity position

TML enjoys considerable financial flexibility for being a part of the Tata Steel Group, which has demonstrated ability to refinance debt at attractive terms, given its established relationship with banks. ICRA notes that TML has undrawn working capital limits of Rs. 100 crore as of December 2018, which provides additional liquidity buffer. With planned equity infusion over the medium term to fund the major portion of capex, together with healthy cash accruals, liquidity position of the company would further improve. ICRA expects the cash flows to remain healthy relative to debt obligations of the company.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Parent/Group Company: Tata Steel Limited (TSL) TML is a 50.09% subsidiary of TSL, with proven track record of financial support received from the parent in the past.
Consolidation / Standalone	For arriving at the ratings, ICRA has analysed TML on a standalone basis

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 PAT of Rs. 159.18 crore on an operating income (OI) of Rs. 1,873.32 crore in FY2018, compared to a PAT of Rs. 116.05 crore on an OI of Rs. 1,338.67 crore in FY2017.

Key Financial Indicators (Audited)

	FY 2017	FY 2018	9MFY2019
Operating Income (Rs. crore)	1338.67	1873.32	1561.31
PAT (Rs. crore)	116.05	159.18	117.55
OPBDIT/ OI (%)	17.30%	15.14%	14.63%
RoCE (%)	35.02%	33.09%	29.93%
Total Debt/ TNW (times)	2.60	1.33	1.05
Total Debt/ OPBDIT (times)	2.33	1.68	1.61
Interest coverage (times)	5.97	5.90	7.01

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)-March 2018	Date & Rating	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2018	Date & Rating in FY2017	
					Feb 2019	Sep 2018	November 2017	April 2017	April 2016	April 2017	August 2015
1	Fund based bank facilities	Long Term	218.00	--	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Positive)	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A%
2	Term Loans	Long Term	177.78	210.41	[ICRA] AA- (Positive)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Positive)	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	[ICRA] A%
3	Non-fund based bank facilities	Short Term	580.00	---	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1	[ICRA] A1%
4	Commercial Paper Programme	Short Term	100.00	--	[ICRA] A1+	[ICRA] A1+	-	-	-	-	-

%- 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	218.00	[ICRA]AA- (Positive)
NA	Term Loan	FY2015-FY2018	NA	FY2022	177.78	[ICRA]AA- (Positive)
NA	Non-Fund Based facilities	NA	NA	NA	580.00	[ICRA]A1+
NA	Commercial Paper	Unplaced	Unplaced	Unplaced	100.00	[ICRA]A1+

Source: Tata Metaliks Limited

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999