SEPTEMBER 27, 2016

CARE ASSIGNS 'CARE AA+' TO THE NCD ISSUE OF TATA STEEL LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Proposed Non-Convertible Debentures	1,000	**CARE AA+ (Double A Plus)**	Assigned
Total Facilities	**1,000 (Rupees One Thousand crore only)**		

Other Ratings

Facilities	Amount (Rs. crore)	Ratings[1]
Long-term Bank Facilities	22,800	**CARE AA+ (Double A Plus)**
Total Facilities	22,800 (Rupees Twenty Two Thousand Eight Hundred crore only)	
Non-Convertible Debentures	6,151 (Rupees Six Thousand One Hundred Fifty One crore only)	**CARE AA+ (Double A Plus)**
Perpetual Bonds Issue	2,275 (Rupees Two Thousand Two Hundred Seventy Five crore only)	**CARE AA (Double A)**

Rating Rationale

CARE has assigned a rating of 'CARE AA+' to the proposed non-convertible debenture (NCD) of Tata Steel Limited (TSL). The ratings assigned to various bank facilities/debt instruments of TSL take into account the strong operational performance of TSL's India operations aided by backward integration in the form of captive iron ore and coal mines making it one of the lowest cost producers of steel. Despite the global softening of steel prices and increased net steel imports, Tata Steel India reported best ever steel sales volumes of 9.54 MT in a muted market that grew at 4.5% during FY16 (refers to the period April 01 to March 31). However, its realisation per MT of steel fell from ~ Rs.11,500/ton in FY15 to ~ Rs.7,700/ton in FY16. CARE believes that the Minimum Import Price (MIP) introduced by the Government of India in February 2016; is expected to firm up the realisations while the fall in RM prices is expected to boost profitability in the current fiscal. The commencement of operations at the state-of-the-art Kalinganagar plant in Odisha will also add ~ 3.0 MT to the domestic capacity which is likely to boost revenues and profitability. The capital structure of the India business is also expected to remain comfortable with an overall gearing of 0.40x as at end-FY16 (same as at FY15).

The ratings favourably factor in the completion of sale process of TSL's loss-making UK Longs Business in June 2016 and the ongoing restructuring at Tata Steel Europe, wherein the company intends to restructure the remainder of its UK business (in Port Talbot and Rotherham with a total capacity of 5.7 MTPA) including a potential sale in whole or parts. The restructuring is expected to cut down losses at TSL's Europe operations and positively impact the credit profile. The continued high energy and employee costs, cheap imports from China, and global drop in steel prices have severely impacted the European operations. The PBILDT/ton of Tata Steel Europe moved from Rs.3,135/ton in FY15 to ~Rs.(511)/ton in FY16. TSE has been continuously trying to focus on sales of differentiated products, restructure its operations and reduce costs; which resulted in some improvement in PBILDT/ton in Q4 FY16.

The rating favourably builds in the management's focus on improving TSL's credit profile by restructuring its operations to make them more efficient, refinancing its debt and monetizing its liquid investments in order to deleverage the balance sheet. The ratings continue to be supported by high financial flexibility enjoyed by TSL by virtue of being part of the Tata group, its strong liquidity position which is further aided by investments in some of the other Tata group entities with significantly higher market value.

The above rating strengths are, however, tempered by relatively slow pick up of steel demand in the global market and challenging demand outlook in key geographies putting pressure on the realisations and lack of resource integration for its European operations resulting in Tata Steel Europe being exposed to volatility in raw material prices. The ratings are also tempered by high consolidated financial leverage with overall gearing deteriorating from 2.53x as at March 31, 2015, to 2.66x as at March 31, 2016, primarily due to the loss-making UK operations. While TSL has been trying to continually refinance its debt to ease its short repayment obligations as well as monetise its investments to deleverage the balance sheet, the gearing still remains high.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The timely disposal of the loss-making UK operations along with global steel price movement remains the key rating sensitivities.

Background

TSL was established as India's first integrated steel company in 1907 by Mr Jamsetji N. Tata, the founder of the Tata Group. The company has a presence across the entire value chain of steel manufacturing, including producing and distributing finished products as well as mining and processing of iron ore and coal for its steel production. TSL has grown significantly in the last few years, with its steel production capacity increasing from approximately 5.0 mtpa in FY06 to 29.30 mtpa in FY15 primarily due to company's acquisition in April 2007 of Corus Group plc (Corus; capacity 17.4 MTPA), that was renamed Tata Steel Europe (TSE) in September 2010. As a result of this acquisition, majority of the company's steel production capacity is currently located in the United Kingdom and the Netherlands.

The company's major greenfield integrated steel project at Kalinganagar, Odisha- with a capacity of 3 MTPA has commenced operations and is currently under stabilisation.

The company also owns coal, iron ore and manganese & chrome mines at various locations. With respect to the India operations, the company is 100% backward integrated w.r.t. iron-ore mines and 50% backward integration for coal mines for its domestic operations. TSL purchases all of its iron ore and coal requirements for its European operations from the market.

In June 2016, the company sold its UK longs business including Scunthorpe Steel Works (with a capacity of 4.5 MTPA) to Greybull Capital. The company now has three facilities in UK and Netherlands with a total steel production capacity of 12.90 mtpa.

For FY16, TSL reported a consolidated operating income of Rs.117,152 crore and a loss after tax of Rs.3,179 crore as against a consolidated operating income of Rs.139,504 crore and a loss after tax of Rs.3,956 crore in FY15.

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Note: Mr Vittaldas Leeladhar, Non-Executive Director on the board of Tata Global Beverages Limited (a Tata group company), is one of CARE's Rating Committee Members. To comply with the regulations, the member has not participated in the rating process and in the rating committee meeting.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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