JULY 09, 2015

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES/INSTRUMENTS OF TATA STEEL LTD.

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	22,800	CARE AA+ (Double A Plus)	Reaffirmed
Non-convertible debentures	6,151	CARE AA+ (Double A Plus)	Reaffirmed
Perpetual Bond Issue	2,275	CARE AA (Double A)	Reaffirmed

Rating Rationale

The reaffirmation of ratings takes into account the strong operational efficiencies enjoyed by Tata Steel Limited's (TSL) domestic operations aided by backward integration in the form of captive iron ore and coal mines making it one of the lowest cost producers of crude steel. TSL's domestic operations with capacity of 9.7 million tonnes, which is 33% of overall capacity of TSL, contributes to more than 78% of operating profitability. However, ban on iron-ore mining in Odisha and Jharkhand adversely impacted the operating performance of TSL in H2 FY15 (refers to period October 1 to March 31) as it had to rely on imported iron ore with significantly higher landed cost.

PBILDT per ton of the group declined from Rs.6,166 in FY14 to Rs.4,843 in FY15. This was due to a decline in domestic PBILDT/ton from Rs.15,786 in FY14 to Rs.11,546 in FY15 on account of fall in steel prices as well as increase in raw material cost plus freight cost in H2FY15 due to mining ban.

Nonetheless, the situation is likely to improve in current fiscal subsequent to the operationalisation of domestic iron ore mines.

The ratings also build in improving operating performance of Tata Steel Europe (TSE) on the back of various cost efficiency and product differentiation measures undertaken and satisfactory progress at company's greenfield expansion project at Kalinganagar, Odisha, India that is likely to aid the company's profitability and sales volumes once the project becomes operational in H2FY16.

Though FY15 TSE sales declined by 8% due to a 7% fall in average realization/ton on account of lower selling prices across the globe, PBILDT per ton improved from Rs.2,170 in FY14 to Rs.3,135 in FY15 due to focused cost saving measures and improved manufacturing efficiencies adopted by the company.

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 recent refinancing of debt of USD 7 billion pertaining to TSE further enhances the effective maturity of debt and aligns the repayment improving the debt coverage parameters in medium term.

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 TSE being exposed to volatility in raw material prices. The ratings are also tempered by high financial leverage with overall gearing deteriorating from 2.06x as at March 31, 2014 to 2.63x as at March 31, 2015 due to reduction in networth on account of non-cash impairment losses of Rs.6,390 crore and provisioning of actuarial losses on pension liabilities of Rs.5,200 crore.

Sustained improvement in the operational performance along with the timely completion of its ongoing projects within the envisaged cost are the key rating sensitivities.

Background

Tata Steel Limited (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 5-6 years, with its steel production capacity increasing from approximately 5.0 mtpa

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

in FY06 (refers to period April 1 to March 31) to 29.30 mtpa in FY14 primarily due to company's acquisition in April 2007 of Corus Group plc, that was renamed Tata Steel Europe (TSE) in September 2010. As a result of this acquisition, large part of the company's steel production capacity is currently located in the United Kingdom and the Netherlands where the company has four facilities with a total steel production capacity of 17.40 mtpa. The company recently augmented its domestic crude steel capacity from 6.8 MTPA to 9.7 MTPA.

The company is one of the most geographically diversified steel producers, with operations in 26 countries and commercial presence in more than 50 countries. The product mix of the company includes flat products such as HR Coils, CR Coils, Galvanized Steel; Long Products such as Wire Rods, Rebars; Ferro Alloys, Tubes, Bearings, Wires, etc.

Other than the above manufacturing facilities, the company also owns coal, iron ore and manganese & chrome mines at various locations. The company is 100% backward integrated with respect to iron-ore requirement and 50% backward integration for coal requirement for the domestic operations.

TSL purchases all of its iron ore and coal requirements for its European operations from market.

During FY15 (refers to period April 1 to March 31), consolidated income and loss after tax stood at Rs.140,300 crore and 3,956 crore respectively.

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

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.

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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CIN - L67190MH1993PLC071691