

Tata Steel BSL Limited

April 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities - Term Loan	19,000.00 (reduced from 21,000.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities - Fund based/Non- fund based	5,000.00	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/ A One Plus)	
Total facilities	24,000.00 (Rupees Twenty Four Thousand Crore Only)		
Commercial Paper	2,000.00 (Rupees Two Thousand Crore Only)	CARE A1+ (A One Plus)	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and short term instrument of Tata Steel BSL Limited [TSBL; erstwhile Bhushan Steel Limited] continues to derive comfort from the strong parentage of Tata Steel Limited (TSL; rated CARE AA; Stable/CARE AA-; Stable). The ratings also draw comfort from the experienced promoters and management of TSL having significant presence in the steel industry, strategic importance of TSBL for TSL, improved operational performance during 9MFY19 (period refers from April 01 to December 31) as well as TSBL's access to TSL's suppliers' network and iron ore mines providing operational synergies via raw material integration. The ratings also factor in the letter of comfort issued by TSL to TSBL's long term lenders as well as expected synergies for TSBL by way of access to TSL's strong marketing and distribution network.

The ratings are, however, tempered by TSBL's presence in highly cyclical steel industry which could make the cash flows of the company volatile.

Going forward, the company's ability to quickly ramp up its scale of operations, achieve production upto its rated capacity and improve profitability of the company will be the key rating sensitivities. Also, continued support from TSL for the overall operations of TSBL will be a critical factor from the credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and experienced promoters; support expected as TSBL is strategically important: TSBL (erstwhile Bhushan Steel Limited, BSL) is the 72.65% subsidiary of Bamnival Steel Limited (BNPL) which is a wholly owned subsidiary of TSL. TSL was established as India's first integrated steel company in 1907 by Mr. Jamsetji N. Tata, the founder of the Tata Group. TSL has a strong 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, whose 31.64% stake is held by Tata Sons Ltd, had a market capitalization of around Rs. 65,312 crore as at April 03, 2019. By virtue of being part of Tata Group, TSL enjoys immense financial flexibility.

The operations of TSL are handled by a very capable management team headed by Managing Director – Mr. T V Narendran and Executive Director and Chief Financial Officer– Mr. Koushik Chatterjee who are also the Directors on the board of TSBL. The management team of TSBL now includes experienced members from TSL's top management. Moreover, TSL has also provided Letter of Comfort to long term lenders of facilities borrowed by TSBL. TSL has also brought in financial support in form of infusion of the funds in preference shares allotted by TSBL. Under the control of TSL, TSBL is likely to have better market standing with the potential to transact business on better terms as compared to its earlier business terms.

Raw material sourcing arrangements aided by access to Tata Steel's mines and supplier network providing operational efficiency: TSL owns coal, iron ore and manganese & chrome mines at various locations. As on March

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

31, 2018, TSL has 100% backward integration w.r.t. iron-ore mines and 29% backward integration for coal mines for its domestic operations. TSL has enough iron ore reserves which are sufficient to meet the raw material requirement of both TSL and TSBL.

TSBL's access to TSL's supplier network for its raw material requirement is expected to be a major cost saving in entire production process. Going forward, a strong scope of operational efficiencies can be seen in terms of meaningful savings in labour, power and logistics front on per tonne basis led by economies of scale as TSL would make efforts to increase the capacity utilization of the plant from the present level.

Expected synergies from access to TSL's strong marketing and distribution network: TSL also has strong marketing and distribution network across India and overseas market. It is expected that better market penetration & sales will be achieved on account of access to Tata's centralized marketing & sales team. Moreover, TSBL's product mix of high value-added steel products would complement TSL's product profile while TSBL would benefit from TSL's strong track record in the steel industry. TSBL has downstream facilities in Northern and Western regions, which will cater to the demand of various auto players present in these regions. Moreover, TSBL's plant is located close to TSL's Kalinganagar facility where it has a 3 mtpa capacity presently.

Improvement in operational performance in 9MFY19: The operational performance of TSBL has improved post being acquired by TSL. The total operating income increased from Rs. 12,934 crore in 9MFY18 to Rs. 15,476 crore in 9MFY19 on account of increase in capacity utilisation as well as better realisation. The PBILDT margin has also improved to 20.13% during 9MFY19 from 11.35% in 9MFY18 on account of increase in sales volume as well as realisation. Further, TSBL has presence in value added products having higher margins which is expected to provide the strength to the company. TSBL is strategically important for TSL to expand its domestic operations, based on which TSL is extending full support to streamline and improve the TSBL's operations.

Comfortable Liquidity profile: TSBL had total free cash and liquid investment of Rs. 2,312 crore as at September 30, 2018. The company has already tied-up fresh fund-based and non-fund based limits from various lenders. The fund based limits remained un-utilised as at December 31, 2018. However, being part of the Tata group, TSBL also enjoys significant financial flexibility and access to capital market as and when required.

Key Rating Weaknesses/Challenges

Timely ramp up of scale of operations and improvement in profitability: TSBL aims to produce 4 million tonnes per annum (mtpa) with a capacity utilization of around 71% by end of FY19. Further, TSBL plans to remove the bottlenecks of the existing facilities to achieve production of finished steel at fully capacity. Going forward, the company's ability to successfully ramp up its scale of operation and to improve profitability in time bound manner would remain crucial. However, TSL's experience in running steel plants at high efficiency levels is a significant mitigating factor.

Cyclicality of the steel industry: Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz. automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry may witness decline in demand.

Prospects: During FY18, steel production in India grew by 3.14% to 105 mtpa and consumption grew by 7.98% to 90.70 mtpa. During FY18, domestic steel prices remained buoyant as they rose in the range of 18%-21% on a y-o-y basis on account of growth in domestic consumption and international prices. Besides, higher raw material prices also resulted in rise in steel prices. On a cumulative basis, finished steel output grew by 6.6% to 82.4 mtpa during April-December 2018 while consumption rose at a faster pace of 7.9% to 71.6 mtpa during the period. CARE expects, the total finished steel production in India is likely to grow by 6%-8% during FY20 backed by a growth in demand from user industries like construction & infrastructure, automobiles, consumer durables among others. Domestic consumption of steel is expected to rise in the range of 5.5%-7.5% during FY20.

Analytical approach: CARE has adopted a standalone approach. Parent notching factors are also considered as the parent (TSL) holds 72.65% shareholding in TSBL. TSBL is strategically important for the overall operations of TSL and also there are substantial operational and financial linkages with the parent.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology: Factoring Linkages in Ratings](#)
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology-Manufacturing Companies](#)
[Rating methodology – Steel Companies](#)

About the Company

Tata Steel BSL Ltd (TSBL; erstwhile Bhushan Steel Ltd), incorporated in 1993, is one of the large players in the steel industry with an integrated steelmaking capacity of 5.6 mtpa. TSBL has presence in the value-added products segment. It caters mainly to the auto industry and consumer-durable makers through its various manufacturing facilities situated in Sahibabad (UP), Khopoli (Maharashtra) and Meramandali, Angul (Orissa). On May 2018, TSBL was acquired by TSL via its SPV and wholly owned subsidiary i.e. BNPL incorporated to acquire TSBL under the NCLT process.

Brief Financials: None as TSBL has been acquired by the new promoters only in FY19.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: 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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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	September 2030	19000.00	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	5000.00	CARE AA; Stable /CARE A1+
Commercial Paper	-	-	7-364 days	2000.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	19000.00	CARE AA; Stable	1)CARE AA; Stable (26-Dec-18)	-	-	-
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	5000.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (26-Dec-18)	-	-	-
3.	Commercial Paper	ST	2000.00	CARE A1+	-	-	-	-

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