

Tata Steel BSL Limited

December 17, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	10,470.00 (reduced from 13,400.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	6,500.00 (enhanced from 5,200.00)	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable / A One Plus)	Reaffirmed
Total Bank Facilities	16,970.00 (Rs. Sixteen Thousand Nine Hundred and Seventy Crore only)		
Commercial Paper	2,000.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instrument	2,000.00 (Rs. Two Thousand Crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to bank facilities and instrument of Tata Steel BSL Limited (TSBL) continues to derive comfort from the strong parentage by virtue of being acquired by Tata Steel Limited (TSL). The ratings further takes into account the experienced management, raw material sourcing arrangements aided by TSL's mines and supplier network providing operational efficiency, synergies from access to TSL's strong marketing and distribution network, healthy liquidity position of TSL as on September 30, 2020 and financial flexibility enjoyed by virtue of being part of Tata Group.

The above rating strengths are, however, tempered by moderate financial risk profile and presence in highly cyclical steel industry.

With the outbreak of Covid-19 pandemic, the government imposed lockdown in India to contain the spread of pandemic impacted the prices of commodities on account of weakened demand scenario and supply-side disruptions. The performance of TSBL was impacted during Q1-FY21 due to pandemic, wherein the company operated at lower capacity level initially upon imposition of lockdown. The company gradually ramped up operating utilization level with gradual opening of economy. The sales realization and PBILD per tonne improved in Q2-FY21 as compared to Q1-FY21 on the back of revival in domestic demand led by higher sales volume coupled with price hikes. CARE expects improvement in performance during the second-half of FY21 due to improvements in realizations, domestic demand and capacity utilization along with gradual economic recovery in the domestic economy.

TSBL is part of domestic operations of TSL. The domestic operations of TSL have improved significantly in Q2-FY21 and are expected to improve further in H2-FY21. Although the total debt at TSL consolidated level remains elevated, TSBL has prepaid the term loans and the scheduled repayments will commence only from FY25.

Rating Sensitivities

Positive factors

- Improvement in operational and financial performance leading to operating profit margin above 15.00%, interest coverage ratio above 4.00 times along with improvement in debt coverage indicators
- Any improvement in credit profile of Tata Steel Limited

Negative factors

- Deterioration of operational and financial performance leading to decline in operating profit margin below 15.00% and interest coverage ratio below 2.00 times
- Debt-funded capex or acquisitions leading to increase in gross debt impacting the overall gearing ratio and debt coverage indicators
- Any deterioration in credit profile of Tata Steel Limited

Detailed description of key rating drivers:

Key Rating Strengths

Strong parentage by virtue of being acquired by Tata Steel Limited coupled with experienced management

The company is promoted by Tata Steel Limited, holding 72.65% shares of the company through its wholly-owned subsidiary Bamnival Steel Limited. Tata Steel Limited is among the leading companies of the conglomerate – Tata Group. The Tata Group is one of the largest conglomerates in India comprising of over 100 operating companies in key business sectors such

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

as steel, automotive, information technology, engineering, energy, aviation, power, mining, consumer products, chemicals, etc. The group has operations in more than 100 countries across the six continents. The products and services offered by the group are exported to around 150 countries globally. Tata Group, through its parent holding company for all group companies – Tata Sons Private Limited, holds 32.93% of the shares of Tata Steel Limited as on September 30, 2020.

The operations of TSBL are handled by a well-experienced and capable management team headed by Mr. T. V. Narendran (Chairman – Tata Steel BSL Limited; Chief Executive Officer & Managing Director – Tata Steel Limited) and by Mr. Rajeev Singhal (Managing Director – Tata Steel BSL Limited). By virtue of being part of a large conglomerate, the company enjoys immense financial flexibility and brand reputation in the industry.

Operations ramped up since acquisition although weak demand scenario and lower realization impacted performance during FY20 and Q1-FY21, while significant improvement showcased in Q2-FY21 aided by demand revival and price recovery

The total operating income of the company stood at Rs. 18,665 crore during FY20 as compared to Rs. 20,921 crore during FY19. This decline is mainly attributable to decline in sales realizations on account of weak demand scenario impacting the steel prices in domestic market during FY20, although the sales volume increased marginally. With lower sales realization and fluctuations in input costs, the PBILDT declined to Rs. 2,362 crore during FY20 as compared to Rs. 3,828 crore during FY19.

Post the outbreak of Covid-19 pandemic and impositions of lockdown by the government in India, the sales were affected from the third week of March 2020 onwards as major steel consuming sectors were also impacted during the lockdown period leading to weakened demand scenario in domestic market. The sales volume improved in Q2-FY21 at 1.28 MT as compared to 0.70 MT during Q1-FY21, along with improvement witnessed in sales realization on the back revival of demand from steel consuming sectors upon unlocking of the economy and price hikes. The performance of the company is envisaged to improve during second-half of FY21 on the back of improvements in realizations, domestic demand and capacity utilization along with gradual economic recovery in the domestic economy.

Raw material sourcing arrangements aided by access to Tata Steel's mines and supplier network providing operational efficiency

TSL is backward integrated in terms of owning coal, iron ore and manganese & chrome mines at various locations. TSL has 100% backward integration for its requirement of iron-ore and 27% backward integration for coal requirement for its standalone operations. TSL has enough iron-ore reserves which are sufficient to meet the raw material requirement of both the companies. Further, on account of the strong operational efficiencies and financial linkages, the company has been proposed to be amalgamated with TSL.

Synergies from access to TSL's strong marketing and distribution network

TSL has strong marketing and distribution network across India and overseas markets. The product mix of high value-added steel products of the company complements Tata Steel Limited's product profile. The company thus continues to benefit from TSL's strong track record in the steel industry. The company has downstream facilities in Northern and Western regions, which caters to the demand of various auto players present in those regions. Moreover, the company's plant is located close to the Kalinganagar plant (annual capacity of 3 million tonnes presently) of TSL.

Key Rating Weaknesses

Moderate financial risk profile

The total debt as on March 31, 2020 stood at Rs. 34,034 crore comprising majorly of term loans of Rs. 12,422 crore and preference share capital (optionally convertible and non-convertible redeemable preference shares) subscribed by TSL. The interest coverage ratio (PBILDT/Interest) stood at 1.43 times during FY20 as compared to 1.02 times during FY19. The interest expenses has declined due to reduction in high cost borrowings. The company has made prepayment to the tune of Rs. 1,000 crore during H1-FY21.

Cyclicality of the steel industry

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Liquidity Analysis

Adequate – Liquidity is marked by sufficient cushion in accruals vis-à-vis no term loan repayment obligations till FY24. As on September 30, 2020, the cash and cash equivalents stood at Rs. 813 crore and current investments stood at Rs. 1,157 crore.

The Fund-based limits are utilised to the extent to around 78% during the March 2020 to September 2020, while the Non-Fund-based limits are utilised to the extent of ~67% during the last 12-months till September 2020. The company does not have any major capex plans in near future. The company enjoys financial flexibility by virtue of being a part of Tata Steel Group / Tata Group of Companies.

Analytical approach: CARE has adopted a consolidated approach on account of operational and financial linkages among entities. The list of entities whose financials have been consolidated has been mentioned under Annexure 5.

Further, promoter notching has been considered by factoring linkages in ratings with parent company – Tata Steel Limited. 72.65% shares of TSBL are held by Tata Steel Limited through a wholly-owned subsidiary – Bamnipal Steel Limited. Along with that, there are financial and operational linkages on account of same line of business sharing common brand name. Also, the amalgamation of Bamnipal Steel and Tata Steel BSL Limited with Tata Steel Limited has been announced, which is subject to regulatory approvals.

Applicable Criteria

[Criteria on assigning 'Rating Outlook' and 'Credit Watch'](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Consolidation](#)

[Rating Methodology – Notching by factoring linkages in Ratings](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology – Manufacturing Companies](#)

[Rating Methodology – Steel Sector](#)

[Financial Ratios – Non-Financial sector](#)

About the Company

Incorporated in the year 1983, Tata Steel BSL Limited (*erstwhile Bhushan Steel Limited*) is among the largest steel players in the industry and forms a part of Tata Steel Limited which indirectly owns 72.65% stake in the company. The company has an annual capacity of 5.60 million tonnes (mt). The company 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 Dhenkanal (Odisha), Ghaziabad (Uttar Pradesh), Khopoli (Maharashtra), and Hosur (Tamil Nadu).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	20,921	18,665
PBILDT	3,828	2,362
PAT	1,712	-629
Overall gearing (times)	33.58	30.00
Interest coverage (times)	1.02	1.43

A: Audited

The financials have been reclassified as per CARE standards.

Note – The preference share capital (optionally convertible and non-convertible redeemable preference shares) subscribed by TSL have been considered as debt as per CARE standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	10470.00	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	6500.00	CARE AA; Stable / CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	7 to 364 days	2000.00	CARE A1+

Details of Commercial Paper Issue:

Name of the Instrument	ISIN	Date of Issue	Coupon Rate	Maturity Date	Amount (Rs. Crore)	Rating
Commercial Paper	-	Proposed	-	-	2,000.00	CARE A1+
Total					2,000.00	

Annexure-2: Rating History of last three years

1	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (13-Jul-18) 2)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Apr-17)
2.	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (13-Jul-18) 2)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Apr-17)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (13-Jul-18) 2)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Apr-17)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (10-Apr-17)
5.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (13-Jul-18) 2)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Apr-17)
6.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (13-Jul-18) 2)CARE D;	1)CARE D (10-Apr-17)

							ISSUER NOT COOPERATING* (06-Apr-18)	
7.	Fund-based - ST-Post Shipment Credit	ST	-	-	-	-	1)Withdrawn (13-Jul-18) 2)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Apr-17)
8.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (13-Jul-18) 2)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Apr-17)
9.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (13-Jul-18) 2)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Apr-17)
10.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (13-Jul-18) 2)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Apr-17)
11.	Fund-based - LT-Term Loan	LT	10470.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Dec-19) 2)CARE AA; Stable (04-Apr-19)	1)CARE AA; Stable (26-Dec-18)	-
12.	Fund-based/Non-fund-based-LT/ST	LT/ST	6500.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (18-Dec-19) 2)CARE AA; Stable / CARE A1+ (04-Apr-19)	1)CARE AA; Stable / CARE A1+ (26-Dec-18)	-
13.	Commercial Paper- Commercial Paper (Standalone)	ST	2000.00	CARE A1+	-	1)CARE A1+ (18-Dec-19) 2)CARE A1+ (04-Apr-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Available

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based /Non-Fund based – LT/ST	Simple

Annexure-5: List of entities forming part of consolidated financials (as on March 31, 2020)

Sr. No.	Name of the company	Percentage holding
1	Angul Energy Limited (<i>formerly Bhushan Energy Limited</i>)	99.99
2	Bhushan Steel (Orissa) Limited	99.98
3	Bhushan Steel (South) Limited	100.00
4	Bhushan Steel Madhya Bharat Limited	99.98
5	Bhushan Steel (Australia) Pty Limited	90.97
6	Bowen Energy Pty Limited	100.00
7	Bowen Coal Pty Limited	100.00
8	Bowen Consolidated Pty Limited	100.00

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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