

## Tata Steel BSL Limited

December 18, 2019

### Ratings:

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	13,400.00 (reduced from Rs. 19,000.00 crore)	CARE AA; Stable (Double A; Outlook: Stable)	<b>Reaffirmed</b>
Long Term / Short Term Bank Facilities	5,200.00	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable / A One Plus)	<b>Reaffirmed</b>
<b>Total</b>	<b>18,600.00</b> <b>(Rupees Eighteen Thousand and Six Hundred Crore only)</b>		
Commercial paper	<b>2,000.00</b> <b>(Rupees Two Thousand Crore only)</b>	CARE A1+ (A One Plus)	<b>Reaffirmed</b>

<sup>1</sup>Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities and instrument of Tata Steel BSL Limited continues to derive comfort from the strong parentage by virtue of being acquired by Tata Steel Limited [TSL; rated CARE AA; Stable] along with experienced management, significant turnaround in operating performance with ramping up of operations and improvement in profitability, raw material sourcing arrangements aided by access to Tata Steel Limited's mines and supplier network providing operational efficiency and expected synergies from access to Tata Steel Limited's strong marketing and distribution network.

The above rating strengths are, however, tempered by company's presence in highly cyclical steel industry and moderate debt coverage indicators.

The ability of the company to sustain the improvement in operational performance and maintain the profitability levels in the wake of inherent cyclicity associated with steel industry are the key rating sensitivities.

### Rating sensitivities

#### Positive factors

- Significant improvement in operational performance along with ramping up of operations
- Improvement in profitability levels

#### Negative Factors

- Any debt-funded capex leading to increase in total debt level and overall gearing

### Detailed description of the key rating drivers

#### Key Rating Strengths

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

The company is being 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 company of the conglomerate – Tata Group. The group is also one of the largest conglomerates in India with over 100 operating companies in key business sectors such 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 with products and services offered are exported to around 150 countries globally. The group, through its parent holding company for all group companies – Tata Sons Private Limited, owns 31.64% stake in Tata Steel Limited as on June 30, 2019.

The operations of the company are handled by a well-experienced and capable management team headed by Mr. T. V. Narendran (Chairman – Tata Steel BSL Limited; Global Chief Executive Officer and Managing Director – Tata Steel Limited) and 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.

##### Significant turnaround in operating performance with ramp up of operations and improvement in profitability

The total operating income of the company stood at Rs. 20,921 crore during FY19 which is from the date of acquisition by Tata Steel Limited in early May 2018. The increase in turnover was mainly due to increase in sales volume and sales realizations during FY19. The sales realization per tonne stood at Rs. 52,205 during FY19 with the same decreasing marginally to Rs. 50,384 per tonne during Q1-FY20 and further to Rs. 41,462 per tonne during Q2-FY20. During Q1FY20 and Q2FY20, the

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

EBITDA per tonne stood at Rs. 9,372 and Rs. 4,856 respectively. The company posted EBIDTA of Rs. 3,033 during FY19 leading to per tonne EBIDTA of Rs. 8,616, while the same stood at Rs. 9,128 during Q1-FY20 despite incline in sales realization during the period and to Rs. 4,856 per tonne during Q2-FY20 with decrease in sales realization per tonne. Furthermore, there has been a reduction in finance cost due to reduction in high cost borrowings.

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

Tata Steel Limited is backward integrated in terms of owning coal, iron ore and manganese & chrome mines at various locations. As on March 31, 2019, Tata Steel Limited has 100% backward integration for iron-ore mines and 29% backward integration for coal mines for its domestic operations. Tata Steel Limited has enough iron ore reserves which are sufficient to meet the raw material requirement of both the companies. The company's access to TSL's supplier network for its raw material requirement is expected to be a major cost saving in entire production process. Due to a strong scope of operational efficiencies and financial linkages, the company has been proposed to be amalgamated with Tata Steel Limited. Further, the company has been undertaking efforts to ramp up the operations and increase the capacity utilisation of the plant.

#### **Expected synergies from access to Tata Steel Limited's strong marketing and distribution network**

Tata Steel Limited also has strong marketing and distribution network across India and overseas market. The product mix of high value-added steel products of the company would complement Tata Steel Limited's product profile. Along with that, the company would benefit from Tata Steel Limited's strong track record in the steel industry. The company has downstream facilities in northern and western regions, which will cater to the demand of various auto players present in these regions. Moreover, the company's plant is located close to the Kalinganagar plant of Tata Steel Limited (an annual capacity presently of 3 million tonnes located nearby).

#### **Key Rating Weaknesses**

##### **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.

##### **Liquidity – Adequate**

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis its repayment obligations. The cash and cash equivalents stood at Rs. 1,872 crore as on March 31, 2019 (excluding Fixed Deposits under lien of Rs. 157 crore towards Letter of Credit). Its fund-based bank limits have been utilised to a minimal extent out of the sanctioned limits of Rs. 450 crore, while the non-fund based limits are utilised to the extent of 81% during the last 12 months till June 2019. The company had undrawn bank lines of Rs. 557 crore as on March 31, 2019.

##### **Analytical approach:**

CARE has adopted a consolidated approach on account of operational and financial linkages among its entities. The list of entities whose financials have been consolidated has been mentioned under Annexure 3. Furthermore, promoter notching factor has been considered as 72.65% shares of the company are being held by Tata Steel Limited through a wholly-owned subsidiary – Bamnival Steel Limited. Also, the amalgamation of Bamnival Steel Limited 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 - Factoring Linkages in Ratings](#)

[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 now 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 Ghaziabad (Uttar Pradesh), Khopoli (Maharashtra), Dhenkanal (Orissa) and Hosur (Tamil Nadu).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	17,166	20,921
PBILD	2,292	3,829
PAT	-24,813	1,713
Overall gearing (times)	-1.91	33.75
Interest coverage (times)	0.36	1.02

A – Audited

The financials have been reclassified 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	13400.00	CARE AA; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	5200.00	CARE AA; Stable / CARE A1+
Commercial Paper	-	-	-	2000.00	CARE A1+

#### Details of Commercial Paper issue

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper issue	November 21, 2019	5.75%	January 20, 2020	300.00	CARE A1+
Commercial Paper issue	December 09, 2019	5.44%	February 19, 2020	300.00	CARE A1+
Proposed Commercial Paper issue	-	-	-	1400.00	CARE A1+
<b>Total</b>				<b>2,000.00</b>	

#### 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
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	LT	-	-	-	1)Withdrawn	1)CARE D	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
	Convertible Debentures					(13-Jul-18) 2)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	(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; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Apr-17)	-
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	13400.00	CARE AA; Stable	1)CARE AA; Stable (04-Apr-19)	1)CARE AA; Stable (26-Dec-18)	-	-
12.	Fund-based/Non-fund-based-LT/ST	LT/ST	5200.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (04-Apr-19)	1)CARE AA; Stable / CARE A1+ (26-Dec-18)	-	-
13.	Commercial Paper	ST	2000.00	CARE A1+	1)CARE A1+ (04-Apr-19)	-	-	-

**Annexure-3: List of entities forming part of consolidated financials (as on March 31, 2019):**

Sr. No.	Name of the company	Percentage holding
1	Bhushan Steel (Orissa) Limited	100.00
2	Bhushan Steel (South) Limited	100.00
3	Bhushan Steel Madhya Bharat Limited	100.00
4	Bhushan Steel (Australia) Pty Limited	90.97
5	Bowen Energy Pty Limited	100.00
6	Bowen Coal Pty Limited	100.00
7	Bowen Consolidated Pty Limited	100.00
8	Bhushan Energy Limited*	47.71
9	Bhushan Capital and Credit Services Private Limited	47.71
10	Jawahar Credit & Holdings Private Limited	39.65

Bowen Energy Pty Limited is a wholly-owned subsidiary of Bhushan Steel (Australia) Pty. Limited, whereas Bowen Consolidated Pty Limited is a step-down subsidiary of Bowen Energy Pty Limited. Hence, the effective ownership in Bowen Energy Pty. Limited and its step-down subsidiaries shall be the same as the shareholding existing in Bhushan Steel (Australia) Pty Limited.

\*Bhushan Energy Limited was under Corporate Insolvency Resolution Process as on March 31, 2019. However, Tata Steel BSL Limited has acquired the company during the year.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no.: +91-22-6837 4424

Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Group Head Name: Mr. Hitesh M. Avachat

Group Head Contact no.: +91-22-6754 3510

Group Head Email ID: [hitesh.avachat@careratings.com](mailto:hitesh.avachat@careratings.com)

### Relationship Contact

#### Ms. Meenal Sikchi

Cell: + 91 98190 09839

E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

#### Mr. Ankur Sachdeva

Cell: + 91 98196 98985

E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

#### Ms. Rashmi Narvankar

Cell: + 91 99675 70636

E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

#### Mr. Saikat Roy

Cell: + 91 98209 98779

E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**