Tata Steel Limited

May 28, 2018

Rating Rationale & Key Rating Drivers

Tata Steel Ltd (TSL) has recently acquired Bhushan Steel Limited (BSL) under the corporate insolvency resolution process.

As per the resolution plan, BSL's financial creditors will receive Rs. 35,200 crore for settlement of existing financial debt. This amount will be funded by TSL through new secured debt of Rs. 16,500 crore and balance of Rs. 18,700 crore will be funded through surplus cash at TSL.

Bamnipal Steel Limited (BNPL), a wholly-owned subsidiary of TSL has been created as Special Purpose Vehicle by TSL for acquisition of BSL. The investment from BNPL in BSL has been done through a combination of equity of Rs 158.89 crore and inter-corporate loan of Rs 34,973.69 crore. Additionally, Rs 100 crore has been paid by BNPL to the financial creditors of BSL as consideration for novation of remaining financial debt of BSL. The remaining 27.35% of BSL's share capital will be held by BSL's existing shareholders and the financial creditors who receive shares in exchange for the debt owed to them.

BSL has an existing crude steel production capacity of 5.6 mn tonnes per annum and is currently operating in the range of 3.5 mn tonnes. Apart from that, BSL also has downstream facilities like cold rolling mill, galvanizing units and color coating units. BSL's main plant in Angul, Odisha, is relatively close, about 150km away from TSL's Kalinganagar plant in Odisha in eastern India.

This acquisition will improve TSL's overall domestic capacity. However, net debt is expected to increase and also additional working capital will be required for BSL's operations. However, TSL's networth has been augmented on account of the rights issue during March 2018. Moreover, TSL's impending 50: 50 Joint Venture (JV) agreement with Germany's ThyssenKrupp to merge its European steel operations will result in transfer of TSL's existing debt of around Rs. 19,250 crore to the JV. TSL is also expected to turnaround the BSL plant and improve its production and EBIDTA levels in the next two years.

TSL is also bidding for acquiring a controlling stake in Bhushan Power and Steel Ltd, the results of which are not yet released. This may result is further increase in leverage of TSL over the medium term, subject to TSL being declared as the successful bidder and receipt of necessary approvals . CARE Ratings would monitor the above events closely.

During FY18, TSL has registered total income of Rs. 1,33,016 crore and EBIDTA per tonne of Rs. 8,725 as against Rs. 1,17,420 crore and EBIDTA per ton of Rs. 7,132 during FY17.

Analytical approach: CARE has adopted a consolidated approach

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]

[CARE's Policy on Default Recognition]

[CARE's Methodology for Manufacturing Companies]
[Rating methodology – Steel Companies]
[Rating Methodology: Factoring Linkages in Ratings]
[Financial ratios - Non-Financial sector]

About the Company

TSL was established as India's first integrated steel company in 1907 by Mr. Jamsetji N. Tata, the founder of the Tata Group. Tata Sons Limited held 31.64% stake in TSL as at March 31, 2018. 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. The company has a total steel production capacity of 27.5 MTPA (excluding BSL's capacity) spread across India, UK, Netherlands, Thailand and Singapore.

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 over 30% backward integrated w.r.t coal mines for its domestic operations. TSL purchases most of its iron ore and coal requirements for its European operations from the market.

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

Annexure-1: 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.	Debentures-Non Convertible Debentures	LT	650.90	CARE AA; Stable	-	1)CARE AA; Stable (10-Oct-17)	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (09-Jul-15)
2.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AA; Stable	-	1)CARE AA; Stable (10-Oct-17)	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (09-Jul-15)
3.	Bonds-Perpetual Bonds	LT	1275.00	CARE AA-; Stable	-	1)CARE AA-; Stable (10-Oct-17)	1)CARE AA-; Stable (18-Jan-17) 2)CARE AA (12-Jul-16)	1)CARE AA (09-Jul-15)
4.	Bonds-Perpetual Bonds	LT	1000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (10-Oct-17)	1)CARE AA-; Stable (18-Jan-17) 2)CARE AA (12-Jul-16)	1)CARE AA (09-Jul-15)
5.	Debentures-Non Convertible Debentures	LT	3000.00	CARE AA; Stable	-	1)CARE AA; Stable (10-Oct-17)	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (09-Jul-15)
6.	Fund-based - LT-Term Loan	LT	22800.00	CARE AA; Stable	-	1)CARE AA; Stable (10-Oct-17)	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (09-Jul-15)
7.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (10-Oct-17)	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+ (27-Sep-16)	-

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