Tata Steel Limited

October 10, 2017

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	22,800.00	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Total	**22,800.00 (Rs. Twenty Two Thousand Eight Hundred Crore only)**		
Non-Convertible Debenture	**7,151.00 (Rupees Seven Thousand One Hundred Fifty One Crore Only)**	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Perpetual Bond	**2,275.00 (Rs. Two thousand two hundred and seventy five crore only)**	**CARE AA-; Stable (Double A Minus: Outlook Stable)**	**Reaffirmed**

Detailed Rationale& Key Rating Drivers

The reaffirmation of the ratings assigned to various bank facilities/debt instruments of Tata Steel Limited (TSL) takes into account the strong operational performance of Tata Steel Limited's India operations aided by backward integration in the form of captive iron ore and coal mines. The ratings favourably factor in the ongoing restructuring at Tata Steel Europe (TSE), wherein the company intends to restructure (through JV/ potential sale in parts) most of its steel making facilities in Europe. The restructuring is expected to cut down losses at TSL's Europe operations and positively impact the credit profile.

Furthermore, the ratings favourably build in the management's focus on improving TSL's credit profile by restructuring its operations to make them more efficient, refinancing its debt and monetising its liquid investments in order to deleverage the balance sheet. The ratings continue to be supported by high financial flexibility enjoyed by TSL by virtue of being part of the Tata Group.

The above rating strengths are, however, tempered by uncertainty in the global steel markets and challenging demand outlook in key geographies along with lack of resource integration for its European operations resulting in Tata Steel Europe being exposed to volatility in raw material prices.

The ratings are also tempered by high consolidated financial leverage with overall gearing of 2.52x as at March 31, 2017. While TSL has been trying to continually refinance its debt to ease its short repayment obligations as well as monetize its investments to deleverage the balance sheet, the gearing still remains high.

The timely restructuring of its European operations along with global steel price movement remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strategic importance to the Tata group; experienced promoter group

TSL is one of the flagship companies of the Tata Group. The group comprises over 100 operating companies, in key business sectors such as steel, auto, communications, information technology, engineering, energy, consumer products and chemicals. The group has operations in more than 100 countries across six continents and exports products and services to 150 countries.

The operations of TSL are handled by a very capable management team headed by MD – Mr. T. V. Narendran and Group Executive Director– Mr. Koushik Chatterjee. By virtue of being part of Tata Group, the company enjoys immense financial flexibility.

Significant improvement in the operating and financial performance of the company

Consolidated income increased by ~10%, while PBILDT per tonne more than doubled to Rs. 7,132/tonne in FY17 from Rs. 3,377/tonne in FY16. Realizations during the same period increased by around 9 percent from Rs. 45,174 per tonne in FY16 to around Rs. 49,170 per tonne in FY17.

Domestic sales increased by 15% in FY17 with best ever sales volume of 10.97 MT in a muted market which grew at 3.5% over the period. Sales for Tata Steel India (TSI) increased by around 25% from Rs. 42,697 crore in FY16 to Rs. 53,261 crore in FY17. Realization during the same period increased from Rs. 44,756 crore in FY16 to Rs. 48,552 crore in FY17. PBILDT margins for TSI increased from 17.4% in FY16 to 24.6% in FY17, primarily on account of improvement in the realizations.

Significant improvement at its European operations

During FY16, TSE has been loss making at the PBILDT levels. However, TSE has shown significant improvement in its

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

profitability, with TSE reporting a PBILDT of around Rs. 4,705 crore in FY17 as compared to a loss of Rs. 513 crore in FY16. The PBILDT/tonne has witnessed an improvement from loss of Rs. 468/tonne to a profit of Rs. 4,738/tonne in FY17.

(Rs. Crore)	FY16	FY17
Turnover	53555	52085
EBITDA	-513	4705
EBITDA (%)	-0.96	9.03
Mn Tonnes		
Liquid Steel	11.11	10.56
Deliveries	10.97	9.93

Key Rating Weaknesses

Absence of raw material integration for its European operations

TSE does not have any significant raw material integration and sources raw materials from Australia and other countries to meet its requirements. However, in order to improve its operating efficiency, TSE has been exploring several options to achieve raw material integration for its European operations and the various raw material projects under different stages of implementation.

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.

Analytical approach:

CARE has adopted a consolidated approach

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria on Rating of Short term Instruments]
[CARE's Methodology for Manufacturing 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 29.75% stake in TSL as at June 30, 2017. 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 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 36% backward integration for coal mines for its domestic operations. TSL purchases all of its iron ore and coal requirements for its European operations from the market.

For FY17, TSL reported a consolidated operating income of Rs. 112,827 crore and a loss after tax of Rs. 4,169 crore as against a consolidated operating income of Rs. 1,02,377 crore and a loss after tax of Rs. 497 crore in FY16.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1,02,377	1,12,827
PBILDT	8,270	17,543
PAT	-497	-4169
Overall gearing (times)	2.28	2.52
Interest coverage (times)	1.96	3.46

A: Audited

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: 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	-	-	Mar-25	22800.00	CARE AA; Stable
Debentures-Non Convertible Debentures	-	-	Oct-26	1000.00	CARE AA; Stable
Debentures-Non Convertible Debentures	-	-	May-19	650.90	CARE AA; Stable
Debentures-Non Convertible Debentures	-	-	Jan-19	2500.00	CARE AA; Stable
Bonds-Perpetual Bonds	-	-	-	1275.00	CARE AA-; Stable
Bonds-Perpetual Bonds	-	-	-	1000.00	CARE AA-; Stable
Debentures-Non Convertible Debentures	-	-	Apr-22	3000.00	CARE AA; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Debentures-Non Convertible Debentures	LT	650.90	CARE AA; Stable	-	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (09-Jul-15)	1)CARE AA+ (20-Oct-14)
2.	Debentures-Non Convertible Debentures	LT	2500.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+	1)CARE AA+ (09-Jul-15)	1)CARE AA+ (20-Oct-14)

						(12-Jul-16)		
3.	Bonds-Perpetual Bonds	LT	1275.00	CARE AA-; Stable	-	1)CARE AA-; Stable (18-Jan-17) 2)CARE AA (12-Jul-16)	1)CARE AA (09-Jul-15)	1)CARE AA (20-Oct-14)
4.	Bonds-Perpetual Bonds	LT	1000.00	CARE AA-; Stable	-	1)CARE AA-; Stable (18-Jan-17) 2)CARE AA (12-Jul-16)	1)CARE AA (09-Jul-15)	1)CARE AA (20-Oct-14)
5.	Debentures-Non Convertible Debentures	LT	3000.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (09-Jul-15)	1)CARE AA+ (20-Oct-14)
6.	Fund-based - LT-Term Loan	LT	22800.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+ (12-Jul-16)	1)CARE AA+ (09-Jul-15)	1)CARE AA+ (20-Oct-14)
7.	Debentures-Non Convertible Debentures	LT	1000.00	CARE AA; Stable	-	1)CARE AA; Stable (18-Jan-17) 2)CARE AA+ (27-Sep-16)	-	-

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