August 30, 2019

Tata Steel Long Products Limited- Update on Material Event

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Fund Based – Cash Credit	70.00	[ICRA]AA-(Stable)
Non-Fund Based Limits	148.15	[ICRA]A1+
Commercial paper programme	4,000.00	[ICRA]A1+
Total	**4,218.15**	

Material Event

On August 21, 2019 Tata Steel Long Products Limited intimated to the stock exchanges that it has received approval from the Registrar of Companies, Cuttack, Orissa, for change in name from Tata Sponge Iron Limited to Tata Steel Long Products Limited. The Registrar of Companies, Cuttack, Orissa has issued a fresh certificate of incorporation to the company.

Impact of the Material Event

The ratings remain unchanged at the earlier rating of [ICRA]AA-(Stable)/ [ICRA]A1+.

The ratings factor in the status of TSLPL as a strategically important subsidiary of Tata Steel Limited (TSL, rated [ICRA]A1+ and Ba2 with a Stable outlook by Moody's) which strengthens its credit profile. The ratings also factor in the large debt-funded acquisition of the steel business of Usha Martin Limited (UML) by TSLPL, which is expected to lead to a moderation in debt protection metrics. ICRA also notes that TSLPL has hitherto remained a sponge iron and power producer, without any track record in steel-making. However, the support extended by the company's parent TSL, with a long track record in running a large steel business in India, provides comfort and is a strong mitigating factor.

The acquisition will broaden Tata Steel Group's product mix, especially in the alloy-steel long product segment by catering to the specialised needs of end-user industries like automobile (especially M&HCV), auto ancillary, tractor, railways, general engineering, defence and wire ropes among others. This apart, the proximity of the acquired plant to TSL's existing Jamshedpur steelmaking hub and the nearby captive iron ore mines stands to benefit TSLPL, giving it access to TSL's global procurement channels, and lending it the added flexibility to supplement the plant's iron ore requirement with ore sourced from TSL's captive mines. This, in turn, is likely to reduce its external ore dependency. UML's steel-manufacturing assets have a strong backward integration, which includes captive power plants, an operational iron ore mine[1], and a thermal coal mine[2] (under-development, which can feed the sponge iron and captive power plants[3]) along with a sinter plant, a pellet plant, a sponge iron kiln, a blast furnace, an electric arc furnace, wire rod and bar and bloom mills. In the first quarter of the current year, post acquisition by the Tata Steel Group, the performance of the steel

[1] The Vijay II captive iron ore mine is located within 150 km from UML's steel plant, and has a raw ore production capacity of 2.5 MMTPA (< 55% Fe) and a beneficiated ore production capacity of 1 MMTPA (62-64% Fe)

[2] The Brinda-Sasai coal mine has approx. 25.4 mt of reserves (largely G10 grade), and a peak rated production capacity of 0.68 MMTPA. The mine has been won through auctions at a premium of Rs. 1804/MT

[3] Necessary clearances for the transfer of coal mining lease from UML to TSLPL is a condition precedent to the deal

business remained subdued due to a weakening in steel prices and scheduled outage at one of the mini blast furnaces. However, given the vertical linkage, locational advantage and TSL's experience in the steel sector, ICRA expects the acquired business to gradually become profitable and contribute meaningfully to the overall turnover and profits of TSLPL, over a longer time frame, supported by synergy benefits and higher asset sweating.

The ratings also continue to factor in TSLPL's established position in the domestic sponge-iron industry and its strong operating profile, characterised by the superior quality of the produce, which commands a premium over the prevailing market rates. In addition, the presence of captive power generation facilities that help reduce operational costs of its existing business, is also a significant factor. Income from the sale of power and returns on investments provide additional sources of revenue, which are relatively more stable than the cash flow from the commodity sponge iron operations. The long-term rating is, however, constrained by the cyclicality associated with the steel industry, which leads to variability in the profits and cash accruals of all steel players.

The previous detailed rating rationale is available on the following link: Click here

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