Tata Sponge Iron Limited

Instrument	Amount	Rating Action
Fund Based- Term Loan	Rs. 326.70 crore* (reduced from Rs. 435.00 crore)	[ICRA]AA (Stable) reaffirmed
Fund Based- Cash Credit	Rs. 110.00 crore (enhanced from Rs. 70.00 crore)	[ICRA]AA (Stable) reaffirmed
Non-Fund Based Limits	Rs. 290.80 crore (enhanced from Rs. 222.50 crore)	[ICRA]A1+ reaffirmed

*proposed

ICRA has reaffirmed the [ICRA]AA (pronounced ICRA double A) rating assigned to the Rs. 326.70 crore[*] proposed term loans (reduced from Rs. 435.00 crore) and Rs. 110 crore fund based bank limits (enhanced from Rs. 70.00 crore) of Tata Sponge Iron Limited (TSIL)[†]. The outlook on the long term rating is stable. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating assigned to the Rs. 290.80 crore non-fund based bank limits (enhanced from Rs. 222.50 crore) of TSIL.

The reaffirmation of the ratings takes into account TSIL's favourable financial risk profile characterized by a highly conservative capital structure, which imparts a high degree of financial flexibility, the resulting strong debt protection metrics and a comfortable liquidity position, given a large cash balance and liquid investment portfolio. The ratings also reflect TSIL's established position in the sponge iron industry, its status as a 54.5% subsidiary of Tata Steel Limited (TSL) and its strong operating profile characterized by superior quality of produce that allows the company to command a premium over prevailing market rates. The ratings are also supported by the presence of captive power generation facilities that reduce TSIL's operational costs and provide an additional source of revenue to the company, which is more stable than the cashflow from the commodity sponge iron operations. Moreover, higher power tariff realizations in FY14, as a result of sales to TSL's ferro alloy producing units at Joda and Bamlipal, helped the company generate higher profits from power sales.

The ratings factor in the increase in TSIL's iron ore costs as the company had to procure iron ore from the market, as against cheaper procurements from TSL's mines which used to be followed earlier. However, weak non- coking coal prices as well as an improvement in consumption norms for coal compensated for the increase in ore cost for the company. This, along with the improvements in sponge iron and power realizations helped the operating margins improve from 18.4% in FY14 to 20.3% in H1FY15. Nevertheless, the operating margins of the company are likely to remain susceptible to any changes in prices of imported non- coking coal as well as fluctuations in the exchange rate. ICRA also notes that the coal block earlier allocated to the company has been de-allocated recently alongwith other coal blocks by The Hon'able Supreme Court of India. The ratings also reflect TSIL's exposure to the cyclicality inherent in the steel industry which makes its cash flows and margins volatile.

Company Profile

TSIL was originally set up as a joint venture between TSL and IPICOL (Industrial Promotion & Investment Corporation of Orissa Ltd.) in 1982. Currently, after the merger of Kalimati Investment Company Limited, TSL's stake in the company has increased to 54.5%. The company is one of the early entrants in the domestic sponge iron industry, with its plant in the Keonjhar district of Odisha. TSIL's sponge iron capacity stands at 390,000 metric tonnes per annum. The company is self sufficient in its power requirement, with a 26 MW captive power plant running on the waste heat gases produced in the sponge iron kiln.

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[*] 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Recent Results

TSIL reported a profit after tax (PAT) of Rs. 66.82 crore on the back of an operating income of Rs. 414.26 crore in the first half of the current financial year 2014-15. During 2013-14, TSIL reported a PAT of Rs. 101.18 crore on the back of an operating income of Rs. 781.76 crore.

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