

Tata Sponge Iron Limited

Instrument	Amount	Rating Action
Fund Based- Term Loan	Rs. 304.35 crore* (reduced from Rs. 326.70 crore)	[ICRA]AA (Stable) reaffirmed
Fund Based- Cash Credit	Rs. 110.00 crore **	[ICRA]AA (Stable) reaffirmed
Non-Fund Based Limits	Rs. 313.15 crore [#] (enhanced from Rs. 290.80 crore)	[ICRA]A1+ reaffirmed

*proposed

**The limit was unutilized as on October 31, 2015

The limit utilization was 11.81% as on October 31, 2015

ICRA has reaffirmed the [ICRA]AA (pronounced ICRA double A) rating assigned to the Rs. 304.35 crore (reduced from Rs. 326.70 crore) proposed term loans and Rs. 110 crore fund based bank limits 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. 313.15 crore (enhanced from Rs. 290.80 crore) non-fund based bank limits of TSIL.

The reaffirmation of the ratings takes into account TSIL's highly conservative capital structure, its strong debt protection metrics and a comfortable liquidity position, given a large cash balance and liquid investment portfolio, which imparts a high degree of financial flexibility to the company. ICRA however, takes note of the weak demand scenario for sponge iron in the country, which has resulted in a steep decline in sponge iron realizations thereby impacting the operating profits of the company in recent times. This impact has however, been arrested to an extent by the falling raw material prices. In half year FY16, TSIL's performance was further impacted by extraordinary events of temporary shutdown of one of its kilns, which led to lower than anticipated production and sales volumes, and a one time inventory write off on imported iron ore owing to declining raw material prices. Net profit during H1FY16 was supported by returns from its investment portfolio. The ratings continue to factor in the uncertainty pertaining to the amount and timeliness of compensation to be received by TSIL, following the de- allocation of the Radhikapur East coal block, which is adversely impacting its overall business returns. Going forward, ICRA shall continue to monitor the performance of the company from its core sponge iron operations, which remains exposed to the cyclical nature inherent in the steel industry as well as any changes in prices of imported non- coking coal and fluctuations in the exchange rate, which make its cash flows and margins volatile.

The ratings continue to 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 relatively more stable than the cash flow from the commodity sponge iron operations. ICRA notes that going forward the company is planning to set up a 12.5 MW Atmospheric Fluidized Bed Combustion (AFBC) power plant for an estimated cost of Rs. 80 crore, to be funded entirely through internal accruals. Power generated from this unit shall also be sold to TSL's ferro alloy producing units at Joda and Bamlipal, thus providing further support to the cash flows of the company.

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.

* 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.



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.

Recent Results

TSIL reported a profit after tax (PAT) of Rs. 12.78 crore on the back of an operating income of Rs. 295.84 crore in the first half of the current financial year 2015-16. During 2014-15, TSIL reported a PAT of Rs. 91.89 crore on the back of an operating income of Rs. 789.41 crore.

December 2015

For further details please contact:

Analyst Contacts:

Mr. Jayanta Roy, (Tel. No. +91-33-22876617 / 22800008)
jayanta@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee, (Tel. No. +91-33- 22800008)
jayantac@icraindia.com

© Copyright, 2016, ICRA Limited. All Rights Reserved.
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**Mobile: **9871221122**Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**Mobile: **9821086490**Email: shivakumar@icraindia.com

1802, 18th Floor, Tower 3,
Indiabulls Finance Centre,
Senapati Bapat Marg,
Elphinstone, Mumbai 400013,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**Mobile: **+91 9903394664**Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**Mobile: **989986490**Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-
79-25569231

Pune**Mr. L. Shivakumar**Mobile: **989986490**Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills
Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500