February 14, 2022

Tata Steel Long Products Limited: Rating reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	700.00	1500.00	[ICRA]A1+ reaffirmed/assigned
Total Limits	**700.00**	**1500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the short-term rating factors in Tata Steel Long Products Limited's (TSLPL) strong parentage and its status as a strategically important entity for Tata Steel Limited (TSL, rated at [ICRA]A1+ and Ba1 (Stable) by Moody's Investors Service), with strong operational and managerial linkages, which leads to a high degree of financial flexibility. Earlier, TSL had provided large funding support to TSLPL during the acquisition of the steel business of Usha Martin Limited, and it is again looking to support TSLPL in acquiring a 93.71% equity stake in Neelachal Ispat Nigam Limited (NINL). NINL's acquisition consideration is twice the size of TSLPL's current balance sheet, and the intended benefits would materialise gradually over the next several years. So, TSL will be infusing funds in TSLPL at an attractive rate and at an elongated maturity profile, in turn supporting the latter's liquidity profile. Moreover, given NINL's sizeable growth capex lined up over the next several years, ICRA expects TSL to be willing to extend financial support to TSLPL going forward, should there be a need, given its strategic importance to the Tata Steel Group in growing its asset portfolio in the high-growth long product segment, and out of its need to protect its reputation.

The rating reaffirmation also factors in the significant improvement in TSLPL's performance in FY2021 and 9M FY2022, supported by a strong rebound in demand from addressable markets. ICRA notes that after a weak financial performance in FY2020 due to the automobile sector slowdown, TSLPL's credit profile improved meaningfully in FY2021 and 9M FY2022, as profits surged following the Unlock 1.0, amid a sharp recovery in domestic steel demand. Healthy cash flows on account of the improved performance and a favourable working capital cycle helped the company embark on an aggressive deleveraging strategy. The net debt levels fell to ~Rs.108 crore as on December 31, 2021 from ~Rs.2,585 crore as on March 31, 2020 and the Net Debt/OPBDITA decreased to 0.08 times in 9M FY2022 (annualised) from 15.12 times in FY2020. The rating also reflects the vertically integrated nature of TSLPL's acquired steel business at Gamharia, supported by captive iron ore mine, and a steady increase in revenue mix from value-added products, both of which are expected to support TSLPL's profit margins, going forward. Moreover, TSLPL benefits from the operational synergies between TSLPL's acquired steel unit in Gamharia and TSL's steelmaking hub in Jamshedpur, given their locational proximity, which leads to sizeable cost savings derived from operational synergies.

ICRA had earlier noted (Link) that TSLPL has been identified as the highest bidder to acquire a controlling stake in NINL in accordance with the process run by the Department of Disinvestment & Public Asset Management (DIPAM), the Ministry of Finance, Government of India. The total consideration of Rs.12,100 crore reflects the enterprise value (including all recorded liabilities) as a part of the acquisition of NINL. The acquisition will provide TSLPL access to NINL's around 1-million-tonnes-per-annum (mtpa) steelmaking capacity, iron ore reserves of around 100 million tonnes at a competitive cost and land bank of 2,500 acres, giving it options for future growth in the fast-growing long-product segment. In addition, located in proximity to TSL's Kalinganagar steel producing hub, NINL would benefit from synergies with TSL's existing operations, including access to its global supply chains and marketing/distribution channels. ICRA also believes that NINL would benefit from TSL's demonstrated track record of turning around sick steelmaking units, which include the likes of Bhushan Steel Limited and Usha Martin Limited.

On November 13, 2020, the Board of Directors of TSLPL considered and approved a scheme of amalgamation of Tata Metaliks Limited (TML, rated [ICRA]AA-&/[ICRA]A1+&[1]) and The Indian Steel & Wire Products Limited (ISWPL, rated [ICRA]A&/[ICRA]A1&) into TSLPL, subject to the receipt of requisite statutory and regulatory approvals. Following the proposed merger, the consolidated entity's credit profile is likely to benefit due to an increase in scale, diversification of products and markets addressed, operational synergies at the upstream and downstream parts of the steelmaking value chain, and pooling of cash flows to create an entity with a stronger balance sheet and higher earnings. While the merger plans were earlier envisaged to have been consummated within 6-9 months of the announcement, there has been a considerable delay in obtaining all the approvals for the same. The short-term rating also factors in the greater visibility towards recovery of TSLPL's invested capital for land and mine infrastructure of the Radhikapur (East) coal block following the recent successful reauctioning of the said block to a new bidder for commercial coal mining.

TSLPL's credit profile, however, also reflects its exposure to sectoral concentration risks, with the automobile sector accounting for 55% of the overall sales, thereby exposing the company to earnings cyclicality. TSLPL's rating also incorporates the sub-optimal capacity utilisation level of the pellet plant and steel melt shop at Gamharia, and the exposure of the company's earnings to volatility in steel prices and exchange rate fluctuations. The rating also factors in the changes in Mines and Minerals (Development and Regulation) Act (MMDR Act), which will lead to additional regulatory charges on TSLPL, thus remaining a structural drag on its profits, going forward. Besides, TSLPL has plans to scale up NINL's capacity to 4.5 mtpa over the next few years and further to 10 mtpa by 2030. While funding risks for the future expansion plans will be largely mitigated by the parent's stated intent of financial support, the company would remain exposed to project execution risks given the large sized expansion plans.

Key rating drivers and their description

Credit strengths

Significant improvement in credit profile in FY2021 and 9M FY2022, supported by a strong rebound in demand from addressable markets - TSLPL's steel business derives strength from its integrated nature of operations. Some of the cost levers associated with integrated operations like availability of low-cost captive iron ore, as well as optimal asset sweating were not reflected to the full extent in TSLPL's FY2020 financial metrics. The benefits of captive iron ore started flowing in from Q3 FY2020. Moreover, TSLPL's pellet plant started operations in Q4 FY2020, and the benefits were available for only a few months in FY2020. That apart, the company had to manoeuvre through a lull in demand conditions amid slowdown in the automobile sector in FY2020.

However, backed by the support of its parent, TSLPL embarked on a turnaround strategy of the acquired steel business through a combination of factors which included: a) Higher asset sweating and an increase in market share, b) Product enrichment through increasing share of value-added products by leveraging TSL's techological expertise, c) New customer addition in the 2W and passenger vehicle segments, d) Fixed cost take-outs from operational synergies in marketing and distribution with the parent, e) Variable cost reduction through operational efficiencies in production processes, and f) Savings in raw material procurement costs due to access to Tata Steel's global supply chain. With green shoots of recovery seen in TSLPL's addressable markets like automobile, construction and capital goods from Q3 of FY2021, the company bounced back strongly in the green, as witnessed by an operating profit of ~Rs. 1,124 crore in FY2021 against ~Rs. 171 crore in FY2020.

The strong operating peformance continued in 9M FY2022 and the company reported a 12% year-on-year (YoY) increase in crude steel production and steel deliveries rose by 6% on a YoY basis. The operating profits in 9M FY2022 stood at ~Rs.1,013 crore, which were higher by around 69% on a YoY basis. ICRA has noted the sequential moderation in EBITDA/tonne of steel

[1] &: Rating placed on watch with developing implications

deliveries from the highs of Q1 FY2022 in the subsequent quarters on account of provision towards additional regulatory charges for sourcing iron ore from TSL following the MMDR Amendment Act, 2021, coupled with the impact of an increase in input prices for thermal coal and coking coal. Nowithstanding the same, the financial performance on an absolute basis remains comfortable. Healthy cash flows on account of the improved performance and a favourable working capital cycle helped the company embark on an aggressive deleveraging strategy. The net debt levels fell to ~Rs.108 crore as on December 31, 2021 from ~Rs.2,585 crore as on March 31, 2020 and the Net Debt/OPBDITA decreased to 0.08 times in 9M FY2022 (annualised) from 15.12 times in FY2020.

Status as a subsidiary of TSL with strategic importance as a growth vehicle in the long product segment – TSLPL's status as a 74.91% subsidiary of TSL imparts considerable financial flexibility to the company. TSL has identified TSLPL as the strategic vehicle to focus on the long-products segment, and has provided operational, management and financial support to TSLPL's future growth plans. In line with TSL's stated intent of growing the long products business using TSLPL as the vehicle, TSL has committed to support NINL's acquisition by TSLPL through long-term funding at an attractive rate.

Vertically integrated nature of the acquired steel business, supported by captive iron ore mine – TSLPL's around 1-million-tonne-per-annum (mtpa) acquired steel business comprises integrated upstream and downstream facilities such as sinter, pellet, sponge iron kiln, blast furnace, electric arc furnace, wire rod/ bar/bloom mills, captive power plants, and a captive iron ore mine. TSLPL's captive iron ore mines would be able to meet 55-60% of its overall iron ore requirement at its two plants in Jharkhand and Odisha, which partly insulates the company from volatility in iron ore prices. The vertically integrated nature of TSLPL's operations favourably impacts its cost structure. Moreover, TSLPL benefits from the operational synergies between TSLPL's acquired steel unit in Gamharia and TSL's steelmaking hub in Jamshedpur, given their locational proximity, which leads to sizeable cost savings derived from operational synergies.

Increase in revenue mix from value-added products to support profit margins going forward – Following the takeover of the around 1-mtpa alloy steel plant, TSLPL has focused on new product development and product mix enrichment, which can help increase margins and partly insulate the company's profits from the cyclicality associated with commoditised steel grades. TSLPL has achieved important milestones like addition of 50 new products in FY2021 and further 29 new products in 9M FY2022. In addition, a steady increase in the share of alloy steel products to 60% in Q3 FY2022, increasing from 35% in Q3 FY2020, strengthens TSLPL's market position and would support its profits margins, going forward.

Proposed merger of TML and ISWPL with TSLPL to strengthen the business risk profile of the consolidated entity – Following the proposed merger of TML and ISWPL with TSLPL, the consolidated entity's credit profile is likely to benefit from an increase in scale, diversification of products and markets addressed, operational synergies at the upstream and downstream parts of the steelmaking value chain, and pooling of cash flows to create an entity with a stronger balance sheet and higher earnings. While the merger plans were earlier envisaged to have been consummated within 6-9 months of the announcement, there has been a considerable delay in obtaining all the approvals for the same. ICRA would reassess the credit profile of TSLPL following requisite approvals of the merger plan.

Greater visibility towards recovery of invested capital for the Radhikapur (East) coal block following the successful reauctioning of the block to a new bidder for commercial coal mining – TSLPL has invested Rs. 180.41 crore towards land and surface infrastructure for the 5-mtpa Radhikapur (East) coal block, which was deallocated by the Supreme Court in September 2014. In November 2020, the Ministry of Coal has reauctioned the said coal block, and the same was won by EMIL Mines and Mineral Resources Ltd. The winning bidder would need to pay a compensation of ~Rs. 183 crore towards the land and mine infrastructure to TSLPL. This mitigates the risk associated with the recoverability of TSLPL's investment in the Radhikapur (East) coal block.

Credit challenges

Exposure to sectoral concentration risks – Historically, around 55% of TSLPL's deliveries have been directed to the automobile sector, which exposes the company to the sectoral concentration risks. High exposure to the automobile sector became apparent as the company faced demand headwinds in FY2020, leading to TSLPL reporting a large net loss during the period. ICRA notes that within the automobile sector, TSLPL earlier had high dependence on the commercial vehicle (CV) segment. However, new customer additions in the 2W and passenger vehicle (PV) sectors in the last two years aided in partly diversifying its exposure to the highly cyclical CV sector. Moreover, the proposed merger of TML and ISWPL with TSLPL is expected to partly mitigate sectoral concentration risks due to diversification of the product offering of the consolidated entity.

Sub-optimal capacity utilisation levels at the pellet plant and steel melting shop at Gamharia – ICRA notes that TSLPL has not been able to ramp up to the full rated capacity at the 1.2-mtpa pellet plant and the 1-mtpa electric arc furnace (EAF). It is observed that the peak demonstrated capacity utilisation of the pellet plant is around 60-65%, and that for the EAF is around 70-75%. ICRA has noted increased steel production in FY2021 and 9M FY2022, which has been achieved through debottlenecking at the steel melting shop and arcing, however, it is yet to reach the rated capacity levels. Therefore, TSLPL's ability to debottleneck the pellet plant capacity and achieve higher steel production from the EAF unit would remain key performance drivers, especially in a downcycle year when steel spreads would contract.

Earnings exposed to volatility in steel prices and exchange rate fluctuations – TSLPL's profitability and cash flows are exposed to the cyclicality associated with the steel industry, which keeps margins of all players volatile. TSLPL imports bulk of the coking and non-coking coal requirements from the seaborne market. ICRA notes that high reliance on imported coal exposes TSLPL's profitability to fluctuations in international coal prices as well as fluctuations in the USD-INR exchange rate.

Changes in MMDR Act to lead to additional regulatory charges; to remain a structural drag on profits, going forward – TSLPL procures a part of its iron ore requirements from the captive mines of TSL. Consequent to the amendment in the MMDR Act effective March 28, 2021, TSL will be recovering an additional amount of 150% of the royalty paid on iron ore sourced by TSLPL, and accordingly TSL has charged Rs. 178.20 crore[2] to the company in H1 FY2022. Going forward, this additional regulatory charge will remain a structural drag on the profits of TSLPL.

Large-sized expansion plan in pipeline; will remain exposed to project execution risks – After having turned around the steel business of Usha Martin Limited, TSLPL has embarked upon the next phase of expansion with the acquisition of NINL. Once NINL's existing 1-mtpa plant achieves operational stability, the company has plans to scale up NINL's capacity to 4.5 mtpa over the next few years and further to 10 mtpa by 2030. While funding risks for the future expansion plans will be largely mitigated by the parent's stated intent of financial support, the company would remain exposed to project execution risks given the large-sized expansion plans. However, ICRA takes comfort from TSL's established track record in successfully commissioning large greenfield/brownfield steel capacities.

Liquidity position: Strong

TSLPL's liquidity has been assessed as **Strong**, supported by its cash and liquid investment balance of ~Rs. 669 crore as on December 31, 2021 and large undrawn working capital lines. The company reported positive free cash flows of Rs. 1,485 crore on a standalone basis in FY2021. ICRA expects the company's standalone free cash flows to remain at healthy levels in FY2022 and FY2023 as well. This is expected to support an accelerated deleveraging trajectory, as witnessed over the last six quarters. NINL's acquisition consideration is twice the size of TSLPL's current balance sheet, and the intended benefits would materialise gradually over the next several years. So, TSL will be infusing funds in TSLPL at an attractive rate and at an elongated maturity profile, in turn supporting the latter's liquidity profile.

[2] The total amount charged by TSL was Rs. 219.24 crore, of which Rs.178.20 crore was charged to the cost of materials consumed in H1 FY2022 and the balance was carried as part of the closing inventory

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on TSLPL's rating could arise if there is a deterioration in the credit profile of TSL. The rating could also come under pressure if TSLPL witnesses a sustained period of weak earnings and/ or makes a large debt-funded capex/ investment, leading to a significant deterioration in its liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Ferrous Metals Industry
Parent/Group Support	Parent Company: Tata Steel Limited (TSL) ICRA expects TSL to be willing to extend financial support to TSLPL, should there be a need, given its strategic importance to the Tata Steel Group, and out of its need to protect its reputation. Both TSLPL and TSL also share the common Tata Steel name, which in ICRA's opinion, would persuade TSL to provide financial support to TSLPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	TSLPL has no operating subsidiaries as on December 31, 2021. TSIL Energy Limited, the non-operating subsidiary of TSLPL is currently under liquidation. However, the company will be acquiring a 93.71% stake in NINL shortly, and ICRA has assessed the consolidated financial profile of TSLPL and NINL while arriving at the rating.

About the company

Tata Steel Long Products Limited (TSLPL) was originally set up as a joint venture between Tata Steel Limited (TSL) and Industrial Promotion & Investment Corporation of Orissa Limited in 1982. At present, TSLPL is a 74.91% subsidiary of TSL. The company is one of the early entrants in the domestic sponge iron industry, with a plant in Keonjhar district of Odisha having an installed capacity of 4,65,000 mtpa. In April 2019, through a slump sale by Usha Martin Limited, TSLPL acquired the former's 1-mtpa integrated alloy steel plant in Jamshedpur. Around 60-65% of TSLPL's sales mix (by value) is accounted from alloy/ high carbon steel sold to the automotive, tractors and other agriculture equipment, lifting and excavation, general engineering, railways, construction (reinforcement), and power (transmission and distribution) sectors. On January 31, 2022, TSLPL was declared as the winning bidder for the acquisition of NINL's 1-mtpa steel plant located at Kalinganagar, in Jajpur, Odisha.

Key financial indicators (audited)

TSLPL Standalone	FY2019	FY2020	FY2021	9M FY2022
Operating Income (Rs. crore)	992.1	3490.0	4749.9	5002.2
PAT (Rs. crore)	124.3	-516.3	572.0	570.2
OPBDIT/OI (%)	14.8%	4.9%	23.7%	20.3%
PAT/OI (%)	12.5%	-14.8%	12.0%	11.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	2.1	1.3	-
Total Debt/OPBDIT (times)	0.0	16.1	1.3	0.6
Interest Coverage (times)	48.7	0.6	4.8	13.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years						
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2021		Date & Rating in FY2020		Date & Rating in FY2019		
					Feb 14, 2022	Feb 9, 2022	Feb 26, 2021	Nov 24, 2020	Jan 13, 2020	Aug 30, 2019	Feb 11, 2019	Dec 24, 2018	Nov 1, 2018
1	Fund Based – Cash Credit	Long Term	-	-	-	-	-	-	[ICRA]AA- (Stable)* *(Withdrawn)*	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA &
2	Non-Fund Based Limits	Short Term	-	-	-	-	-	-	[ICRA]A1+* *(Withdrawn)*	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+ &
3	Commercial paper programme	Short Term	1500.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
4	Fund Based – Proposed Term Loan	Long Term	-	-	-	-	-	-	-	-	-	[ICRA]AA- (Stable)* *(Withdrawn)*	[ICRA]AA &

**Ratings withdrawn*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Not placed	Commercial Paper	-	-	-	1500.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

TSLPL has no operating subsidiaries as on December 31, 2021. TSIL Energy Limited, the non-operating subsidiary of TSLPL is currently under liquidation. However, the company will be acquiring a 93.71% stake in NINL shortly, and ICRA has assessed the consolidated financial profile of TSLPL and NINL while arriving at the rating.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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