India Ratings Affirms Tata Steel's NCDs at 'IND AA+'/Positive & CPs at 'IND A1+'

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India Ratings and Research (Ind-Ra) has affirmed Tata Steel Limited's (TSL) debt instruments as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Bank facilities*	-	-	-	INR490.66	IND AA+/Positive/IND A1+	Affirmed
Bank facilities*	-	-	-	INR6.11	IND AA+/Positive/IND A1+	Assigned
Proposed bank facilities*	-	-	-	INR6.53	IND AA+/Positive/IND A1+	Assigned
Non-convertible debentures (NCDs)**	-	-	-	INR101.35 (reduced from INR129.2)	IND AA+/Positive	Affirmed
Proposed NCD#	-	-	-	INR30 (reduced from INR64.1)	IND AA+/Positive	Affirmed
Commercial paper (CP)	-	-	Up to180 days	INR225	IND A1+	Affirmed

**Details in Annexure
*Bank facilities are fungible
yet to be issued

ANALYTICAL APPROACH: Ind-Ra continues to take a consolidated view of TSL and its subsidiaries to arrive at the ratings owing to the strong operational and strategic linkages among them. Also, the ratings are supported by linkages and the strong financial flexibility of its sponsor, Tata Sons Private Limited (TSPL; debt rated at 'IND AAA'/Stable).

The affirmation reflects the strengthening of TSL's standalone business and credit profile on account of increased capacity and higher value-added domestic sales mix. The agency expects the volume ramp up of the recently added Kalinganagar capacity would result in healthy EBITDA over FY25-FY27, which would be able to absorb any further negative impact from its European operations. Further, the restructuring at TSL's UK operations will result in a lower operating cost at the consolidated level, thereby supporting the overall EBITDA beyond FY27. Ind-Ra expects the net debt to remain elevated in FY24-FY25 on the back of higher cash outflow to support capex in India and Europe. The agency expects TSL's consolidated adjusted net leverage (adjusted debt net of cash/EBITDAR) to remain above 3.0x in FY24 with a directional improvement in FY25 supported by healthy per tonne margins and ramp up of increased capacities.

The Positive Outlook reflects the higher share of India assets in the consolidated business and the agency's expectation about the restructuring in Europe could reduce the cash burn, resulting in a resilient consolidated financial profile. The Positive Outlook also continues to reflect Ind-Ra's expectation of the consolidated adjusted net leverage to remain below 2.0x beyond FY25 and in line with management's guided range of 2.0x-2.5x, supported by strong domestic cash flows and a reduction in the net debt. The rating considers management's deleveraging target of USD1 billion annually from the healthy cash flow generation over the medium term.

Key Rating Drivers

Consolidated EBITDA to be Resilient due to Strengthening of India Operations: The ratings reflect a further strengthening of the standalone business from the increased share of India assets on account of a likely volume ramp up in FY25 and FY26 from the completed Kalinganagar Phase II capacity expansion (KPO II) to 8 million tonnes per annum (mtpa) from 3mtpa in December 2023, resulting in increased EBITDA per tonne in FY25 and FY26. With the strengthening of domestic sales mix and continued strong EBITDA in the domestic operations, the negative impact of any further cash burn from Europe on the consolidated cash flows will be mitigated.

The domestic capacity mix is likely to increase to 75% by FY30 (FY23: 62%). TSL targets to expand its total capacity to 40mtpa by FY30 from 21.6mtpa (including Neelalchal Ispat Nigam Limited (NINL)) as of end-December 2023. A large part of the balance capacity is likely to be brownfield as each of its India plant locations are capable of accommodating additional capacity. TSL plans to increase NINL's crude steel capacity to 4.5mtpa in the medium term and 10mtpa by 2030 from the current 1mtpa.

Large Scale and Integrated Operations: TSL is among the top three steel producers in India with 21.6mtpa of crude steel capacity on a standalone basis. TSL's domestic operations are well-integrated with captive power and mining operations, which meet a large part of the power requirement, 100% of its iron ore requirements and about 25% of its metallurgical coal requirements. Therefore, TSL (India operations) is among the most low-cost steel producers in the world, according to management. The agency expects the benefits of 100% of captive iron ore supply to remain even with the KPO II expansion, given the large-sized iron ore reserve base. TSL's domestic sales mix improved post the acquisition of Tata Steel BSL Ltd (formerly Bhushan Steel Ltd) and the steel division of Usha Martin Limited (debt rated at 'IND A'/Positive) over FY20-FY21, followed by the addition of NINL's 1mtpa capacity in 2HFY23. Domestic sales volume was 14.49 million tonnes (mt) in 9MFY24 (FY23: 18.87mt, FY22: 18.27mt) while consolidated sales volume was 21.42mt in 9MFY24 (FY23: 28.79mt, FY22: 29.52mt). The integration of various business and the steady share of branded/value-added products (FY23: 63%; FY22: 65%) enables TSL to post healthy cash flows in India.

TSL's Standalone Profile Stronger than Consolidated Profile: On a standalone basis, TSL's EBITDA was INR217.9 billion in 9MFY24 (FY23: INR261 billion, FY22: INR507 billion) and interest coverage (operating EBITDA/interest expense) was 6.7x (6.9x, 18.0x), against the consolidated EBITDA of INR157 billion (INR323 billion, INR635 billion) and consolidated interest coverage of 2.8x (5.1x, 11.6x). The standalone revenue accounted for 61% of the consolidated revenue in 9MFY24 (FY23: 53%, FY22: 53%). Standalone EBITDA constituted 139% of the consolidated EBITDA in 9MFY24 (FY23: 81%, FY22: 80%) on account of losses in Europe.

Revival of European Operations to Reduce Cash Losses: TSL's consolidated financial profile is likely to benefit from the restructuring of TSL's UK operations, which have been a drag on TSL's cash flows. TSL will replace its blast furnaces with more cost-efficient and environment-friendly electric arc furnace-based 3mtpa steelmaking capacity by FY27. As per management, the UK government has agreed to fund up to GBP500 million of the planned capex of GBP1.25 billion. Weaker spreads, stiff competition from imports, absence of backwardintegration, and stringent environment norms have led to high operational overheads at the UK business, resulting in EBITDA losses. As per management, the restructuring will enable the UK business to generate stable profitability, instead of being a drag on TSL's financial performance. The agency expects fixed cost overheads to reduce from FY26, resulting in positive cash accruals in the UK business.

Liquidity Indicator - Adequate: Ind-Ra expects TSL's liquidity to be supported by strong cash accruals and on-balance sheet liquidity of INR108 billion at 9MFYE24 (FYE23: INR157.6 billion, FYE22: INR241.3 billion). The group liquidity (including cash and undrawn fund-based lines) was INR233 billion at 9MFYE24.). TSL has scheduled annual consolidated repayments of INR8 billion in 4QFY24 and INR160 billion in FY25. TSL's overseas group entities and European operations (Tata Steel Europe Ltd) typically have high refinancing requirements, which is a key monitorable. Tata Steel Europe's major term debt falls due in FY25 and FY26. The agency expects capex outflows of INR160 billion-170 billion, each, in FY25 and FY26 to be partly funded by debt.

Parent Support: The ratings remain supported by potential support from the Tata Sons Private Ltd (TSPL), which owns a 33.7% stake in TSL. In the past, TSPL had subscribed for TSL's rights issue, which was launched in 2018.

Financial Leverage to Improve beyond FY25: The agency expects the consolidated adjusted net leverage to be over 3.0x in FY24 on account a higher net debt due to capex and cash losses in the European business. However, it is likely to improve in FY25 due to higher domestic operating margins on account of increased capacity, supporting operating leverage. Ind-Ra expects the consolidated adjusted net leverage to remain below 2.0x beyond FY25 and in line with management's guided range of 2.0x-2.5x supported by higher per tonne profitability coupled with a reduction in net debt levels. Adjusted net leverage on a TTMFY24 was 3.4x (FY23: 2.3x, FY22: 0.9x). The agency estimates TSL's average EBITDA/tonne for the India operations to remain at INR15,000-16,000 in FY24-FY25 (FY23: INR14,680, FY22: INR27,800). Ind-Ra expects TSL's consolidated gross debt to remain elevated over FY24-FY27 (9MFYE24: INR882 billion, FYE23: INR887 billion, FYE22: INR805 billion including interest-bearing customer advances), on the back of capex programme to expand capacity in India and support restructuring costs in the UK.

The management targets to deleverage by USD1 billion over the medium term amid healthy, albeit normalised, cash flow generation, supported by higher capacity and strong domestic demand, along with maintaining of annual capex outflows of INR160 billion-170 billion, despite raw material cost volatility. Furthermore, given the stated focus on organic expansion with the available option of expanding at the existing locations and the NINL acquisition, the agency believes the company is unlikely to opt for any further large inorganic expansion in the next 12-to-18 months. The agency has not assumed any major inorganic growth-related capital outflows in its base case.

Inherent Industry Risks: The domestic steel sector is characterised by demand cyclicality, volatility in raw material and metal prices, high regulatory risk, and the risk of imports. The sector participants typically have a high operating and financial leverage, large working capital requirements, and large-sized debt for funding capex. Domestic steel producers are substantially dependant on imports of coking coal, and hence, any supply-side issue could have a material impact on utilisations and profitability. In addition, the metal prices are heavily dependent on international prices, as the domestic market is open for imports. Steel producers are generally impacted by weak rupee/dollar due to the imports of coking coal; however, the risk is somewhat mitigated by hedging and import parity of metal prices. China has been a key exporter in the international market in the recent past and accounts for about 50% of the global steel production. Therefore, any change in its economic policies that could impact infrastructure spending or easing of environmental norms could materially impact the metal prices.

Rating Sensitivities

Positive: An increase in domestic sales volume on the back of the recently concluded capex, along with no material impact of restructuring at UK operations on the consolidated profitability, resulting in visibility of the adjusted net leverage remaining below 2.0x on a sustained basis could lead to a positive rating action.

Negative: A delay in volume ramp up from the recently concluded capex and/or a lower-than-expected EBITDA per tonne and/or a continued negative impact on the consolidated profitability from the European operations, and/or substantial debt-led acquisitions and/or higher-than-expected capex outflows, all leading to the consolidated adjusted net leverage exceeding 2.0x on a sustained basis beyond FY25, would lead an Outlook revision to Stable.

ESG Issues

ESG Factors Relevant to Rating: "GHG Emissions and Air Quality" under Environment has relevance and moderate impact on the credit rating of TSL. Deterioration in the financial and credit profile amid increased environmental compliance costs in Europe (including the UK) has a negative impact on the credit ratings in conjunction with other factors. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

TSL commenced operations in 1907, with the establishment of India's first integrated steel plant. At end-December 2023, TSL had a global crude steel production capacity of 35mtpa, spread across Jamshedpur (11mtpa), Kalinganagar phase I (3mtpa), South East Asia (1mtpa), Tata Steel BSL (5.6mtpa), TSPL (1mtpa), NINL (1mtpa), and Europe (12.4mtpa). TSL plans to add another 5mt capacity in KPO II by FYE24. The company has a presence across the entire value chain of steel manufacturing from mining and processing iron ore and coal to producing and distributing finished products. It offers a broad range of steel products, including a portfolio of high value-added downstream products such as hot-rolled, cold-rolled, coated steel, billet, rebars, wire rods, tubes and wires. The promoters, Tata Group, held 33.7% stake in TSL at end-December 2023.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	9MFY24	FY23	FY22
Revenue (INR billion)	1,704.8	2,416.4	2,423.3
EBITDA (INR billion)	157.0	323.0	634.9
EBITDA margin (%)	9	13	26
Gross EBITDA interest coverage (x)	2.8	5.1	11.6
Total adjusted net leverage (x)	3.4*	2.3	0.9
Source: TSL, Ind-Ra *Trailing 12 months (TTM)			

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook							
	Rating Type	Rated Limits (billion)	Rating	22 September 2023	13 February 2023	22 June 2022	14 February 2022	15 December 2021	9 June 2021	15 March 2021	13 April 2020
Issuer rating	Long-term	-	-	WD	IND AA+/ Positive	IND AA+/ Positive	IND AA+/ Stable	IND AA+/ Stable	IND AA/ Positive	IND AA/ Stable	IND AA/ Negative
CP	Short-term	INR225	IND A1+	-	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
NCDs	Long-term	INR131.35	IND AA+/ Positive	-	IND AA+/ Positive	IND AA+/ Positive	IND AA+/ Stable	IND AA+/ Stable	IND AA/ Positive	IND AA/ Stable	IND AA/ Negative
Bank facilities	Long-term/ Short-term	INR503.3	IND AA+/ Positive/ IND A1+	-	IND AA+/ Positive/ IND A1+	IND AA+/ Positive/ IND A1+	IND AA+/ Stable/ IND A1+	IND AA+/ Stable/ IND A1+	IND AA/ Positive/ IND A1+	IND AA/ Stable/ IND A1+	IND AA/ Negative / IND A1+

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook

Bank facilities	-	-	-	-	INR496.77	IND AA+/Positive /IND A1+
NCD	INE081A08223	1 March 2019	9.8359	1 March 2034	INR43.15	IND AA+/Positive
NCD	INE081A08330	27 February 2023	8.03	25 February 2028	INR21.5	IND AA+/Positive
NCD	INE081A08231	13 March 2020	7.7	13 March 2025	INR6.7	IND AA+/Positive
NCD	INE081A08314	20 September 2022	7.5	20 September 2027	INR5	IND AA+/Positive
NCD	INE081A08322	20 September 2022	7.76	20 September 2032	INR15	IND AA+/Positive
NCD	INE081A08215	4 October 2016	8.15	1 October 2026	INR10	IND AA+/Positive
Proposed NCD#					INR30	IND AA+/Positive
Proposed bank facilities					INR6.53	IND AA+/Positive/IND A1+

#yet to be issued

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low
Bank facilities	Low
CP	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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