TML: 4341: 2022 Date: July 12, 2022

The Secretary, Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001.
Maharashtra, India.
Scrip Code: 513434

The Manager, Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1,
G Block, Bandra-Kurla Complex, Bandra (E),
Mumbai - 400 051.
Maharashtra, India
Symbol: TATAMETALI

Dear Madam, Sirs,

Sub: Intimation of Revision in Ratings under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

This has reference to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "Regulations"). In accordance with the said Regulation(s), please find below the details of revision in ratings for Company:

Name of the Company	Credit Rating Agency	Type of Credit Rating	Existing	Revised
Tata Metaliks Limited	ICRA Limited	Long-Term credit rating	AA-	AA

The report from the credit rating agency covering the rationale for revision in credit rating is enclosed.

This is for your information and record

Yours faithfully,
Tata Metaliks Limited

Avishek Ghosh
Company Secretary and Compliance Officer

Encl.: as above

July 11, 2022

Tata Metaliks Limited: Change in Limits; Long-term rating of [ICRA]AA and Short-term rating of [ICRA]A1+ continues to remain under Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	318.00	230.00	[ICRA]AA&; Continues to be under rating Watch with Developing Implications
Non-fund based facilities	340.00	428.00	[ICRA]A1+&; Continues to be under rating Watch with Developing Implications
Total	**658.00**	**658.00**	

**Instrument details are provided in Annexure-1; & denotes rating on watch with developing implications*

Rationale

The ratings factors in the expected commissioning of the enhanced ductile iron pipe (DIP) capacities in the current fiscal, leading to lower external sales of pig iron and consequently higher DIP volumes, thus enriching the product mix towards higher value-added DIP. ICRA has noted the significant upward revision in tender prices for the recent DIP contracts, which are to be executed over the next 12 months. Full benefits of this upward revision will flow in gradually over the course of FY2023, given that the existing order book still comprises some legacy contracts booked at less remunerative prices. ICRA, however, expects the increased profits from the DIP division will more than compensate for the lower earnings from the pig iron (PI) segment following correction in prices post imposition of the export duties, which coincided with elevated energy costs in the current fiscal. The demand outlook for DIP remains favourable over the medium term, given the Government's focus on ensuring potable drinking water security to every rural household by 2024 under the flagship Jal Jeevan Mission. Only around 50% of the households have been covered under this programme till date, so the Central Government's allocation to this programme has increased by a healthy 33% in FY2023. ICRA expects the funding to remain strong in FY2024 as well. This is expected to benefit DI pipe players including Tata Metaliks Limited (TML). The ratings also continue to favourably consider TML's strong financial risk profile. TML remained debt free as on March 31, 2022. The debt-free status along with the healthy operating profits reported in FY2022 translated into strong credit indicators for the company. Healthy earnings in the last fiscal coupled with a reduction in the working capital intensity aided TML to channelise its free cash flows to strengthen its balance sheet liquidity. Consequently, TML's liquidity profile remains strong. Notwithstanding the capex plans scheduled for the current fiscal estimated to be around Rs.250-300 crore, ICRA expects TML's debt-free status to continue as the planned capex will be funded through internal sources given the healthy cash generation expected and sizeable liquidity available on the balance sheet. The ratings continue to favourably factor in the integrated nature of TML's business, which reduces the vulnerability of the company's cash flows to fluctuation in input prices. The company has undertaken various process improvement initiatives in the recent past, which have strengthened its operating profile. The ratings continue to be supported by the company's high financial flexibility with established relationships with banks and status as a 60.03% subsidiary of Tata Steel Limited (TSL).

The ratings, however, remain constrained by the exposure of the company to the cyclicality inherent in the pig-iron business as it remains exposed to the margin risks arising from temporary mismatch in the prices of raw materials and pig iron, causing volatility in profitability and cash flows. Moreover, the fixed price competitively bid nature of the DIP business keeps the profitability of all DIP players under check, including TML. However, healthy medium-term demand outlook is expected to keep

the capacity utilisation of the industry players at a healthy level. The ratings also factor in the changes in the Mines and Minerals (Development and Regulation) Act (MMDR Act), which will lead to additional regulatory charges on TML, thus remaining a structural drag on its profits, going forward.

The ratings of TML continue to remain under Watch with Developing Implications owing to the ongoing merger with Tata Steel Long Products Limited (TSLPL, rated at [ICRA]A1+), subject to receipt of requisite statutory and regulatory approvals. ICRA will continue to monitor the development of the merger process and the timelines involved and will take appropriate rating action, if required.

Key rating drivers and their description

Credit strengths

Strong financial risk profile – TML remained debt free as on March 31, 2022. The debt-free status along with the healthy operating profits reported in FY2022 translated into strong credit indicators for the company, as reflected in an interest coverage of 15.4 times in FY2022 and TOL/TNW[1] of 0.5 times. Healthy earnings in the last fiscal coupled with a reduction in the working capital intensity aided TML to channelise its free cash flows to strengthen its balance sheet liquidity. Consequently, TML's liquidity profile remains strong, as reflected by the large cash and liquid investment portfolio of ~Rs.187 crore and ICDs to a Group company[2] of Rs.150 crore as on March 31, 2022. Notwithstanding the capex plans estimated to be around Rs.250-300 crore scheduled for the current fiscal, ICRA expects the company's debt-free status to continue. This is because the planned capex will be funded through internal sources given the healthy cash generation expected and sizeable liquidity available on the balance sheet.

Enrichment of the product mix to higher value-added DIP following completion of enhanced capacity; significant upward revision in tender prices to more than compensate for the lower earnings from the PI division – Following the expected commissioning of the enhanced DIP capacities in the current fiscal, the proportion of molten metal consumed captively is expected to increase, leading to lower external sales of pig iron and consequently higher DIP volumes, thus enriching the product mix towards higher value-added DIP. ICRA has noted the significant upward revision in tender prices for the recent DIP contracts, which are to be executed over the next 12 months. The full benefits of this upward revision will flow in gradually over the course of FY2023, given that the existing order book still comprises some legacy contracts booked at less remunerative prices. ICRA, however, expects the increased profits from the DIP division will more than compensate for the lower earnings from the PI segment following correction in prices post imposition of the export duties, which coincided with elevated energy costs in the current fiscal.

Integrated nature of operations reduces vulnerability of cash flows to fluctuation in input costs – The company is one of the largest producers of foundry-grade pig iron in the country with an installed capacity of 5,50,000 metric tonnes per annum (MTPA). A significant portion of the hot metal produced is used in the DIP business, and the balance pig iron, primarily of the foundry grade, is used by the foundry industry to manufacture castings. Over the years, TML has taken various cost improvement initiatives viz. commissioning of a sinter plant in FY2013, and a 10-MW power plant in FY2017, which operates on the flue gas of coke-oven plants (set up under BOOT basis). In January 2019, the company had commissioned a coal injection plant to partially replace coke with pulverised coal, which led to significant cost savings for the company. In February 2021, the company had commissioned another coke-oven capacity (under BOOT basis), which has significantly reduced dependence on external coke. A new power plant (of 15 MW) was also commissioned in March 2021 to further reduce dependence on external power. The integrated nature of TML's operations favourably impacts its cost structure and reduces vulnerability of cash flows to fluctuation in input costs.

[1] Total Outside Liabilities to Tangible Net Worth

[2] Tata Steel Downstream Products Limited (Rated [ICRA]AA/Stable/[ICRA]A1+); ICRA understands that the ICDs are callable at short notice

Favourable medium-term demand outlook for DIP in India following Government's emphasis on ensuring tap water connection for all – The demand outlook for DIP remains favourable over the medium term, given the Government's focus on ensuring potable drinking water security to every rural household by 2024 under the flagship Jal Jeevan Mission. Around 50% of the households have been covered under this programme till date, so the Central Government's allocation to this programme has increased by a healthy 33% in FY2023. ICRA expects the funding to remain strong in FY2024 as well. Notwithstanding the new capacity coming in the industry in the current fiscal, ICRA expects the demand-supply dynamics to be evenly balanced over the medium term at least, given the healthy industry order book position and favourable outlook.

Status of the company as a part of the Tata Steel Group – The ratings continue to be supported by the company's high financial flexibility with established relationships with banks and status as a 60.03% subsidiary of TSL. TSL's credit profile has improved significantly in the last two fiscals, as reflected in its reduced balance sheet leverage, aided by strong cash flow generation on the back of remunerative steel spreads.

Credit challenges

Profit and cash flows exposed to the cyclical nature of pig-iron business – Raw materials account for the major portion of the operational cost for pig iron players, including TML, and are thus important determinants of profitability. As pig iron business is cyclical in nature, it is exposed to the margin risks arising from temporary mismatch in prices of raw materials and pig iron, causing volatility in profitability and cash flows. The backward as well as forward integration facilities available with the company, however, mitigate such risks to an extent. Following the expected commissioning of the enhanced DIP capacities, the volumes of external pig iron sold will reduce and volumes of DIP will increase substantially, leading to lower volatility in cash flows.

Competitively bid fixed-price orders result in range-bound profitability in the DIP division – The major portion of DIP's sales takes place through tenders, where the lowest bidder is awarded the contract. This results in significant price-based competition, which keeps the profitability under check. Moreover, a rise in input cost adversely impacts the margins of the DIP business due to the fixed-price nature of the contracts. However, healthy medium-term demand outlook is expected to keep the capacity utilisation of the players at a healthy level.

Changes in MMDR Act to lead to additional regulatory charges; to remain a structural drag on profits going forward – TML procures the major 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 150% of the royalty paid on iron ore fines and 250% of the royalty paid on iron ore lumps sourced by TML. Accordingly, TSL charged around Rs.150 crore to the company in FY2022, affecting TML's profits substantially. Going forward, this additional regulatory charge will remain a structural drag on the profits of TML. However, with the recent correction in iron ore prices, the impact of the additional regulatory charges will reduce somewhat in the current fiscal.

Liquidity position: Strong

TML's liquidity profile remains **strong**, as reflected in the large cash and liquid investment portfolio of ~Rs.187 crore and ICDs to a Group company (Tata Steel Downstream Products Limited, rated [ICRA]AA (Stable)/ [ICRA]A1+) of Rs.150 crore as on March 31, 2022. In addition, TML's liquidity profile is supported by the financial flexibility that it enjoys for being a strategically important entity of the Tata Steel Group. Notwithstanding the capex plans scheduled for the current fiscal, which will lead to negative free cash flows, ICRA expects the debt-free status to continue as the planned capex will be funded through internal sources given the healthy cash generation expected and sizeable liquidity available on the balance sheet.

Rating sensitivities

Positive factors – ICRA could upgrade TML's rating if there is an improvement in the credit risk profile of the parent.

Negative factors – Pressure on TML's ratings may arise if there is a deterioration in profitability and cash accruals due to a fall in sales volume emanating from weak demand in end-user industries. Any large debt-funded capex, leading to a sustained deterioration in capital structure and business return indicators, could also result in ratings downgrade. Any deterioration in the credit risk profile of the parent may also put pressure on the ratings. Specific triggers that could lead to ratings downgrade include core RoCE less than 20% on a sustained basis.

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/Group Company: Tata Steel Limited (TSL) TML is a 60.03% subsidiary of TSL, with proven track record of receiving financial support from the parent in the past. However, going forward, ICRA does not envisage any requirement of financial support.
Consolidation/Standalone	For arriving at the ratings, ICRA has analysed TML on a standalone basis.

About the company

TML was set up as a joint venture (JV) between TSL and West Bengal Industrial Development Corporation (WBIDC) in 1991 to manufacture pig iron. The company had two manufacturing units – one in Kharagpur, West Bengal and the other in Redi, Maharashtra. However, the Redi unit was closed in FY2013 due to sustained losses. TML is a part of the Tata Group of Companies, with TSL owning 60.03% of the company's equity capital. TML also manufactures DIP at its Kharagpur plant, a forward integration unit of the pig iron business. The DIP business was set up in 2007 in collaboration with Kubota Corporation of Japan (KC) and Metal One Corporation of Japan (MOC). The respective stakes of TML, KC and MOC in the JV stood at 51%, 44% and 5%, respectively. Subsequently, TML increased its stake in the DIP business to 100%, making it a wholly-owned subsidiary. TML merged the wholly-owned subsidiary, Tata Metaliks DI Pipes Limited, with itself, with effect from April 1, 2016. In November 2020, a merger with TSLPL has been announced, which is currently ongoing and is subject to receipt of requisite statutory and regulatory approvals.

Key financial indicators (Audited)

TML Standalone	FY2021	FY2022
Operating Income (Rs. crore)	1,916.7	2,745.5
PAT (Rs. crore)	219.81	237.45
OPBDIT/OI (%)	20.5%	13.8%
PAT/OI (%)	11.5%	8.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times) (excluding lease liability)	0.0	0.0
Interest Coverage (times)	15.8	15.4

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	Type	Current Rating (FY2023)					Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023			Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					July 11, 2022	Jun 20, 2022	Apr 29, 2022	April 7, 2021	Nov 24, 2020	June 29, 2020	-
1	Fund-based limits	Long Term	230.00	-	[ICRA]AA&	[ICRA]AA&	[ICRA]AA-&	[ICRA]AA-&	[ICRA]AA-&	[ICRA]AA-(Stable)	-
2	Term Loan	Long Term	0.00	-	-	-	-	--	-	[ICRA]AA-Withdrawn	-
3	Non-fund based facilities	Short Term	428.00	-	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+	-
4	Commercial Paper	Short Term	0.00	-	-	-	ICRA A1+&; Withdrawn	[ICRA]A1+&	[ICRA]A1+&	[ICRA]A1+	-

& denotes rating on watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits	Simple
Non-fund based facilities	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: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based limits	NA	NA	NA	230.00	[ICRA]AA&
NA	Non-fund based facilities	NA	NA	NA	428.00	[ICRA]A1+&

Source: *Company; & denotes rating on watch with developing implications*

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

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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