



Rating Action: Moody's upgrades Tata Steel to investment grade with Baa3 issuer rating; outlook stable

25 Sep 2023

Singapore, September 25, 2023 -- Moody's Investors Service has assigned a Baa3 long-term issuer rating to Tata Steel Ltd. (Tata Steel) and changed the outlook to stable from positive. Moody's has also withdrawn the company's Ba1 corporate family rating.

"The upgrade reflects our expectation of the continued strength in Tata Steel's credit profile due to the company's solid market position in India. We expect the company's profitability to increase even as softer steel prices dent revenues," says Kaustubh Chaubal, a Moody's Senior Vice President.

"The upgrade also reflects the company's considerable deleveraging through gross debt reduction and our expectation that Tata Steel will maintain conservative financial policies with a well-balanced capital allocation and financial metrics appropriate for its Baa3 rating," adds Chaubal, also a lead analyst on Tata Steel.

RATINGS RATIONALE

Tata Steel's Baa3 issuer rating reflects the company's large scale, globally cost-competitive, vertically integrated steel operations in India (Baa3 stable); the sustained improvement in its European operations especially following the expected closure of the loss-making upstream operations in the United Kingdom (Aa3 negative); and the company's close association with its parent, Tata Sons Ltd.

Nevertheless, the rating also captures the company's exposure to the inherent volatility in steel prices and spreads, and the historically volatile performance of its European operations.

Tata Steel's Indian operations (TSI) continue to dominate its consolidated earnings. Although two-thirds of the company's 28.8 million metric tons (mt) of global steel shipments in the fiscal year ending 31 March 2023 (fiscal 2023) were in India, TSI accounted for over 80% of the company's consolidated EBITDA, a result of its backward integration into the mining of key raw materials iron ore and metallurgical coal.

Meanwhile, Tata Steel's European operations (TSE) lack backward integration and have historically generated volatile earnings, a drag on the company's credit profile. TSE produces seven million metric tons per annum (mtpa) in the Netherlands (Aaa stable) and three mtpa in the UK. In particular, frequent outages at its UK plant that is soon approaching the end of its useful life have dented TSE's -- and by extension, Tata Steel's consolidated earnings. For fiscal 2023 for instance, the relatively better performing Dutch operations translated into TSE generating EBITDA of around \$580 million, even as the UK operations incurred an EBITDA loss of £127 million.

Tata Steel recently announced the setting up a three mtpa electric arc furnace (EAF) in the UK at a cost of £1.25 billion, with the UK government providing a capital grant of £500 million. Concurrently, the company has begun consultation with its employees with respect to the BF closure. While one-off restructuring costs may need to be incurred, the EAF will transform its cost position in the UK, and the BF closure will arrest the significant drain to earnings; a credit positive.

The likely improvement in its UK cost structure and the relatively better performing Dutch operations will ensure, in Moody's view, Tata Steel's credit profile remaining solid, even as steel prices remain soft and global steel demand

weakens amid rising interest rates and a weak economic outlook in most end-user markets.

Meanwhile, Tata Steel's strong presence in the world's second-largest steel market, India, will be a key driver of the company's credit profile. The South Asian country will see steel consumption climb at a 7% cumulative annual growth rate until 2030, fueled by continuous, large infrastructure investments as well as increasing demand from the auto sector.

The upgrade to investment grade also reflects Tata Steel's resilient operations amid a challenging industry environment. During fiscal 2023, Tata Steel's EBITDA halved to INR317 billion (\$3.9 billion) from INR657 billion (\$8.8 billion) and its cash flow from operations declined by almost 60% to INR163 billion (\$2.0 billion) from INR399 billion (\$5.4 billion). Still, the company's gross debt levels climbed by only 10%, following the INR120 billion (\$1.4 billion) acquisition of Neelachal Ispat Nigam Limited, completed in July 2022. As such, gross debt was at 2.8x EBITDA in fiscal 2023 vs. 1.2x in the previous fiscal.

Moody's forecasts are based on the rating agency's current price sensitivities for steel (\$500-\$700 per ton for China hot rolled coil [HRC] and \$600-\$800/ton for Europe HRC) for fiscal years 2024-2026, and applying a certain premium for Tata Steel, given the rising share of value-added products in its portfolio. As for key steelmaking inputs, Moody's has modeled per ton of metallurgical coal at \$230-\$240 and iron ore at about \$100 per ton.

These price sensitivities translate into an EBITDA/ton of \$220 for fiscal years 2024 through 2026 (vs. \$162 in fiscal 2023 and \$381 in fiscal 2022) for TSI, which aligns with the company's 12-year average. As for TSE, Moody's remains cautious in its forecasts, especially with the current shutdown at one of its blast furnaces in the Netherlands and the drag from the upstream UK operations unless they are shut. The rating agency expects that following an EBITDA loss in fiscal 2024, TSE's EBITDA/ton profitability will improve to around \$70-\$90, post restructuring. Also embedded in this assumption is the rating agency's view that energy costs will likely subside through this fiscal year.

Even as substantial capital expenditure continues, Tata Steel will still generate large free cash flow, enabling debt reduction with consolidated debt/EBITDA leverage comfortably below 2.0x – 2.5x over the next two fiscal years.

LIQUIDITY

Tata Steel's liquidity position is good, benefitting from its ~\$2.3 billion in cash and liquid investments as of the end of June 2023 and \$2.25 billion in undrawn term loan (long term) and working capital credit lines in India (364 day facilities) and Europe (multi-year revolving credit facility maturing in March 2026). These liquidity sources, combined with Moody's expectation for cash flow from operations, will be sufficient to fund the company's capital spending, working capital needs, scheduled debt maturities and dividend payments over the 15 months till September 2024.

Furthermore, Tata Steel's longstanding relationships with Indian and multinational banks as well as its association with the Tata brand provide it with adequate flexibility to smoothly tide over any temporary mismatches.

OUTLOOK

The stable rating outlook reflects Tata Steel's strengthening credit metrics that Moody's believes can be sustained even as the company invests in building new capacity in India and Europe. The stable outlook also reflects the rating agency's view that Tata Steel will maintain its prudent discipline in capital allocation and financial policies, and operate with credit metrics appropriate for its Baa3 rating.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Like its industry peers, Tata Steel faces environmental and social risks, especially concerning carbon transition, waste and pollution. These risks primarily arise from its BF operations, which have higher carbon emissions compared to EAF producers, despite EAF's high electricity requirements. Increasingly stringent regulations concerning carbon emissions and pollution pose a significant long-term challenge to Tata Steel, particularly in relation to its European operations, which will require substantial investments. Even so, Tata Steel's conservative financial strategy, a

governance consideration, offers significant financial capacity to manage the associated costs and investments. Furthermore, similar to the capital grant from the UK government that will partially fund its EAF investment in the UK, Moody's anticipates that Tata Steel will collaborate with relevant governments as it advances towards improving its carbon footprint.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Given its correlation to India's economic growth due its large presence in the country, Tata Steel cannot be rated higher than the Indian sovereign. As such, an upgrade of the Indian sovereign rating would be a prerequisite for Moody's to rate Tata Steel higher than Baa3.

Fundamentally, the rating could experience positive momentum if the company continues to demonstrate solid performance through the cycle while developing a longer track record of maintaining conservative financial metrics, particularly during periods of weaker operating conditions and increased spending. Credit metrics indicative of a Baa2 rating include debt/EBITDA of less than 3x.

A downgrade of India's sovereign rating to Ba1 would immediately lead to a downgrade of Tata Steel's rating, even if there is no deterioration in its financial profile.

While unlikely, considering today's rating action, downward rating pressure could also develop if the company pursues aggressive, debt-funded growth, indicating a higher risk tolerance. Leading indicators of downward pressure on the rating include: maintaining debt more than 4.0x EBITDA; sustaining an EBIT/interest coverage lower than 3.5x; or a significant weakening in the company's liquidity profile.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Steel published in November 2021 and available at <https://ratings.moodys.com/rmc-documents/356428>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

COMPANY PROFILE

Tata Steel Ltd. is the world's tenth largest steel producer with manufacturing facilities in India (21.6 mt), the UK (5 mt), the Netherlands (7.0 mt) and Southeast Asia (1.7 mt).

Tata Steel generated consolidated revenues and EBITDA of USD30.3 billion and USD3.9 billion, respectively, during fiscal 2023.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating

in a manner that would have affected the rating. For further information please see the issuer/deal page for the respective issuer on <https://ratings.moodys.com>.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website <https://ratings.moodys.com>.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the EU and is endorsed by Moody's Deutschland GmbH, An der Welle 5, Frankfurt am Main 60322, Germany, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that issued the credit rating is available on <https://ratings.moodys.com>.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on <https://ratings.moodys.com>.

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on <https://ratings.moodys.com> for additional regulatory disclosures for each credit rating.

Kaustubh Chaubal
Senior Vice President
Corporate Finance Group
Moody's Investors Service Singapore Pte. Ltd.
71 Robinson Road #05-01/02
Singapore, 068895
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Vikash Halan
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
71 Robinson Road #05-01/02
Singapore, 068895
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S

PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are

accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody’s Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody’s Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.