India Ratings & Research
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India Ratings Upgrades Tata Steel's NCDs and Bank Loans to 'IND AAA'/Stable; Affirms CP at 'IND A1+'; Rates Additional NCDs

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India Ratings and Research (Ind-Ra) has upgraded Tata Steel Limited's (TSL) long-term debt rating to 'IND AAA' from 'IND AA+' with a Stable Outlook, while affirming the short-term debt rating at 'IND A1+' as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Non-convertible debentures**	-	-	-	INR128.35	IND AAA/Stable	Upgraded
Proposed non-convertible debentures#	-	-	-	INR3 (reduced from INR30)	IND AAA/Stable	Upgraded
Proposed non-convertible debentures#	-	-	-	INR30	IND AAA/Stable	Assigned
Commercial paper (CP)	-	-	Up to180 days	INR225	IND A1+	Affirmed
Bank facilities*	-	-	-	INR494.77 (reduced from INR496.77)	IND AAA/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Proposed bank facilities*	-	-	-	INR6.53	IND AAA/Stable/IND A1+	Long-term rating upgraded; short-term rating affirmed
Proposed bank facilities*	-	-	-	INR2.01	IND AAA/Stable/IND A1+	Assigned

** Of the INR30 billion proposed NCDs, INR27 billion has been transferred to the existing NCD. Details in Annexure
*Bank facilities are fungible
yet to be issued

Analytical Approach

Ind-Ra continues to fully consolidated TSL's subsidiaries/joint ventures while arriving at the ratings, owing to the strong operational and strategic linkages among them. Also, the ratings factor in the strategic linkages between TSL and its sponsor, Tata Sons Private Limited (TSPL) and the strong financial flexibility of TSPL.

Detailed Rationale of the Rating Action

The upgrade reflects the likelihood of reduced losses at TSL's UK operations over FY26-FY27 and eventual profitability, given the UK government has undertaken to fund GBP500 million of the total GBP1.25 billion capex for the replacement of blast furnaces with more cost-efficient and environment-friendly electric arc furnace. TSL successfully shut down both its blast furnaces at the UK in September 2024. As per management, TSL's UK assets are likely to breakeven in 2HFY26. Any higher-than-expected capex at the UK assets however will be a key monitorable.

The drag on TSL's consolidated profitability and cash flows thus shall reduce over FY26 and FY27, while the Indian operations with higher EBITDA/tonne will benefit from the recent operationalisation of the Kalinganagar capacity. TSL maintained standalone EBITDA per tonne at INR13,000-INR15,000 over FY23-9MFY25, despite an increase in the imports and pressure on the realisation, supported by robust volume growth and higher fixed cost absorption and an increase in the value-added domestic sales mix, which is likely to be sustained over the medium term.

Consequently, Ind-Ra expects the consolidated financial leverage (net adjusted debt/EBITDA) to reduce from FY26 in the 2.5x-3x range, and in line with management's guided range. However, it would remain above 3x in FY25 (FY24: 3.6x) and higher than Ind-Ra's earlier articulated leverage of 2.0x, given the pricing pressure from China exports. The balance sheet is likely to become more resilient, given the path to profitability for the European operations. Any lower-than-expected cash accrual from a moderation in commodity prices along with delays in breakeven at the UK assets beyond FY26 resulting in lower profitability and higher consolidated balance sheet net debt will remain a key monitorable.

List of Key Rating Drivers

Strengths

- European operations to breakeven by 2HFY26
- Strengthening of business profile
- Credit profile to remain comfortable
- Large scale and integrated operations
- TSL's standalone profile stronger than consolidated profile
- Parent support

Weaknesses

- Inherent industry risks

Regulatory risk

Detailed Description of Key Rating Drivers

European Operations to Breakeven by 2HFY26: Management expects TSL's UK assets to breakeven in FY26, which have been a drag on its consolidated cash flows. TSL closed both its blast furnaces in September 2024. Ind-Ra expects fixed cost overheads to reduce from 2HFY25, resulting in positive cash accruals in the UK business. TSL plans to replace the existing blast furnace with a more cost-efficient and environment friendly electric arc furnace-based 3 million tonnes per annum (mtpa) steelmaking capacity by FY28. In September 2024, the UK government signed an agreement with TSL to fund up to GBP500 million (40% of the total capex) of the planned capex of GBP1.25 billion and balance 60% will be funded by TSL. The grant will come in the proportion of expenditure made by TSL with a quarter's lag. TSL has placed equipment orders and targets to commence civil construction in July 2025. Any higher-than-expected capex at the UK assets will be a key monitorable. Furthermore, the relining of blast furnace at the Netherlands' plant was completed in 4QFY24 and has resulted in TSL's Netherland business turning EBITDA positive during 9MFY25.

Strengthening of Business Profile: The ratings reflect the likely strengthening of TSL's standalone business and credit profile in FY26, led by the increased share of India assets. This will be led by a possible volume ramp-up in FY26 resulting from the expansion of Kalinganagar Phase II capacity (KPO II) to 8mtpa from 3mtpa in September 2024. The agency expects TSL's standalone EBITDA per tonne to be in the INR14,000-INR15,000 range over FY26-FY27, supported by a volume ramp-up, an increase in the proportion of value-added sales mix and reduction in fixed cost overheads from the commissioning of new capacities.

The domestic capacity mix is likely to increase as TSL targets to expand its total India capacity to 40mtpa in the long term from 26.6mtpa (including Neelalchal Ispat Nigam Limited (NINL)) as of end-December 2024. 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 in the long term from the current 1mtpa.

Credit Profile to Remain Comfortable: During FY24 and 9MFY25, TSL's standalone EBITDA per tonne remained stable (9MFY25: INR13,616; FY24: INR14,984; FY23: INR14,998), despite a decrease in the realisation on account of low-cost

Chinese imports, supported by volume growth, absorption of fixed cost and a moderation in the coking coal cost. The agency estimates TSL's average EBITDA/tonne for the India operations to sustain at INR14,000-15,000 over the medium term on account of an increase in volumes from added capacities supported by a healthy domestic demand. The annual consolidated EBITDA is estimated to be in INR350 billion-INR400 billion over FY26-FY27, supported by stable domestic operations along with reducing losses at the UK operations. TSL's consolidated net debt was INR866 billion at 9MFYE25 (FY24: INR806 billion, FYE23: INR729 billion including interest-bearing customer advances), on the back of the capex programme for capacity expansion in India and support UK operations. The consolidated net adjusted leverage for FY24 and 9MFY25 remained above 3x, in line with Ind-Ra's expectation given the pricing pressure from higher imports and continued losses in the UK. Both management and Ind-Ra expects the net adjusted leverage to reduce from FY26 in the 2.5x-3x range, and higher than Ind-Ra's earlier articulated leverage of 2.0x, given the continued pricing pressure supported by reduced UK losses.

The rating is supported by TSL's clear capital allocation framework, focusing only on high return capex and the flexibility to adjust its capital spending if required to protect its balance sheet. The agency has not assumed any major inorganic growth-related capital outflows in its base case, given the company's stated focus on organic expansion and the available option of expanding at the existing locations including the NINL acquisition.

Large Scale and Integrated Operations: TSL is among the top three steel producers in India with a 26.6mtpa 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 its power requirement, 100% of its iron ore requirements and about 20% 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+'/Stable/INDA1+) over FY20-FY21, followed by the addition of NINL's 1mtpa capacity in 2HFY23. Domestic sales volumes increased to 15.34mtpa in 9MFY25 (9MFY24: 14.49mt; FY24: 19.91mt; FY23: 18.85mt; FY22: 18.27mt) and consolidated sales volumes to 22.63mt (21.42mt, 29.4mt, 28.79mt, 29.52mt). The integration of various business and the steady share of branded/value-added products (FY24: 69%; FY23: 63%; FY22: 65%) would continue to enable TSL to post healthy cash flows in India.

TSL's Standalone Profile Stronger than Consolidated Profile: On a standalone basis, TSL's EBITDA was INR209 billion in 9MFY25 (9MFY24: INR217.9 billion; FY24: INR298 billion; FY23: INR283 billion) and interest coverage (operating EBITDA/interest expense) was 6.7x (6.7x; 7.1x; 7.1x), against the consolidated EBITDA of INR187 billion (INR157 billion; INR223 billion; INR323 billion) and consolidated interest coverage of 3.4x (2.8x; 3.0x; 5.1x). The standalone revenue accounted for 60% of the consolidated revenue in 9MFY25 (9MFY24: 61%; FY24: 62%; FY23: 59%) and the standalone EBITDA constituted 111% of the consolidated EBITDA (139%; 134%; 88%) on account of the losses in Europe.

Parent Support: TSL receives potential support from TSPL, which owns a 31.76% stake in TSL. In the past, TSPL had subscribed for TSL's rights issue, which was launched in 2018. The ratings also benefit from the strong operational and strategic ties between TSL and TSPL. TSL remains a strategically important entity to the Tata Group, which lends it a high degree of financial flexibility.

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. Sector participants typically have a high operating and financial leverage ratio, large working capital requirements, and large-sized debt for funding capex. Domestic steel producers substantially depend on the imports of coking coal; and hence, any supply-side issue could have a material impact on utilisations and profitability. In addition, metal prices heavily depend on international prices, as the domestic market is open for imports. Steel producers are generally impacted by a 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 the government's infrastructure spending or tightening of environmental norms could materially impact steel prices. Furthermore, TSL is exposed to foreign currency risk. However, TSL's forex hedging policy and the linkages of steel prices in the international markets with the dollar movements partly mitigate the forex risks.

Regulatory Risk: TSL operates in a regulated industry, facing risks of renewals or disputes of mining licences or an unexpected increase in the duties. Furthermore, given TSL is involved in mining operations, it is exposed to the Hon'ble Supreme Court of India's ruling of August 2024 on the retrospective payment of tax demand from April 2005 on mineral rights and mineral bearing lands to the state governments. However, the payments will be spread over 12 years, starting 1 April 2026. Additionally, interest and penalties on demands for the period before 25 July 2024, will be waived for all assesses. The states are yet to come out with their decision on the imposition of such retrospective tax. TSL filed a curative petition before the Supreme Court of India on 17 January 2025, invoking the extraordinary jurisdiction passed by the Constitutional Bench of the Supreme Court of India dismissing the petition against the judgment dated 25 July 2024 and 14 August 2024. Ind-Ra will continue to monitor the impact of the Supreme Court ruling with respect to the taxation of mineral rights. The agency also notes several mining leases are set to expire in 2030, and TSL's ability to renew these leases, along with any associated premium increase, will be a key monitorable.

Liquidity

Adequate: Ind-Ra expects TSL's liquidity to be supported by strong cash accruals and on-balance sheet liquidity of INR131 billion at 9MFYE25 (FY24: INR83 billion, FYE23: INR157.6 billion, FYE22: INR241.3 billion). The group liquidity (including cash and undrawn fund-based lines) was INR282 billion at 9MFYE25. TSL has scheduled annual consolidated repayments of INR7.9 billion in 4QFY25 and INR85.02 billion in FY26 and INR60.31 billion in FY27. The CP outstanding at end-December 2024 was INR34.5 billion. Management expects capex outflows of INR160 billion in FY25 (9MFY25: INR124.5 billion), to be funded through a mix of debt and internal accruals and external funding. TSL will spend GBP1.25 billion (INR140 billion) towards the UK capex over FY26-FY28 with 40% equity contribution in the form of grant from the UK government. The grant will come in the proportion of expenditure made by TSL with a quarter lag. Liquidity is also supported by the management's robust capital allocation policies with access to domestic and international capital markets and strong relationships with banks. In addition, TSL's liquidity profile is supported by the financial flexibility that it enjoys for being a strategically important entity of the Tata Group.

Rating Sensitivities

Positive: Not applicable

Negative: A sustained lower-than-expected EBITDA per tonne and/or substantial debt-led acquisitions and/or higher-than-expected capex outflows all leading to deterioration in liquidity and consolidated adjusted net leverage exceeding 3.0x on a sustained basis, and/or any weakening of the linkages/deterioration in credit profile of TSPL, could lead to a negative rating action.

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.

About the Company

TSL commenced operations in 1907, with the establishment of India's first integrated steel plant. TSL has a global crude steel production capacity of 35mtpa, spread across Jamshedpur (11mtpa), Kalinganagar (8mtpa), South East Asia (1.7mtpa), Meramandali (5.6mtpa), Gamharia (1mtpa), NINL (1mtpa), and Europe (7mtpa). The company commissioned a new blast furnace in Kalinganagar in September 2024, adding 5mt to the India capacity. Of the total 35mtpa, about 26.6mt is based in India, 7mt in Europe, and 1.7mt in Thailand. 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 31.76% stake at end

December 2024.

Key Financial Indicators

Particulars - Consolidated	9MFY25	FY24	FY23
Revenue (INR billion)	1,623.2	2,291.7	2,433.5
EBITDA (INR billion)	187.4	223.1	323.0
EBITDA margin (%)	12	10	13
Gross EBITDA interest coverage (x)	3.4	3.0	5.1
Total adjusted net leverage (x)	3.5*	3.6	2.3
Source: TSL, Ind-Ra *Annualised			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook						
	Rating Type	Rated Limits (billion)	Rating	12 February 2024	22 September 2023	13 February 2023	22 June 2022	14 February 2022	15 December 2021	9 June 2021
Issuer rating	Long-term	-	-	-	WD	IND AA+/Positive	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA/Positive
Commercial paper	Short-term	INR225	IND A1+	IND A1+	-	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+
Non-convertible debentures	Long-term	INR161.35	IND AAA/Stable	IND AA+/Positive	-	IND AA+/Positive	IND AA+/Positive	IND AA+/Stable	IND AA+/Stable	IND AA+/Positive
Bank facilities	Long-term/Short-term	INR503.31	IND AAA/Stable/IND A1+	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+

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Bank facilities	Low
Commercial paper	Low
Non-convertible debentures	Low

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

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook
NCD	INE081A08223	1 March 2019	9.8359	1 March 2034	INR43.15	IND AAA/Stable
NCD	INE081A08330	27 February 2023	8.03	25 February 2028	INR21.5	IND AAA/Stable

NCD	INE081A08231	13 March 2020	7.7	13 March 2025	INR6.7	IND AAA/Stable
NCD	INE081A08314	20 September 2022	7.5	20 September 2027	INR5	IND AAA/Stable
NCD	INE081A08322	20 September 2022	7.76	20 September 2032	INR15	IND AAA/Stable
NCD	INE081A08215	4 October 2016	8.15	1 October 2026	INR10	IND AAA/Stable
NCD	INE081A08348	27 March 2024	7.79	27 March 2027	INR27	IND AAA/Stable
Proposed NCD#					INR33	IND AAA/Stable
Source: TSL #yet to be issued						

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APPLICABLE CRITERIA AND POLICIES

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process