

Rating Rationale

Brickwork Ratings revises rating to ‘BWR AA’ (BWR Double A) with Negative Outlook from BWR AA+ (BWR Double A Plus), (Outlook: Stable) for the unsecured Non-Convertible Debenture Issues of Rs. 4000 Cr.

Brickwork Ratings also revises rating to ‘BWR AA-’ (BWR Double A Minus) (Outlook: Negative) from BWR AA (BWR Double A) (Outlook: Stable) for the unsecured subordinated Perpetual Debt Issues of Rs. 2500 Cr of Tata Steel Ltd

Brickwork Ratings revises rating to ‘BWR AA’ (BWR Double A) with Negative Outlook from BWR AA+ (BWR Double A Plus), (Outlook: Stable) for the unsecured Non-Convertible Debenture Issues of Rs. 4000 Cr. Brickwork Ratings also revises rating to ‘BWR AA-’ (BWR Double A Minus) Outlook: Negative from BWR AA (Outlook: Stable) for the unsecured subordinated perpetual Debt Issues of Rs. 2500 Cr of Tata Steel Ltd

Instruments	Amount	Current Rating	Rating action	Issue Date	Earlier Rating
Unsecured NCD	Rs. 1000 crs	BWR AA (Negative)	Downgraded	Sep 2016	BWR AA+ (Stable)
Unsecured Subordinated Perpetual Securities	Rs. 1500 Crs	BWR AA- (Negative)	Downgraded	March, 2011	BWR AA (Stable)
Unsecured Subordinated Perpetual Securities	Rs. 1000 Crs	BWR AA- (Negative)	Downgraded	May, 2011	BWR AA (Stable)
Unsecured NCD	Rs. 3000 Crs	BWR AA (Negative)	Downgraded	May 2012	BWR AA+ (Stable)

The present action of Rating Downgrades with Negative Outlook, inter alia, reflects uncertainty over vital decisions such as cost cutting and deleveraging the Balance sheet concerning the unprofitable UK operations and restructuring its European business consequent to the recent sudden change in top management at Holding Company/Group Level. Essentially the Rating reflects the heightened management risk and the current stage of lack of clarity at group level management that may impact strategic decision making at TSL.

The rating continues to factor the Company's diversified product portfolio, backward integrated India operations in the form of captive iron ore and coal mines making it one of the lowest cost producers of steel, large market share in Steel Industry, commencement of operations at the Kalinganagar plant in Odisha, professional management and group support enjoyed by the Company. The rating positively factors that Minimum Import Prices (MIP) introduced by Government of India is expected to increase realizations.

The rating is however constrained by the sluggish demand growth in Europe, volatility in prices of raw material and high dependence on imports of raw material for European operation. The rating is also constrained by high consolidated financial leverage with overall deterioration in gearing, primarily due to the loss-making UK operations.

Background

Tata Steel Ltd. (TSL) was established in 1907, is one of the flagship companies of Tata Group. It is a global company with crude steel production capacity of approximately 27.8 million tonne per annum (mtpa). The company is one of the most geographically diversified steel producers, with operations in 26 countries and commercial presence in more than 50 countries.

The product mix of the company includes flat products such as HR Coils, CR Coils, Galvanized Steel, Long Products such as Wire Rods, Rebars, Ferro Alloys, Tubes, Bearings, Wires, etc. The company also owns coal, iron ore and manganese & chrome mines at various locations. The company is 100% backward integrated with respect to iron-ore requirement and 50% backward integration for coal requirement for the domestic operations.

In June 2016, the company sold its UK longs business including Scunthorpe Steel Works (with a capacity of 4.5 MTPA) to Greybull Capital. The company now has three principal facilities in UK and Netherlands with a total steel production capacity of 12.90 mtpa.

Rating Outlook:

The sudden change of guard at the Holding Company/Group level has not only heightened the management risk for the Company, but also has exposed it to uncertainty over continuity of critical decisions on cost cutting and deleveraging the Balance Sheet concerning the unprofitable UK operations and restructuring its European business. Unless the Company takes appropriate measures in this regard, it may lead to a further deterioration in financial profile of the Company, as also a rating action.

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1Please refer to BWR website www.brickworkratings.com for definition of the rating assigned

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