



April 6, 2021

The Secretary, Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001.
Maharashtra, India.
Scrip Code: 500470/890144*

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: TATASTEEL/TATASTLPP*

Dear Madam, Sir(s),

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 and its subsidiary: -

Name of the Company	Credit Rating Agency	Type of Credit Rating	Existing	Revised
Tata Steel Limited	S&P Global Ratings	Issuer credit rating	'B+' Outlook: Stable	'BB-' Outlook: Stable
ABJA Investment Co. Pte. Ltd.		Long-term foreign currency issuer credit rating	'B+' Outlook: Stable	'BB-' Outlook: Stable

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

This is for your information and records.

Yours faithfully,
Tata Steel Limited

Parvatheesam Kanchinadham
Company Secretary &
Chief Legal Officer (Corporate & Compliance)

Encl: As Above

***Securities in symbol TATASTLPP and 890144 stand suspended from trading effective February 17, 2021**

TATA STEEL LIMITED

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Corporate Identity Number L27100MH1907PLC000260

Research Update:

Tata Steel Rating Raised To 'BB-' On Deleveraging And Strong Operating Momentum; Outlook Stable

April 5, 2021

Rating Action Overview

- We believe Tata Steel Ltd.'s debt levels will decline materially over the next two years due to strong cash flow and the company's stated intention to reduce debt.
- In our base case, we expect Tata Steel's adjusted debt to decline by about 30% by March 2023 from the March 2020 level of about Indian rupee (INR) 1 trillion, leading its credit metrics to steadily improve.
- On April 6, 2021, S&P Global Ratings raised its issuer credit rating on Tata Steel and its subsidiary ABJA Investment Co. Pte. Ltd. to 'BB-' from 'B+'. We also raised the long-term issue rating on the senior unsecured notes issued by ABJA.
- The stable outlook reflects our expectation that Tata Steel will adequately deleverage over the next two years and build comfortable headroom at the current rating level.

PRIMARY CREDIT ANALYST

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Rating Action Rationale

The benefits of strong cash flows and management's commitment to lower debt should help Tata Steel to materially deleverage over the next two years. We estimate our adjusted debt levels for Tata Steel will decline by about 30% by March 2023 from about INR1.1 trillion in March 2020. About half of this decline is expected to have been delivered in fiscal 2021 (year ended March 2021). Tata Steel has committed to reducing absolute debt levels by at least US\$1 billion per year from fiscal 2022. Our base case shows that the company's free operating cash flows will be adequate to facilitate this reduction over the next two years, even with our revised capital expenditure (capex) estimates of about INR90 billion per year, up from INR50 billion-INR60 billion in fiscal 2021. We believe Tata Steel will moderate its investment plans, if required, so as to meet this objective. The company reported sizable debt reduction in fiscal 2021, thanks to stronger cash flow generation, recent equity raising of about INR33 billion, and working capital improvements of about INR120 billion. However, we treat as debt substitution some of Tata Steel's working capital-related debt reductions in fiscal 2021, such as INR60 billion in export advances and securitization of receivables at Tata Steel Europe (with a facility size of £475

million). This implies a comparatively lower level of deleveraging compared with the company's reported numbers.

We expect strong operating momentum over the next 12-18 months to facilitate debt reduction.

Tata Steel has guided to price increases of INR6,000-INR7,000 per ton in the fourth quarter of fiscal 2021, on the back of already high prices and margins in the third quarter. In the third quarter, the Indian operations reported average EBITDA/ton of about INR19,000, exceeding our mid-cycle estimate of about INR13,500-INR14,000. Consequently, we anticipate that the company can maintain strong operating momentum over the next couple of quarters at least. Our base case assumes moderation in steel prices over fiscals 2022 and 2023, such that the Indian operations' EBITDA/ton gradually will decline to about INR16,000 by fiscal 2023. In our view, steel prices could moderate over the next two to three years as output ramps up globally following disruptions due to COVID-19. Long product prices in India have already moderated following the resumption of smaller capacities. Under these assumptions, we estimate Tata Steel can generate aggregate EBITDA of more than INR600 billion and free operating cash flow of about INR150 billion over fiscals 2022 and 2023.

Volatility in earnings, and hence, credit metrics constrains a higher rating for now. We estimate Tata Steel's debt-to-EBITDA ratio will decline to 2.5x-3.0x in our base case by fiscal 2023 and the ratio of funds from operations (FFO) to debt should improve to 20%-25%, compared with our earlier estimates of 4.0x-4.5x and about 15%, respectively. A key risk to these estimates is the level of steel prices. If steel prices were to drop to mid-cycle levels by fiscal 2023, we estimate the company's FFO-to-debt ratio to be 15%-17%, and it has the potential to drop further to 13%-14% at the bottom of the cycle. We note the company's EBITDA in fiscal 2020 was about half our current estimates for fiscals 2021 and 2022, with a ratio of FFO-to-debt being 6%, indicating the extent of volatility seen lately. That said, material deleveraging has lowered downside rating risk, in our view. The likelihood is reducing that credit metrics will weaken to levels seen in previous downturns.

Outlook

The stable outlook reflects our expectation that Tata Steel will significantly reduce debt over the next 12-24 months, supported by strong operational cash flow. The stable outlook also reflects our expectation that the company's debt reduction would result in lower volatility in its credit metrics compared with the previous steel cycle, with greater resilience during downturns.

Downside scenario

In our base case, we see Tata Steel building adequate headroom at the current rating level. However, we could lower the rating if earnings decline or the company takes on additional debt, such that its FFO-to-debt ratio fails to remain well above 15% on a sustained basis.

Upside scenario

We could raise the rating if Tata Steel deleverages beyond our expectations, such that we view the company's ratio of FFO to debt is likely to remain above 25% on a sustained basis. Factors contributing to this scenario include steel prices remaining stronger for longer than we now envisage. At current steel prices, the company's FFO-to-debt ratio may exceed the threshold of

25% over the next two years. However, its ability to maintain the ratio above 25% at mid cycle prices is less likely.

Company Description

Tata Steel is among the largest steel producers globally, with an annual crude steel capacity of close to 30 million tons--about 19.3 million tons in India and 10.5 million tons in Europe. Its India operations are well integrated, with captive access to iron ore, although it still supplements its coal needs with imports. The company's business position is a mix of low-cost highly efficient steelmaking capacities in India and comparatively high-cost capacities in Europe. Tata Steel is part of Tata Group and is about 34% owned by Tata Sons Pte. Ltd.

Our Base-Case Scenario

Assumptions

- Steel sales of about 18 million tons in India and 9 million tons in Europe in fiscals 2022 and 2023, almost unchanged from fiscal 2021 levels.
- Average net sales realization in rupee terms that are about 10% higher in fiscals 2021 and fiscal 2022 versus fiscal 2020, declining about 5% in fiscal 2023.
- Capex of INR60 billion in fiscal 2021, increasing to about INR90 billion in fiscals 2022 and 2023 as some growth capex returns.
- No significant shareholder distributions, acquisitions, or asset divestments over the next 12-24 months.
- Debt reduction of US\$1 billion annually over the next two years.

Key metrics

- Average EBITDA/ton for the Indian operations of INR17,000/ton-INR19,000/ton in fiscals 2021 and 2022, declining to about INR16,000 in fiscal 2023; this is significantly higher than about INR10,500 in fiscal 2020. No material contribution or cash losses at the Tata Steel Europe level.
- Consolidated EBITDA margin of 16%-18% in fiscal 2021, increasing to 20%-25% in fiscal 2022 and declining to about 20% in fiscal 2023. These compares with about 12% in fiscal 2020.
- Adjusted debt declining to about INR750 billion by March 2023 from INR1.1 trillion as of March 2020 and our estimate of INR900 billion-INR950 billion in March 2021.
- FFO-to-debt ratio of 17%-18% in fiscal 2021, improving to over 20% in fiscals 2022 and 2023; compared with 6.7% in fiscal 2020.
- Positive free operating cash flow of about INR200 billion in fiscal 2021 and INR60 billion-INR80 billion in fiscals 2022 and 2023; fiscal 2021 cash flow supported by working capital improvements of about INR120 billion. This includes some customer advances and securitized receivables which we consider debt substitutes.

Liquidity

We assess Tata Steel's liquidity as adequate. On a consolidated basis, we estimate the company's liquidity sources will be well above 1.5x its liquidity uses over the 12 months ending Dec. 31, 2021. Tata Steel has good on-balance-sheet liquidity and no large near-term debt maturities. We expect the company to have enough funds to manage its uses even if its EBITDA were to fall by 15%.

Tata Steel enjoys strong financial flexibility as a blue-chip Indian company. It has good access to capital markets and strong banking relationships, given its association with Tata Group. We believe support from Tata Group will be forthcoming, if needed, reinforcing its liquidity position.

Our estimates of Tata Steel's liquidity sources and uses for the 12 months ending Dec. 31, 2021, are as follows.

Key liquidity sources include:

- Cash and cash equivalents of INR200 billion as of Dec. 31, 2020.
- FFO that we estimate at about INR200 billion over the next 12 months
- Equity raising of about INR33 billion.

Key liquidity sources include:

- Debt maturities of about INR140 billion over the 12 months, of which about INR130 billion is short-term debt (based on September 2020 reported figures) that is generally rolled over.
- Capex of INR80 billion over the next 12 months.

The company is also expected to have prepaid at least INR150 billion of debt in the fourth quarter of fiscal 2021, including calling about INR15 billion of its onshore hybrid securities.

Covenants

Tata Steel remains in compliance with its covenants as of Sept. 30, 2020.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2020, Tata Steel reported about INR1.1 trillion of debt, of which about INR380 billion was secured. Of the total debt, about INR420 billion was at the Tata Steel stand-alone level, about INR225 billion equivalent was at Tata Steel Netherlands Holdings BV, and about INR190 billion equivalent of bonds was at its captive financing unit ABJA.

Analytical conclusions

We rate the foreign currency bonds totaling about US\$2.3 billion issued by ABJA at 'BB-', the same as the issuer credit rating on ABJA. We treat ABJA as a core subsidiary of Tata Steel and equalize the rating on ABJA with that on Tata Steel. We rate the issuances the same as the issuer credit ratings because Tata Steel primarily operates in India, a jurisdiction where we believe the priority

of claims in a theoretical bankruptcy is highly uncertain.

Ratings Score Snapshot

Issuer Credit Rating: BB-/Stable/--

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bb-

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate

Entities, Nov. 13, 2012

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Upgraded

	To	From
Tata Steel Ltd.		
ABJA Investment Co. Pte. Ltd.		
Issuer Credit Rating	BB-/Stable/--	B+/Stable/--
ABJA Investment Co. Pte. Ltd.		
Senior Unsecured	BB-	B+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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