TATA

September 25, 2023

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

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**

Dear Madam, Sirs,

Sub: Revision in Rating

We wish to inform you that Moody's, an international credit rating agency, has today, i.e., September 25, 2023, upgraded the corporate family rating of Tata Steel Limited from **'Ba1' Positive** to **'Baa3' Stable**.

The report from Moody's providing the rationale for revision in rating is enclosed for reference.

This disclosure is made pursuant to Regulation 30(6) read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, as amended.

This is for your information and records.

Yours faithfully,
Tata Steel Limited

PARVATHEESAM KANCHINADHAM

Digitally signed by PARVATHEESAM KANCHINADHAM
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Date: 2023-09-25 17:51+05:30

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

Encl: As Above

Moody's

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 Moody's has also withdrawn the company's Ba1 corporate family rating.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 highe 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.

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