Financial capital
Managing finances prudently

At Tata Steel, we strive to optimise returns for providers of our financial capital. We endeavour to maximise surplus funds from both business operations and monetisation of assets and investments as relevant.

We invest our surplus in attractive growth opportunities in our core market. We also continue to optimally raise finance based on prevailing market conditions at the best possible cost and on flexible terms given the cyclical nature of the steel industry.

Impact on SDGs

8 9 12 17

FY 2019-20 Highlights

13.76%
PBET/Turnover

9.54%
ROCE

9.02%
Return on Average Net Worth

₹57.11
Basic Earnings Per Share

PBET - Profit Before Exceptional items and Taxes
ROCE - Return on Average Capital Employed

Strategic linkage	Material issues addressed	
SO1 SO2 SO3	- **Business growth** - **Long-term profitability**	- Tied up US$ 525 million in External Commercial Borrowing (ECB) and domestic term loans to meet capex requirements of ₹2,000 crore in India - Funded the acquisition of steel business of UML* by subscribing to the rights issue of TSLP** during FY 2019 - 20 - Sufficient working capital lines established for smooth business operations

SO1 - Industry leadership in steel SO2 - Consolidate position as a global cost leader SO3 - Insulate revenues from steel cyclicality
*UML - Usha Martin Limited **TSLP - Tata Steel Long Products Limited

HOW DO WE MANAGE OUR FINANCIAL CAPITAL

Financial capital is generated annually from surplus arising from current business operations and through financing activities, including raising debt and equity aligned with market conditions and internal strategic planning, as well as optimal asset monetisation.

We ensure that the regular operations are at an optimum level. Our operational KPIs are compared with internal and external benchmarks to achieve best production, higher productivity and yields. We have continuous cross-functional improvement programmes under Total Quality Management (TQM) and Shikhar25 wherein TQM techniques are routinely deployed for operations, maintenance process improvements, operational efficiency, product mix optimisation, waste reduction and recycling, energy efficiency and procurement optimisation. They lead to cost optimisation. Our innovative marketing initiatives and various ongoing digital programmes provide better customer connect and reach, and higher realisations. This operational efficiency enables us to generate positive cash flows from operations.

We have a robust financial planning process that assesses the requirement of funds for sustainable business operations as well as for investments towards present and future business sustainability and growth opportunities. The fund requirement over business surplus and retained earnings are met by raising funds as per market conditions to reduce finance cost and have flexible terms in line with the cyclical nature of the steel industry. We continuously work towards aligning the debt maturity profile to the long gestational nature of steel projects while maintaining a flexible capital structure in line with business needs, which results in significant savings in interest costs and ensures maintenance of desired liquidity levels. Foreign exchange risks are actively managed with adequate hedging.

We deleverage our balance sheet through internal cash flows and asset monetisation. The funds generated are allocated to strategic investments in subsidiaries, inter corporate loans and investments in capital assets. The surplus funds are invested in short-term instruments.

MANAGING CAPITAL INPUTS

We tied up $525 million through ECB and domestic term loans of ₹2,000 crore to meet the capex requirement in India. We have established ₹3,000 crore of Letter of Credit lines for the Phase II expansion of Kalinganagar.

We have judiciously availed Government schemes and policies during the year which led to lower tax charge and outgo due to rationalisation of Corporate Income tax rates from 30% to 22% and settlement of 234 Central Excise and Service Tax disputes under the tax amnesty scheme known as Sabka Vishwas Legal Dispute Resolution Scheme (SVLDRS).

To tide over the pandemic-induced business disruptions in the domestic market, sufficient short-term liquidity of ₹4,800 crore was arranged. Our innovative financing strategy for coal procurement helped us to deleverage by ₹360 crore. In addition, we generate cost savings from business process improvements (TQM initiatives and Shikhar25).

MANAGING CAPITAL OUTCOMES

Our India operations were strengthened by the acquisition of the steel business of UML, by our subsidiary TSLP, increasing and stabilising production at Tata Steel BSL acquired in FY 2018-19. We continue to utilise trade finance products to realise funds from business cash flows in advance to deleverage the balance sheet.

The credit rating agencies, Standard & Poor's (S&P) and Brickworks have retained their existing credit rating on the Company. However, based on the prevailing situation, the outlook has been revised to 'Stable'.

STRATEGIC FOCUS

- Drive growth without increasing leverage; enhance internal cash generation through efficiency and productivity
- Focus on divestments; build synergies from acquisitions
- Allocate capital efficiently

OUR CAPITALS — FINANCIAL CAPITAL (contd)

WAY FORWARD

- **Deleverage balance sheet through internal cash flows and asset monetisation**
- **Align debt maturity profile to the long gestational nature of steel projects**
- **Maintain flexible capital structure in line with the business needs**
- **Allocate funds to efficient and value-accretive opportunities.**

MOVEMENT IN TURNOVER

Turnover was at ₹60,436 crore, down 14% year-on-year due to a decline in steel prices and a drop in steel deliveries.

MOVEMENT IN EBITDA

EBITDA was at ₹15,096 crore, down 27% year-on-year, primarily due to lower deliveries and decrease in steel prices.

INCREASE IN CAPITAL EXPENDITURE

Capital expenditure was ₹4,749 crore, higher by 29% than the previous year, due to spend against the ongoing projects, majorly at the Phase II expansion project at Kalinganagar.

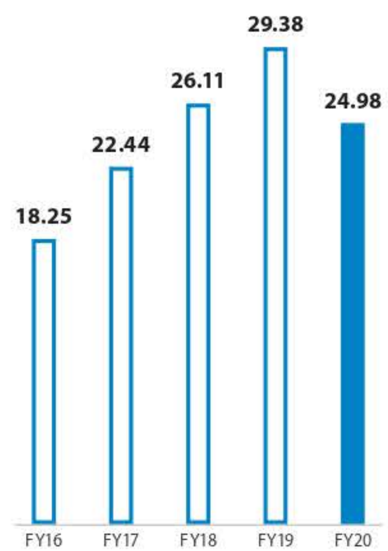
INCREASE IN CASH FLOWS

Net increase in cash and cash equivalents was ₹449 crore as against a decrease of ₹4,044 crore in the previous year, due to release in working capital and increase in short-term borrowings.

The RATH is a steel structure inspired by the dual narrative of the Sun Temple and the Rath Yatra (Chariot Festival) at Bhubaneswar

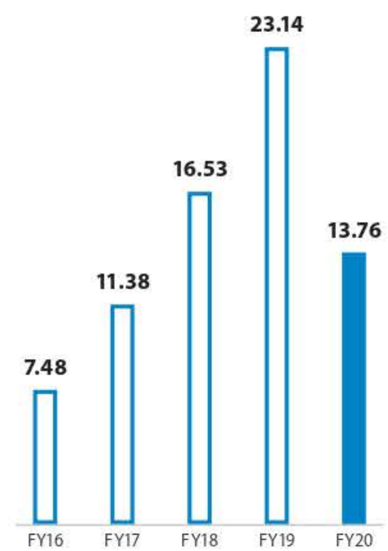
EBITDA/TURNOVER

(%)



PBET/TURNOVER

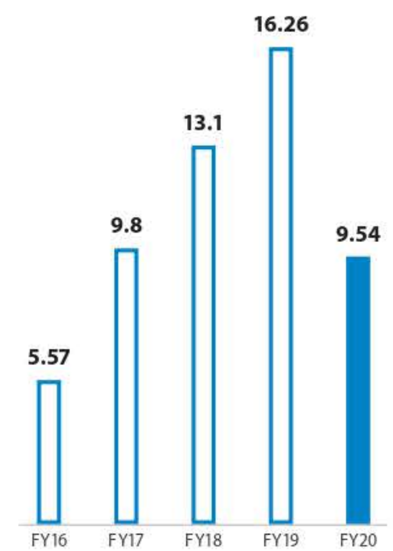
(%)



PBET - Profit Before Exceptional items and Taxes

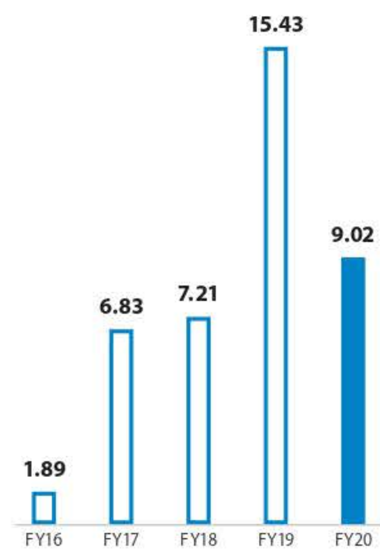
RETURN ON AVERAGE CAPITAL EMPLOYED

(%)



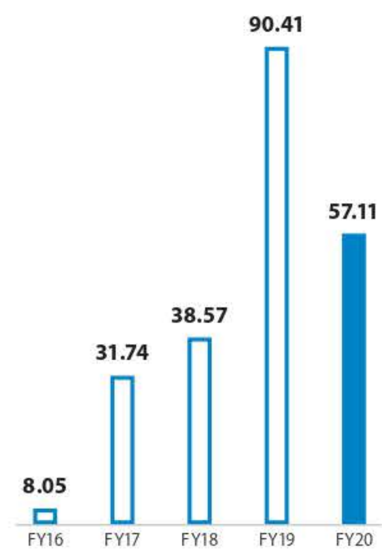
RETURN ON AVERAGE NET WORTH

(%)



BASIC EARNINGS PER SHARE

(₹/share)



NET DEBT/EQUITY

(Times)