



August 3, 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 Sirs/Madam,

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	Long- term issuer credit rating	'BB-' Outlook: Stable	'BB' Outlook: Stable
ABJA Investment Co. Pte. Ltd.		Long-term foreign currency issuer credit rating	'BB-' Outlook: Stable	'BB' Outlook: Stable

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

This is for your information and records.

Yours faithfully,
Tata Steel Limited

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

Encl: As Above

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

TATA STEEL LIMITED

Registered Office Bombay House 24 Homi Mody Street Fort Mumbai 400 001 India
Tel 91 22 6665 8282 Fax 91 22 6665 7724 Website www.tatasteel.com
Corporate Identity Number L27100MH1907PLC000260

Research Update:

Tata Steel Ratings Raised To 'BB' On Significant Expected Deleveraging; Outlook Stable

August 3, 2021

Rating Action Overview

- We expect Tata Steel Ltd.'s debt levels to decline materially over the next two years on the company's commitment to deleverage, supported by strong operating cash flows.
- Continued strength in steel prices has accelerated the company's deleveraging; in our base case, we expect Tata Steel's adjusted debt to decline by more than 30% by March 2023 from its March 2021 level.
- On Aug. 3, 2021, S&P Global Ratings raised its long-term issuer credit rating on Tata Steel and its subsidiary ABJA Investment Co. Pte. Ltd. to 'BB' from 'BB-'. We also raised the long-term issue rating on the senior unsecured notes issued by ABJA to 'BB' from 'BB-'.
- The stable outlook reflects our view that Tata Steel can adequately deleverage to reduce volatility in credit metrics during industry downturns. The stable outlook also reflects continued favorable financial policies, especially toward leverage.

PRIMARY CREDIT ANALYST

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Rating Action Rationale

Management's commitment to deleverage, supported by above-average strength in steel prices, helps Tata Steel to accelerate debt reduction. We estimate Tata Steel's adjusted debt (including customer advances and securitized receivables, among other standard S&P Global Ratings adjustments) will fall to about Indian rupees (INR) 600 billion (about US\$8 billion) by fiscal year ending March 2023 in our base case, from about INR915 billion as of March 2021. This would significantly outperform the company's stated intention to reduce debt by at least US\$1 billion per year, and continue the trend of declining debt from March 2020, when the company reported INR1.1 trillion in debt. While the company has resumed some growth in capital expenditure (capex), the increase in capex is still small in relation to the operating cash flows and does not affect the path of deleveraging. We expect capex of about INR110 billion annually, up from about INR70 billion in fiscal 2021. In our base case, we forecast the company's EBITDA and free operating cash flow of about INR1 trillion and INR350 billion–INR400 billion, respectively, over fiscals 2022 and 2023. This is despite our assumption of a 10% decline in steel prices in fiscal

2023 from the current level.

Deleveraging should improve resilience of Tata Steel's credit metrics through the steel price cycle. We expect the company's ratio of funds from operations (FFO) to debt to remain above 25% even at mid-cycle prices, a level at which we estimate the company's EBITDA per metric ton to be about half the current level. Furthermore, we estimate Tata Steel's FFO-to-debt ratio at about 15% at the bottom of the steel cycle, well above the 6% the company reported in fiscal 2020. The improved resilience of the company has reduced downside rating risk, in our view.

We also believe the commissioning of the ongoing 5 million tons per year capacity expansion at the Kalinganagar facility will significantly strengthen the company's credit profile over the next three to four years. This is especially so since the facility will be added without material debt and will improve Tata Steel's profitability with accompanying cold-rolled mill and pellet plant facilities also being set up. In addition, we expect the company's European operations to be EBITDA positive in the forecast period, although its contribution to the group's overall earnings will be small.

Outlook

The stable outlook reflects our expectation that Tata Steel will continue deleveraging to improve its resilience to downturns. At current steel prices and expected debt levels, the company's FFO-to-debt ratio will likely exceed 45% over the next two years. The outlook is based on our expectation the company's FFO-to-debt ratio would remain well above 25% even if steel prices decline to mid-cycle levels.

Downside scenario

We could downgrade our rating if the company's earnings dropped unexpectedly or debt increased such that its FFO-to-debt ratio falls below 25% on a sustainable basis.

Upside scenario

We could raise the rating if Tata Steel deleverages beyond our current expectations, such that we view the company's ratio of FFO to debt as likely to remain above 35% on a sustained basis. Factors contributing to this scenario include steel prices remaining stronger for longer than we now envisage. At current steel prices and our expected debt levels, the company's FFO-to-debt ratio will likely be well above this threshold over the next two years. However, its ability to maintain the ratio above 35% at mid-cycle prices is less likely. A track record of a more prudent financial policy that results in lower levels of leverage through the cycle will also be supportive of a higher rating.

Company Description

Tata Steel is among the larger steel producers globally, with an annual crude steel capacity of close to 30 million tons--about 18 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, similar to fiscal 2021 levels.
- Average net sales realization in rupee terms that are about 40% higher in fiscal 2022 before declining about 10% in fiscal 2023.
- Capex of INR110 billion per year in fiscals 2022 and 2023 as some growth capex returns.
- Shareholder distributions totaling about INR60 billion over the next two years.

Key metrics

- Average EBITDA/ton for the Indian operations of about INR30,000/ton in fiscal 2022 and INR22,000-INR25,000/ton in fiscal 2023.
- Consolidated EBITDA margin of 25%-30% in fiscal 2022, declining to 20%-25% in fiscal 2023, compared with 18% in fiscal 2021.
- FFO-to-debt ratio of 45%-50% over fiscals 2022 and 2023.
- Positive free operating cash flow of INR350 billion–INR400 billion over fiscals 2022 and 2023, reducing adjusted debt to INR600 billion–INR650 billion by March 2023.

Liquidity

We assess Tata Steel's liquidity as adequate. On a consolidated basis, we estimate the company's liquidity sources to be above 1.2x its liquidity uses over fiscal 2022. Tata Steel has good on-balance-sheet liquidity and no large near-term debt maturities.

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

Our estimates of Tata Steel's liquidity sources and uses for fiscal 2022 are as follows.

Key liquidity sources include:

- Cash and cash equivalents of INR130 billion as of March 31, 2021.
- FFO that we estimate at about INR380 billion.

Key liquidity uses include:

- Debt maturities of about INR150 billion over the 12 months to March 2022.
- Capex of INR100 billion during that period.
- Working capital outflow of about INR75 billion.
- Dividend payments of about INR30 billion.

Covenants

Tata Steel remained in compliance with its covenants as of March 31, 2021.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2021, Tata Steel reported about INR800 billion of debt, of which about INR320 billion was secured. Of the total debt, about INR273 billion was at the Tata Steel stand-alone level, about INR200 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: Significant

- Cash flow/Leverage: Significant

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)

Research Update: Tata Steel Ratings Raised To 'BB' On Significant Expected Deleveraging; Outlook Stable

Stand-alone credit profile: bb

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Ratings List

Upgraded

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

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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