TRF Limited

January 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	72.00 (Reduced from 224.00)	CARE A- (RWP)	Continues to be on Rating Watch with Positive Implications
Long-term / Short-term bank facilities	135.00 (Reduced from 377.10)	CARE A- (RWP) / CARE A2+ (RWP)	Continues to be on Rating Watch with Positive Implications
Short-term bank facilities	10.00	CARE A2+ (RWP)	Continues to be on Rating Watch with Positive Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has continued the ratings of TRF Limited (TRF or the Company) on 'Rating watch with Positive implications' (RWP). The RWP was assigned on account of the announcement of scheme of amalgamation with Tata Steel Limited (TSL). The merger scheme was expected to be completed in around a year's time. However, some delays in the process of the merger completion process have been observed and we continue to monitor the update on the same. Upon the effectiveness of the scheme, the shareholding of TRF Limited will be extinguished and the other shareholders of TRF Limited will receive shares of TSL based on the approved swap ratio for their holding in the company and TRF Limited will cease to exist.

The scheme of amalgamation is expected to bring operational synergies with centralized sourcing which would result in procurement synergies and reduction in store through common inventory management system. This would also bring simplified structure in the group and management efficiency which will result in simplification, scale, sustainability, and speed. Additionally, it would reduce the administrative costs of maintaining separate entities.

The ratings positively factor the improvement in the business and financial risk profile over the last two fiscals (FY22 and FY23) (FY refers to the period April 01 to March 31) with repayment of external debt, improvement in working capital cycle and near closure of loss-making projects. Post continued losses at profit before interest, lease rentals, depreciation and tax (PBILDT) and profit after tax (PAT) levels, the company has earned positive cash flow from operating activity in FY23. The trend has continued in H1FY24, with the company earning PBILDT margin of around 25.49% in H1FY24 and 33.02% in FY23.

Completion of past legacy projects has resulted in the write-back of the provisions and resulted in income of ₹40 crore for the company during FY23. The top-line is however expected to be curtailed going ahead owing to lack of new external client orders being taken by the company. With TSL having the plans to increase the capacity, we expect TRF to get good order inflows from TSL.

During FY23, the company repaid all its external borrowings including long-term debt of ₹57 crore and working capital borrowings of ₹107 crore during FY23. Additionally, the ICD of ₹100 crore have also been repaid. These repayments have been done basis proceeds from the NCRPS and OCRPS (received from Tata Steel) aggregating to total ₹264 crore.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

This has resulted in significant improvement in financial risk profile. Cash & liquid investments have come up from ₹20-30 crore few fiscals back to ₹83.4 crore as on March 31, 2023 and to ₹125 crore as on September 30, 2023.

The ratings are however constrained due to weak networth from historically continued losses. Though we expect the networth to gradually improve with the accumulation of profits going ahead. However, given the high accumulated losses of ₹589.6 crore till FY23, it may take years until these accumulated losses are completely reversed. Additionally, the profitability of the company is exposed to fluctuations in commodity prices of steel and also intense competition in the industry if the company pursues new external orders.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Factors likely to result in positive rating action

- Sustained improvement in operating profitability leading to positive cash flow from operations.
- Improvement in orderbook position of the company from TSL and other clients as well.

Negative factors- Factors likely to result in negative rating action

- Weakening of linkages with Tata Steel.
- Decline in annual sales to less than ₹120 crore for FY24.
- Any deterioration in the financial performance of the company resulting in net losses.
- Significant stretch in working capital cycle.
- Any un-envisaged incremental debt funded capital expenditure.

Analytical approach:

Consolidated approach is adopted considering the operational and financial linkages of TRF with its subsidiaries. Furthermore, rating also factors in the past and expected support from its major shareholder- TSL. List of subsidiaries has been mentioned in the Annexure-6.

Outlook: Not Applicable

Detailed description of the key rating drivers:

Key strengths

Operational and financial linkages with TATA Steel Limited

TRF belongs to the TATA group, with TATA Steel Limited (TSL, rated CARE AA+; Stable) holding 34.11% stake as on March 31, 2023. TRF Limited is engaged in material handling and plays a pivotal role in fulfilling orders from TSL. Given that the location of TRF plant is in close proximity to the Tata Steel plant and the raw material (steel) is also procured from TSL, TRF has a strong competitive advantage in better serving TSL as compared to other external vendors (if any). TSL has demonstrated support to TRF by subscribing to 12.5% Non-Convertible Redeemable Preference Shares (NCRPS) of ₹250 crore in FY19 and further ₹239 crore of 12.17% NCRPS in FY23. Currently, most of the new orders are from TSL. Historically as well, TSL has supported TRF by infusing funds in the form of ICDs, preference shares and unsecured loans in case of any liquidity mismatch.

Long track record of operation

TRF was incorporated in 1962 as Tata-Robins-Fraser Ltd. Over the past six decades, the company has expanded its material handling equipment portfolio with the introduction of new variants. The company has also expanded its presence in the international market. The company has developed an established name in the material handling equipment and processing systems required in the infrastructure development industries such as power, steel, cement, ports, and mining industries. The company has undertaken work orders from major PSUs like BHEL, SAIL and NPGC over the years.

Positive profitability with some curtailment in revenues expected going ahead

The total operating income of the company increased by 39.3% Y-o-Y to ₹177.10 crore in FY23 (PY: ₹127.14 crore) driven by increase in services related to design and engineering, supervision. During FY23, 1,244 metric tonne of finished goods were manufactured for TSL including EOT crane which was manufactured for the first time. The company has been well managing the fixed overheads by sharing of some of the resources with Tata Steel. The company successfully completed performance guarantee test at Nabinagar, Vizag steel plant, BHEL- Meja and DVC, Raghunathpur. Completion of such legacy projects has resulted in the write-back of the provisions and resulted in income of ₹40 crore for the company during FY23. The topline is expected to be curtailed going ahead owing to lack of new external client orders being taken by the company. The PBILDT and PAT margin has first time been positive in the past five fiscals, with PBILDT reaching 33.02% in FY23. PAT margin was 49.4% in FY23 and 28.36% in H1FY24. Furthermore, the profitability margins also will be rationalized as they were exceptionally high in FY23 resulting from liability reversals.

Moderate financial risk profile supported by reduction in external borrowings

During FY23, the company has repaid all its external borrowings including long-term debt of ₹57 crore and working capital borrowings of ₹107 crore during FY23. Additionally, the ICD of ₹100 crore also been repaid. These repayments have been done basis proceeds from the NCRPS and OCRPS aggregating to total ₹264 crore. This has resulted in improvement in financial risk profile. The newly issued NCRPS (during FY23) of ₹239 crore has maturity period in FY2038. However, given the option of early redemption, NCRPS in its entirety has been considered as debt for analysis, thus resulting in negative overall gearing. We expect the net worth to improve gradually with the accumulation of profits going ahead. However, given the high accumulated losses of ₹589.6 crore till FY23, it may take years until these accumulated losses are completely reversed.

Key weaknesses

Working capital intensive operations

TRF's business, being execution of engineering, procurement and construction (EPC) contracts and providing customized equipment is working capital intensive on account of high collection period due to disbursement of payment by the client on achievement of certain milestone and blockage in the form of retention money, which gets released after the successful completion of performance guarantee test period. Furthermore, the operations are also characterized by high collection period owing to milestone payment mechanism. Collection of old debtors remains challenging due to underlying contractual issues. However, part of the amount has been collected from these old debtors during FY23. The inventory cycle reduced to 50 days in FY23 as against 120 days in FY21, due to liquidation of non-usable inventory. Additionally, sizeable bank guarantees are outstanding (~₹61 crores) which carries risk of future encashment, though the company has reduced outstanding BGs by 36% in FY23 due to closure of old projects. Given the ongoing integration with Tata Steel, the working capital requirement has been significantly lowered.

Profitability susceptible to volatility in input prices

Steel is the major cost component, followed by forgings, tubes, bearings, electrical & bought out components and the prices of the same are volatile in nature. Orders in projects division are more vulnerable to volatility in raw material price due to long gestation period of its nature. Though some orders have price escalation clause, the degree of passing the input cost to customers is limited with presence of many other clauses. Furthermore, orders in project division with short-term cycle and product division are executed mainly on fixed-price basis.

Intense competition in the industry

TRF faces intense competition in the material handing industry as both domestic players (like Elecon Engineering Co Ltd, L&T) and international players (like ThyssenKrupp) have increased presence in the past few years. As most of the TRF's orders are tender driven in nature, it restricts the profitability of the company with new and existing players bidding aggressively to gain market share. Therefore, TRF forecasts on providing its services only to TSL in the coming years. The company's prospect is largely contingent upon its ability to scale up operation and turnaround the operating performance, timely execution of the projects within the estimated cost structure and efficient management of working capital. Ability of the company to reduce the debtors and retention money position would also remain crucial from liquidity point of view.

Liquidity: Adequate

Liquidity position of the company is adequate with a cash and liquid investments of ₹125.02 crore as on September 30, 2023. The liquidity position has significantly improved for the company over the last two fiscals. The utilization for fund-based limits and current investments in the mutual funds has been done. Additionally, the company has also reduced the debtors and the old debtors (from legacy projects excluding Tata Steel) outstanding stands at around ₹ 40 crore. Additionally, the company draws comfort from the flexibility of the significant shareholder- Tata Steel wherein the treasury department of both the companies are undergoing merger which will further extend the cushion for the TRF.

Assumptions/Covenants

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial products	Other industrial products

TRF is engaged in manufacturing material handling equipment and delivering processing system required in the infrastructure sector. The company operates through two divisions, project division and product division. The project division is engaged in design, manufacture, supply, installation, and commissioning of customized material handling system for infrastructure development industries such as power, steel, cement, ports, mining, etc. The product division is engaged in manufacturing of bulk material handling equipment with its manufacturing facility being located at Jamshedpur. Major equipment includes crushers, screens, feeders, conveying equipment, mining equipment, wagon tippler systems and stacker reclaimers.

Brief Financials (₹ crore)	FY2022 (A)	FY2023 (A)	H1FY2024 (UA)
Total operating income	127.14	177.10	73.18
PBILDT	-3.87	58.48	18.65
PAT	-16.09	87.52	24.48
Overall gearing (times)	-1.00	-1.25	-
Interest coverage (times)	-0.13	2.36	2.98

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
Note: Financials have been prepared as per CARE Standards. Further, NCRPS in its entirety has been considered as debt in our analysis.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	72.00	CARE A- (RWP)
Non-fund-based - LT/ ST-BG/LC		-	-	-	135.00	CARE A- / CARE A2+ (RWP)
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A2+ (RWP)

Note: Withdrawal for Axis and Canara bank facility has been basis No due certificate. Additionally, some limits have been reduced basis the revision in the sanction limits by the bank.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash credit	LT	72.00	CARE A- (RWP)	-	1)CARE A- (RWP) (27-Dec-22) 2)CARE A- (CW with Positive Implications) (04-Oct-22) 3)CARE BBB+; Stable (05-Aug-22)	1)CARE BBB+; Negative (07-Jul-21)	1)CARE BBB+; Negative (07-Jul-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	135.00	CARE A- / CARE A2+ (RWP)	-	1)CARE A- / CARE A2+ (RWP) (27-Dec-22) 2)CARE A- / CARE A2+ (CW with Positive Implications) (04-Oct-22) 3)CARE BBB+; Stable / CARE A2 (05-Aug-22)	1)CARE BBB+; Negative / CARE A2 (07-Jul-21)	1)CARE BBB+; Negative / CARE A2 (07-Jul-20)
3	Term toan-Long term	LT	-	-	-	-	1)Withdrawn (07-Jul-21)	1)CARE BBB+; Negative (07-Jul-20)
4	Non-fund-based - ST-BG/LC	ST	10.00	CARE A2+ (RWP)	-	1)CARE A2+ (RWP)	1)CARE A2 (07-Jul-21)	1)CARE A2

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
						(27-Dec-22) 2)CARE A2+ (CW with Positive Implications) (04-Oct-22) 3)CARE A2 (05-Aug-22)		(07-Jul-20)
5	Term loan-Long term	LT	-	-	-	1)Withdrawn (05-Aug-22)	1)CARE BBB+; Negative (07-Jul-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not applicable.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-6: List of subsidiaries

Name	Place of incorporation	% of shareholding (as on Sep 30, 2023)
TRF Singapore Pte Limited	Singapore	100
TRF Holding Pte Limited	Singapore	100
Dutch Lanka Trailer Manufacturers Limited*	Sri Lanka	100
Dutch Lanka Engineering Pvt Ltd*	Sri Lanka	100

*Held for sale and classified as discontinued operations in FY23. Of the 2 companies, Dutch Lanka Trailer has completed divestment on December 11, 2023 at consideration of ~Rs.19 crores held under TRF Singapore Pte Limited.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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