

TRF Limited (Revised)

Feb 15, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	72.00	CARE A-; Stable	Reaffirmed and removed from Rating Watch with Positive Implications; Stable outlook assigned
Long Term / Short Term Bank Facilities	135.00	CARE A-; Stable / CARE A2+	Reaffirmed and removed from Rating Watch with Positive Implications; Stable outlook assigned
Short Term Bank Facilities	10.00	CARE A2+	Reaffirmed and removed from Rating Watch with Positive Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

On February 06, 2024, the Board of Directors of TRF Limited (TRF or the Company) has decided not to proceed with the proposed Scheme of Amalgamation of TRF into and with Tata Steel Limited (TSL). Subsequently the Board of TRF has also approved the withdrawal of the proposed Scheme. In concurrence with the same, the Board of Directors of TSL has also decided to withdraw the proposed Scheme of Amalgamation, that was announced earlier on September 22, 2022. Taking cognizance of the same, CARE Ratings Limited (CARE Ratings) has removed the 'Rating watch with Positive implications' (RWP) assigned earlier to the bank facilities of TRF and has reaffirmed the rating with assignment of 'Stable' outlook.

The reaffirmation of ratings continues to 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 9MFY24, with the company earning PBILDT margins of around 29.78% in 9MFY24 and 33.02% in FY23.

Completion of past legacy projects has resulted in the write-back of provisions amounting to ₹40 crore during FY23. The sales is however, expected to be curtailed going ahead owing to lack of external client orders (apart from TSL), though CARE Ratings expect, TSL's planned capex activity would result into future order inflows for TRF.

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 crores has also been repaid. These repayments have been done basis proceeds from the NCRPS (Non-convertible redeemable preference shares) and OCRPS (optionally convertible redeemable preference shares) received from TSL aggregating to ₹264 crores. This has resulted in significant improvement in the financial risk profile. Cash & liquid investments have come up from ₹20-30 crore to ₹83.4 crores as on March 31, 2023 and to ₹125 crores as on September 30, 2023. The rating further takes into account the financial support extended by TSL and the placement of orders by TSL. According to the discussion with the management, CARE Rating understands that there has been no change in stance from TSL in terms of operational and financial support being extended to TRF.

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

The ratings are, however, constrained due to weak network from historically continued losses. Though we expect the network to gradually improve with the accumulation of profits going ahead. Additionally, the profitability of the company is exposed to fluctuations in commodity prices of steel and intense competition within the industry, given 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.
- Deterioration in the liquidity profile and capital structure of the company with increased reliance on external debt.

Analytical approach:

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

Outlook: Stable

Stable outlook reflects the entity will continue to derive orders from Tata Steel, resulting in positive cash generation. The revenues are expected to decline from the current levels in absence of any new major external orders. However, the entity is likely to sustain its comfortable financial risk profile with negligible external debt (excluding the NCRPS and OCRPS from TSL) and strong cash & liquid investments.

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 33.29% in 9MFY24. Furthermore, the profitability margins also will be rationalized going ahead 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 handling 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 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](#)

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 Consolidated Financials (₹ crore)	FY2022 (A)	FY2023 (A)	9MFY2024 (UA)
Total operating income	127.14	177.10	101.95
PBILDT	-3.87	58.48	30.36
PAT	-16.09	87.52	33.29
Overall gearing (times)	-1.00	-1.25	-
Interest coverage (times)	-0.13	2.36	3.24

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-; Stable
Non-fund-based - LT/ST-BG/LC		-	-	-	135.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A2+

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-; Stable	1)CARE A- (RWP) (03-Jan-24)	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-; Stable / CARE A2+	1)CARE A- / CARE A2+ (RWP) (03-Jan-24)	1)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 Loan-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+	1)CARE A2+ (RWP) (03-Jan-24)	1)CARE A2+ (RWP) (27-Dec-22) 2)CARE A2+ (CW with Positive Implications) (04-Oct-22) 3)CARE A2 (05-Aug-22)	1)CARE A2 (07-Jul-21)	1)CARE A2 (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](#)

Annexure-6: List of all the entities consolidated

Sr No.	Name of the entity	Extent of consolidation	Rationale for consolidation
1	TRF Singapore Pte Limited	Full	Subsidiaries, with significant operational and management linkages.
2	TRF Holding Pte Limited	Full	
3	Dutch Lanka Trailer Manufacturers Limited*	Full	
4	Dutch Lanka Engineering Pvt Ltd*	Full	

* Divestment on December 11, 2023 at consideration of ~Rs.19 crores held under TRF Singapore Pte Limited.

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.

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About us:

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