TRF Limited

October 17, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	294.16 (enhanced from 256.02)	**CARE BBB+; Negative (Triple B Plus; Outlook: Negative)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	708.00 (reduced from 1,253.00)	**CARE BBB+; Negative/ CARE A2 (Triple B Plus; Outlook: Negative/ A Two)**	**Reaffirmed**
Short-term Bank Facilities	70.00	**CARE A2 (A Two)**	**Revised from CARE BBB+; Negative/ CARE A2 (Triple B Plus; Outlook: Negative/ A Two)***
Total Bank Facilities	**1,072.16 (Rupees One Thousand Seventy Two Crore and Sixteen lakh Only)**		

Details of instruments/facilities in Annexure-1
**Reclassified from Long/short term facility to Short term facility*

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of TRF Limited (TRF) continues to draw strength from the strong parentage of Tata group and demonstrated financial, management and operational support from parent company, Tata Steel Limited (TSL), long track record of operations of TRF and moderate order book position with reputed client profile. The ratings also factor in the gradual reduction in external debt through funds realised by sale of subsidiaries and infusion of Rs.250 crore by TSL in FY19 (refers to the period April 1 to March 31). Receipt of continued support from parent group shall be a key rating monitorable.

The above rating strengths are partially offset by the continued weak financial performance in FY19 and Q1FY20 leading to weak debt coverage indicators, though operating profitability witnessed improvement in Q1FY20, weak capital structure and negative networth of TRF, susceptibility of profitability to volatile input prices and elongated operating cycle on account of working capital intensive nature of operations.

The ability of the company to successfully execute existing orders and continue to secure further orders including orders from TSL, complete legacy contracts within estimated costs and timelines, improve profitability and realise the retention money due timely shall be the key rating sensitivities.

Outlook: Negative

The outlook on the long-term rating is negative on the expectation of continued weak coverage indicators and dependence on support to meet debt obligations along with negative networth which restricts the ability of TRF to bid for large orders. The outlook may be revised to 'Stable' if there is sustained improvement in operational performance resulting in improvement in debt coverage indicators and networth position.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of Tata Group and demonstrated support from TSL

TRF belongs to the Tata group, with TSL being the largest equity stakeholder (holds 34.11% stake) as on June 30, 2019. TSL has demonstrated financial support to TRF by subscribing to 12.5% Non-Convertible Redeemable Preference Shares of Rs.250 crore in FY19 and operational support by awarding work orders of Rs.155 crore in FY19 and Rs.174 crore in FY20.

Further, TRF enjoys management support from the group with the senior management of TRF having long association with TSL or other companies in the group.

Long track record of operation

TRF was incorporated in 1962 as Tata-Robins-Fraser Ltd. Over the past five 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. With a successful track record of operation, 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.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Moderate order book position

TRF's order book outstanding (apart from slow moving legacy projects) as on July 31, 2019 was 360 crore (Rs.312 crore as on December 2018) which comprises project orders and the orders for products, spares and services. Orders from TSL stood at Rs.262 crore as on the same date. Legacy orders which are slow moving for various reasons stood at Rs.133 crore.

TRF expects to continue receiving additional orders from TSL going forward.

Reduction in external debt through sale of subsidiaries and infusion by TSL

TRF has been gradually reducing its external borrowings and the same reduced from Rs.561 crore as on March 31, 2017 to Rs.399 crore as on March 31, 2018 and Rs.207 crore on March 31, 2019. TRF had sold its stake in Adithya Automotive Applications Private Limited for a consideration of Rs.30.6 crore in FY18. In FY19 it sold its entire stake in York Transport Equipment (Asia) Pte Limited for Rs.290 crore (USD 40 mn). Further, in September 2019 it sold stake in Hewitt Robins International Holdings Limited (HRIHL) for a consideration of about Rs.32 crore.

A part of the debt in FY19 was replaced by Rs.250 crore infused as redeemable preference shares by TSL. The Bank guarantee (BG) exposure also reduced from Rs.534 crore as on March 31, 2018 to Rs.327 crore as on March 31, 2019 as the company was able to get its performance BGs released.

Key Rating Weaknesses

Continued weak financial performance

The consolidated operating income of TRF declined by about 17% y-o-y in FY19 mainly due to lower execution in the loss-making project division. The company continued to report operational loss in FY19 with under-recovery of fixed overheads and losses incurred in legacy projects. However, the operational loss narrowed significantly from around Rs.132 crore in FY18 to Rs.50 crore in FY19. The reduction in overall operational loss was attributable to reduction of loss from project division, which reduced from segmental loss of Rs.153 crore in FY18 to Rs.79 crore in FY19 along with higher operational margin from product division. Interest coverage remained negative in FY19 due to operational loss.

In FY19, the company also provided for doubtful receivables and advances of Rs.56.68 crore (Rs.68 crore in FY18). The loss from continuing operations remained high at Rs.104.17 crore in FY19 (Rs.166.95 crore in FY18). However, overall loss (including profit from subsidiary which was sold) was Rs.34.86 crore as against loss of Rs.134.11 crore in FY18.

The company continued to incur cash losses and met its debt repayment obligations through the sale proceeds of subsidiary and funds infused by TSL.

The operational performance improved in Q1FY20 and the company achieved PBILDT of Rs.3.82 crore as against operational loss of Rs.28.39 crore in Q4FY19 and Rs.25.14 crore in Q1FY19. The improvement in PBILDT was a result of reduction in operations of project division and other management centric efforts to curtail operational costs.

TRF booked exceptional income of Rs.16.68 crore in Q1FY20 which represents the reversal of goodwill impairment of Dutch Lanka Trailer Manufacturers Limited (DLT), Dutch Lanka Engineering Private Limited (DLE) and Tata International DLT Private Limited (TIDLT). In May, 2019, TRF had announced agreement for sale of such subsidiaries. However, the said deal was terminated in September 2019. The results of such subsidiaries were reported under discontinued operations (profit of Rs.1.20 crore in Q1FY20). Excluding the impact of reversal of goodwill impairment, consolidated loss before tax and discontinued operations was Rs.4.09 crore.

Elongated working capital cycle

The current ratio continued to remain below unity (0.70x) as on March 31, 2019 mainly due to high working capital borrowings and stretched creditors. The working capital cycle improved from 274 days in FY18 to 209 days in FY19 with reduction in collection period and inventory days along with stretching of creditors. Receivables days improved from 383 days in FY18 to 354 days in FY19 and inventory days improved from 116 days in FY18 to 94 days in FY19. However, both parameters continued to remain elongated. Average collection period is high on account of large amount of retention money and delay in realisation of receivables due to long certification process. Inventory period is high due to accumulation of inventory at various stages of the contract.

Weak capital structure with negative networth position

TRF's networth (consolidated) got completely eroded due to substantial losses reported in the last few years. The networth remained negative at Rs.302.69 crore as on March 31, 2019. However, with infusion of funds from TSL and receipt of proceeds from stake sale in subsidiary, the total outside debt reduced.

The debt coverage indicators continued to be vulnerable as on March 31, 2019.

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. Further, orders in project division with short-term cycle and product division are executed mainly on fixed price basis.

Competitive industry scenario
TRF faces competition in the material handing industry as both domestic and international players have increased presence in the past few years. Most of the orders are tender driven and restrict the profitability with new and existing players bidding aggressively to gain market share.
TRF, though a relatively smaller player in the industry, has a long track record and technical collaborations with international players. The company's prospect are dependent 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. Further, TRF is well positioned to benefit from its logistic proximity to TSL plants and its expertise in supplying customized products to TSL.

Liquidity: Adequate
TRF has adequate liquidity for meeting its debt repayment obligations with opening free cash and liquid investment of Rs.30.42 crore as on April 1, 2019, sale proceeds of subsidiary HRIHL (Rs.32 crore) received in September 2019 and long term working capital loan of Rs.60 crore raised in Q1FY20. It has total repayment obligation of Rs.44.41 crore in FY20. The company does not have any major capex plan in the near-term. Further, its bank limits were utilized on an average to the extent of around 65% for the 12 months ending July 2019 with cushion of about Rs.54 crore.

Analytical Approach: Consolidated considering the operational and financial linkages with subsidiaries. Further, rating also factors in the past and expected support from its parent TSL. CARE has taken a consolidated view of the following entities owned by TRF.

Name	Place of incorporation	% of shareholding (FY19)
TRF Singapore Pte Limited	Singapore	100
TRF Holding Pte Limited	Singapore	100
Rednet Pte Limited	Singapore	100
Dutch Lanka Trailer Manufacturers Limited	Sri Lanka	100
Dutch Lanka Engineering (Pvt) Ltd	Sri Lanka	100
Dutch Lanka Trailers LLC	Sri Lanka	70
Tata International DLT Pvt Ltd	India	50
Hewitt Robins International Limited^	United Kingdom	100
Hewitt Robins International Holding Limited^		100

^Divested in September 2019

Applicable Criteria:
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company
TRF is engaged in manufacturing material handling equipment and delivering processing systems required in the infrastructure sector. The company operates through two divisions, namely product division and project division. Product division is engaged in manufacturing of bulk material handling equipment with its manufacturing facility being located at Jamshedpur. Major equipment include crushers, screens, feeders, conveying equipment, mining equipment, wagon tippler systems and stacker reclaimers. 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.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	450.80	373.61
PBILDT	-131.89	-50.43
PAT – Continuing Operations	-166.95	-104.17
PAT – After Dis-continuing Operations	-134.11	-34.86
Overall gearing (times)	NM	NM
Interest coverage (times)	-2.69	-0.80

A: Audited, NM: Not Meaningful

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	217.00	CARE BBB+; Negative
Non-fund-based - LT/ ST-BG/LC	-	-	-	708.00	CARE BBB+; Negative / CARE A2
Term Loan-Long Term	-	-	May 2021	77.16	CARE BBB+; Negative
Non-fund-based - ST-Letter of credit	-	-	-	70.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Short Term Instruments-CP/STD	ST	-	-	-	-	1)Withdrawn (06-Oct-17)	1)CARE A2 (16-Dec-16)
2.	Fund-based - LT-Cash Credit	LT	217.00	CARE BBB+; Negative	-	1)CARE BBB+; Negative (08-Jan-19) 2)CARE BBB+; Negative (24-Apr-18)	1)CARE BBB+; Negative (06-Oct-17)	1)CARE BBB+; Negative (16-Dec-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	708.00	CARE BBB+; Negative / CARE A2	-	1)CARE BBB+; Negative / CARE A2 (08-Jan-19) 2)CARE BBB+; Negative / CARE A2 (24-Apr-18)	1)CARE BBB+; Negative / CARE A2 (06-Oct-17)	1)CARE BBB+; Negative / CARE A2 (16-Dec-16)
4.	Term Loan-Long Term	LT	77.16	CARE BBB+; Negative	-	1)CARE BBB+; Negative (08-Jan-19)	1)CARE BBB+; Negative (06-Oct-17)	1)CARE BBB+; Negative (16-Dec-16)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
						2)CARE BBB+; Negative (24-Apr-18)		
5.	Non-fund-based - ST-Letter of credit	ST	70.00	CARE A2	-	-	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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