



**“TRF Limited Q2 FY2017 Results
Conference Call”**

November 10, 2016



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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2017 results call of TRF limited hosted by Emkay Global Financial Services. We have with us today, Mr. P. S. Reddy - Managing Director, Mr. P. K. Tibdewal – COO, BMHB, Mr. Sandeep Tanwar - VP-Projects, Mr. Subhasish Dutta – CFO, Mr. Chandan Dutta – Deputy Chief Finance & Accounts, Mr. Rajen Sahay - Head Corporate Communication, Mr. Anirudh Iyer - EO to MD and Mr. Tarun Kr Srivastava - Company Secretary. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today’s presentation. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. John Perinchery, Research Analyst of Emkay Global. Thank you and over to you Sir!

John Perinchery: Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to the management for the opening remarks. Over to you gentlemen!

P.S. Reddy: Thank you Mr. John Perinchery. Good evening to all of you. Just want to say in my opening remarks that we would like to summarise the performance of the company for the quarter ending September 30, 2016 and also the H1 results. The results have been declared last week.

As you may have noted the income from operations on standalone basis for Q2 2016-2017 is Rs.105.81 Crores when compared to on an Rs.124.60 Crores in Q2 2015-2016 and whereas for H1 2016-2017 the income is Rs.228.17 Crores compared to Rs.202.07 Crores in H1 2015-2016.

In terms of net loss on the standalone basis is about Rs.12.61 Crores compared to a profit of Rs.5.17 Crores in Q2 2015-2016. In terms of H1 2016-2017 performance the net loss after tax is Rs.6.99 Crores compared to a loss of Rs.15.45 Crores in H1 2015-2016.

On consolidated basis for the quarter ending September 2016 the income is Rs.212.18 Crores as against Rs.239.47 Crores in Q2 of last financial year. For H1 2016-2017 the income from operations is Rs.466.09 Crores compared to Rs.409.62 Crores in H1 of last year. On consolidated basis for the Q2 2016-2017 the net loss is Rs.16.06 Crores compared to a profit of this Rs.5.91 Crores in Q2 of last year.

In terms of H1 2016-2017 the net loss after tax on consolidated basis is Rs.7.47 Crores compared to a loss of Rs.17.97 Crores in H1 of last year, so the turnover during Q2 has been lower largely because of a decision taken by us to supply materials to only those projects where the site is ready for taking the materials and also where we are able to realize our dues from the customer.

This action is actually helped the company to reduce working capital, for example, during the half year we have been able to reduce trade receivables by Rs.86 Crores from about Rs.542 Crores as of March 31, 2016 to about Rs.456 Crores as of September 30, 2016, so this helped us



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to repay term loans by about Rs.30 Crores apart from reducing trade payables by about Rs.54 Crores.

There has been a cost increase on some of our projects, this is largely due to the projects, which are in an advance stage of completion and we are trying to close these projects and press for collecting retention amount in H2. In terms of market conditions I think we are facing very, very challenging market conditions and the situation remains grim and therefore our order book is affected. This is despite submitting offers worth nearly Rs.1800 Crores, the finalization of these offers into orders is taking longer time than what is normally taken and as of October 1, 2016 our order book is about Rs.895 Crores of which Rs.520 Crores project orders and the balance comprises product space and services.

In terms of subsidiary performance all the subsidiaries have made profit in H1 2016-2017 despite challenging global economic conditions, but for the slowdown in commercial vehicle sector in India, which has impacted the performance of subsidiaries in Q2 situation would have been better and this time we have given in terms of the update of all the subsidiaries in terms of their topline as well as the profit and you are required to note that these results are as per Ind-AS, so as per Ind-AS the turnover of joint ventures like Aditya Automotives and also Tata DLT is not considered in the consolidated financial results.

In terms of BIFR application status as I mentioned in our last conference call we have submitted the rehabilitation scheme to the Bank of Baroda, which has been appointed as the operating agency by the Board for Industrial and Financial Reconstruction and they are reviewing it and they should be forwarding our application also.

In terms way forward our focus would be closing those projects, which are in a very advanced stage of completion, collect the retention amount, improve share of revenue from our product and spares business, restructure and strengthen the organization including subsidiary. With these opening remarks I once again thank all of you for joining on the call and now the call is open for questions. Thank you. Sorry before the question commences this is P.S. Reddy here, I just wanted to bring in a clarification. Our Head Corporate Communication is Mr. Rajen Sahay, who is on the call. I think his name is spelt out as Rajendra Sahay. Thank you.

Moderator: Thank you. We will take a first question from the line of Nirav Vasa from B&K Securities. Please go ahead.

Nirav Vasa: Good afternoon Sir and thank you very much for the opportunity. The first thing that I would like to request if you can share is that can you specify the project wise order, break up of your order backlog because as you stated Rs.895 Crores is the total order backlog and around Rs.590 Crores is a project order backlog, so if you can share break this Rs.590 Crores into project wise that would be really helpful?



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- P. S. Reddy:** No project wise means you are looking at in terms of power, steel, is it sector wise?
- Nirav Vasa:** Not sector wise, I am saying specific project wise?
- P. S. Reddy:** I think what we will do is that, since this is something which is not in the public domain, we will come up with, I think statement, which brings parity to everyone. That is one, so you are interested in terms of the ongoing project whether it is project at location X or Y...
- Nirav Vasa:** Exactly.
- P. S. Reddy:** I have got your point. We will come back to all of you with clear-cut information.
- Nirav Vasa:** Sir second thing as you stated that you are focusing on completing the projects, which are in advance stages, Sir any colour on out of this Rs.590 Crores of order backlog that we have what percentage of order book would be in advance stages and something that could be completed in the second half of this financial year?
- P. S. Reddy:** Yes, I think if you remember sometime back in one of our calls I said that, these are in advance stage in the sense, more than 95% has already been completed, what is pending is only very little job and in some of these projects we have already completed partly pending for the PG test.
- Nirav Vasa:** What would actually that amount be, out of this Rs.590 Crores of order backlog which is there, what would that order book?
- P. S. Reddy:** It could be less than 10%.
- Nirav Vasa:** So around Rs.60 Crores is something, it would be the amount that would be there, that could be closed very fast?
- P. S. Reddy:** Yes.
- Nirav Vasa:** Rs.60 Crores of projects would be completed in H1?
- P. S. Reddy:** Absolutely, but I think this is only the major projects; otherwise we have a number of other product supplies, where the orders would get completed on an ongoing basis.
- Nirav Vasa:** So that would be short cycle orders?
- P. S. Reddy:** Yes.
- Nirav Vasa:** Sir second questions pertains to the retention money, can you state what is the outstanding retention money and give the break up of the retention money project wise?



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- P. S. Reddy:** I think, when you ask us the project wise I think then I said it is something not in the public domain, so in terms of the retention money as we have stated in the past the net retention money is about Rs.240 Crores.
- Nirav Vasa:** Any big chunk retentions that you can share?
- P. S. Reddy:** Pardon could you please repeat?
- Nirav Vasa:** Out of this Rs.240 Crores of retention money, which is there, can you name a few projects where a big amount of retention money stuck off and any guidelines by which you are expecting that retention?
- P. S. Reddy:** I think, let me just bring in a clarity, the retention money is about Rs.250 Crores of which I said the three projects which are in a very advanced stage could offer more than Rs.100 Crores.
- Nirav Vasa:** Rs.100 Crores of retention money something that can be released in this year?
- P. S. Reddy:** That is the effort that is why I said you know these projects are very, very important for us.
- Nirav Vasa:** Which project would these be?
- P. S. Reddy:** These are two projects of NTPC and one is pertaining to DVC Raghunathpur.
- Nirav Vasa:** NTPC two projects, can you name these two projects?
- P. S. Reddy:** One is Barh and other is Vindhyachal.
- Nirav Vasa:** Barh and Vindhyachal and DVC Raghunathpur. Sir regarding your BIFR status, Sir just wanted to check as of now what would be the outstanding debt and what is the cost of debt like that is applicable and by what time are we expecting this BIFR and everything to be in place and any incremental updates on that?
- P. S. Reddy:** Yes just one second, I am handing over this to my CFO, he would give a clarity on the outstanding debt, but before that as we have clarified earlier the BIFR application is being examined by the operating agency, which is Bank of Baroda, in our view I think definitely in a month or two this should be taken to a logical conclusion.
- Nirav Vasa:** Sir based on the plan that you have submitted to your bankers by what time are you expecting all these messy projects where we are delayed are to be totally closed and retention money to be released, so basically I am trying to understand the companies growth trajectory maybe from two to three years perspective, so 2017 is something that could be painful for us, but are you seeing company in really robust shape maybe by 2018-2019 wherein all the, most the retentions would



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be released and once we are out of that is there any change in our bidding strategy or something like that?

P. S. Reddy: Yes, I think sometime back we clarified perhaps I think it is Q1 conference call where we said that the companies strategy is try and complete these project in a very advanced stage so that you are able to collect retention money to improve cash flow, which has been a major challenge for the company. What we said is that, we are trying to maximize our share of revenue from Products and Spares and Services that is one because this is not only the short cycle, but the risk involved are relatively less compared to large projects, so that strategy still continues.

Nirav Vasa: Sir outstanding debt number?

P. S. Reddy: Yes so CFO will just share with you the details.

Subhasish Datta: As on March 31 2016, the long-term borrowing was Rs.114 Crores.

Nirav Vasa: As of now?

Subhasish Datta: Rs.84 Crores.

Nirav Vasa: It is Rs.84 Crores long-term and working capital debt?

Subhasish Datta: Rs.258 Crores as on September 30, 2016.

Nirav Vasa: Rs.258 Crores is a short-term debt?

Subhasish Datta: Yes.

Nirav Vasa: Sir once you complete the project and as you said that around of Rs.100 Crores of retention is something that is really low hanging fruit for us, so you are expecting this Rs.100 Crores to be given like because I am my understanding is correct, once the project is commissioned, your customer will keep your money for sometime, so would you be submitting bank guarantees and then collecting money or it is like, how does it happen?

P. S. Reddy: I think let me just bring in a clarity, it depends on the nature of the contract, generally if retention money released as soon as performance guarantee test is completed and all the documents are signed and the performance guarantee test is meeting the contractual requirement, so in our view as of now I think we should be in a position to collect this money within two to three months after completion of PG test.

Nirav Vasa: So actually by end of FY2017 you should have your working capital debt to be lower by Rs.100 Crores?



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- P. S. Reddy:** It is not only working capital debt, you also have held back the retention money of various vendors, so it is also, wherever you have a back to back contract you will have to clear those retention money, I think the question here is that first is our ability to complete PG test successfully, second is the documentation and the third is also our ability to close those, there could be typically some punch points, which will be there, punch points in a manner that satisfies the customer to release the money. These are the three key points which we need to address to collect retention money and also we used to clarify that retention amount seems to be a low hanging fruits, but in reality it is not a low hanging fruit. Low hanging fruit typically is the ongoing clear dues. PG test is something it is a huge activity where once you complete the erection and commissioning and integration and commissioning then you do what is called a 14-day trial typically and then you go for a PG test. It is a huge activity.
- Nirav Vasa:** To just get an idea, your total debt, which is outstanding, based on the balance sheet, which is presented, is around Rs.515 Crores consolidated debt right?
- Subhasish Datta:** Yes Rs.515 Crores.
- Nirav Vasa:** So by end of this financial year, what can this number actually be, this is what I am trying to understand.
- P. S. Reddy:** In our view it should be down by more than Rs.100 Crores.
- Nirav Vasa:** So around Rs.515, so around 400, 450 number is something that you are looking for?
- P. S. Reddy:** That is what we are targeting, it depends on, there are two or three things we need to be very clear, one is that as we have been talking that one is their ability to collect retention money which is important, also depends on how we are progressing on the current projects that is also very important, the third is that, how many of these contracts vary or made significant progress where you will continue to make the progress a way you have been making. If there are unforeseen circumstances where the customer is putting a hold then it is a combination of all these, it is not that, but right now we are in a position to target that, we should try for Rs.100 Crores reduction.
- Nirav Vasa:** Apart from these three major projects are you seeing any projects where there is some kind of project delays or your customers told you to stop or?
- P. S. Reddy:** As of now no, but I think, there was one project I think where the project is on hold actually for last six months and we were hoping that all the hold should get removed, as of now there is no such message, so let us see how things will take.
- Nirav Vasa:** Which project would that be?
- P. S. Reddy:** This is one of the project of TSGENCO, so which is on hold for sometime, so we are hoping that in H2 the hold should get resolved.



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- Nirav Vasa:** What is the order value of that project?
- P. S. Reddy:** It is around Rs.50 Crores.
- Nirav Vasa:** So out of this Rs.590 Crores, Rs.50 Crores of order backlog is slow moving or on hold?
- P. S. Reddy:** Yes, it is on hold.
- Nirav Vasa:** Sir on the bid what we have placed which are approximately around Rs.1800 Crores, by what time like are we expecting any models to be finalized, any order inflow numbers that you are expecting in second half based on your current assessment?
- P. S. Reddy:** It is very difficult to put a number because, these are the project, which in our view should have got finalized in H1, they are unfortunately delayed, we are hoping that I think sometime in Q4 some of these should mature, but as of now the uncertainties in the market place are not giving us any comfort in terms of when exactly these projects are likely to be completed.
- Nirav Vasa:** Based on your current assessment how big or you can say like, how much has the market actually shrink for our company and by what time are you expecting any kind of revival to happen?
- P. S. Reddy:** I think, you asked a very challenging question, I think it is difficult to say that how much market shrunk, I think the question is if you look at the offers that we have submitted this is significantly higher than what it was a year ago, so that is a lead indicator in terms of the enquiry. Challenge is that the time taken for getting an enquiry converted into order is much longer than what it is to be, a typical cycle of say in the past, maybe 12 to 15 months, today it is running into anywhere up to 18 to 24 months, so that is the challenge. It is difficult to put a number as to how much of these enquiries will get converted into orders within next three to six months.
- Nirav Vasa:** How has been the competitive intensity maybe in the last few bids that were opened, any idea on, because as we understand because of lower volume, which is available in market, there would be some instances wherein some there could be irrational pricing that would be visible, so any idea or any color on that or if you can add more details like what has been the difference between L1 and L2 prices in some of the few contracts which has been opened?
- P. S. Reddy:** While there is definitely, all these vendors are hungry for orders, we are very clear that we are not going to take any order for a loss that is one principle we are trying to follow. It is I think in some of these projects we have seen the, it is not that, there is a huge gap between L1 or L2 or L3, there is a reasonable gap, we have not seen any significant gap.
- Nirav Vasa:** So you are not seeing any instances wherein the pricing is irrational?



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- P. S. Reddy:** Yes we do not that kind of a pricing I guess, just now at least we have not seen barring see there could be one or two kind of typical order, but I am talking in general, we do not see major distress.
- Nirav Vasa:** Thank you very much for taking my queries. My queries have been answered. Thank you.
- Moderator:** Thank you. We will take a next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** Good evening Sir. First question is on the current order book in project we are hopeful of completing everything by this year or it will get pushed to the next year as well?
- P. S. Reddy:** No it will also go to the next year because it depends on the at the moment the status of a particular project, some projects are in the early stage, some projects are at the end stage, for example those three projects which I just shared they are in a very advanced stage, some they are in the mid stage, so it depends on the stage of the project.
- Madan Gopal:** During this period we would be actually avoiding projects or depending upon profit coming out, margin coming out in a project we will be taking in?
- P. S. Reddy:** You mean new projects?
- Madan Gopal:** Yes.
- P. S. Reddy:** Obviously, as I said that we would be taking profitable projects, we will not take any projects for a loss.
- Madan Gopal:** You will not bring down the overall operations in the project front?
- P. S. Reddy:** No it all depends on how the situation would develop over the next six to nine months. So at this point in time I think given our resources our activity is smooth.
- Madan Gopal:** Okay and you have grown in the first half, in the product business and particularly this quarter by 20% and first half 17%, 16%, 16.5%, so the product business seeing good traction you think this moment continue for full year also such growth numbers are possible?
- P. S. Reddy:** Yes, I think unless there are exceptional circumstances that are going to come in our way, I think when I said you know exceptional issues could be for example, I think just sometime back I said one project which is on hold it is a typical product projects, if that comes in I think we will be well ahead of our numbers.



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- Madan Gopal:** How of your like first half number in products revenue would be from internal, are you seeing margins of the nature like 12%, 20% that you have done and this 8% and 20% that you done in this particular business, are you seeing that in your third party contracts also?
- P. S. Reddy:** Yes absolutely.
- Madan Gopal:** Sir in the subsidiary level, if I look at the York transport you have grown from Rs.178 Crores last year to Rs.200 Crores, so what is the driving growth in this business, is there seems to be a good turnaround in this businesses in first half?
- P. S. Reddy:** This is York India, apart from York India I think the other markets also have reasonably improved, I will not say major improvement, but the dominant factor is York India.
- Madan Gopal:** Can you give break up of York India and other markets in this Rs.203 Crores?
- P. S. Reddy:** Right now, I will not be able to because this is something not in the public domain, so we will try and do is as we said I think we will come back to you with the communication so that the larger public is aware of.
- Madan Gopal:** And even the profitability improvement is in York India?
- P. S. Reddy:** Yes absolutely, so overall I think, in terms of, because the team is also taking some of the measure to improve profitability, so overall sense, but if you see the major factor is York India.
- Madan Gopal:** Even the DLT Group the turnover wise, there seems to be almost 70% sort of an increase, almost doubled, so any reason that you can say again it is domestic market driven?
- P. S. Reddy:** No, this year we are talking about DLT Group where it is only the...
- Madan Gopal:** DLT Sri Lanka okay.
- P. S. Reddy:** Sri Lankan operation because of Ind-AS we have qualified in that note.
- Madan Gopal:** Yes I can see that.
- P. S. Reddy:** Subsidiaries, rather joint ventures, the top line is not considered.
- Madan Gopal:** So this Sri Lankan operation any reason for such a good growth there, what is it happening?
- P. S. Reddy:** The turnaround efforts of this unit is working as per the planning and their efforts to meet the plan is good and that has helped the unit to report good performance.
- Madan Gopal:** If I am right, you make port related trailers there or?



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- P. S. Reddy:** Both port and road.
- Madan Gopal:** Where is the momentum, on the roadside or the port side Sir?
- P. S. Reddy:** It is a combination of both, I would say more of road than port, but I would say both have reasonably contributed, but if you see in terms of major share is from road.
- Madan Gopal:** Can you give the Tata DLT number Sir?
- P. S. Reddy:** It is given, just look at it,
- Madan Gopal:** Rs.32 Crores, first half, okay, Rs.95 Crores you have given, yes, PBT?
- P. S. Reddy:** I think I do not have it readily, so we will see how to share that.
- Madan Gopal:** Really thankful to you that you are giving good data disclosure from the company has improved tremendously and we are thankful to you for that Sir, it has been really difficult in the past to track these numbers of the quarterly...
- P. S. Reddy:** I think in one of the conference call I did make this mention that we will try and share as much information as possible with all of you, we are here to serve you, so it is our obligation to share all the information with you.
- Madan Gopal:** Good Sir, so for the full year any rough number that you can give us on the subsidiary levels, what sort of revenue growth and EBITDA margins that looks possible from the current first half numbers?
- P. S. Reddy:** As management team it is not possible for us to give you any forward-looking statement at this moment of time.
- Madan Gopal:** Any rough number on total EBITDA in the first half in the subsidiary levels, anything of that sort EBITDA margins?
- P. S. Reddy:** EBITDA margins for the subsidiaries, I think this also again, it is something not in the public domain, so we will have to come up with it, communication which is available to everyone, just give us sometime we will get to you with such a communication.
- Madan Gopal:** Okay great Sir. Wish you best of luck. Thanks.
- Moderator:** Thank you. We will take a followup question from the line of Nirav Vasa from B&K Securities. Please go ahead.



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Nirav Vasa: Thank you very much for the opportunity once again. Sir, just wanted to check one thing now that in the bids that we have placed right now, what is the approximate margin at EBITDA or PAT level that we are targeting because now that since, that is what I want to understand?

P. S. Reddy: I am sorry this is actually market sensitive information, which is very difficult to share, second is that, it is not you have a particular target number you try and see, depending on the strategic importance of the bid and depending on the end customer, depending on the risk you perceive in a particular project margins would vary.

Nirav Vasa: But any broad guidance like double digit margins minimum or it will something like that?

P. S. Reddy: I think it is extremely difficult for me to put a number because it amounts to actually kind of forward looking number, but I can only say that we are trying to bid with positive margins, we are not trying to take any orders for a loss.

Nirav Vasa: Sir any idea or maybe more details that you can share on incremental growth prospects that you are seeing from Coal India?

P. S. Reddy: Coal India as of now, you mean our business prospects?

Nirav Vasa: Yes.

P. S. Reddy: Our business prospects are linked to the way coal India is going to expand and put up their washeries...