“TRF Limited Q4 FY2016 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY2016 earnings conference 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, Mr. Subhasish Datta, CFO, Mr. Chandan Dutta, Deputy Chief Finance and Accounts, Mr. Rajen Sahay, Head Corporate Communications, Mr. Anirudh Iyer, MD Office, Mr. Vivek Jaiswal —Head HR, and Mr. Tarun Kumar Srivastava, Company Secretary. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal to the operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. John Perinchery, Research Analyst at Emkay Global. Thank you and over to you Sir!

John Perinchery: Good afternoon everyone. I would like to welcome the Management and thank them for giving us this opportunity. I would now hand over the conference to Mr. Reddy for his opening remarks, over you to sir.

P.S. Reddy: Thanks, good afternoon to all of you. Thank you for joining us on the call. Just to give you a brief overview of the performance for the Q4 of last year as well as the financial year ending March 31, 2016.

As you know the net sales from the operations on stand alone basis for the Q4 was Rs 262 Crores as against Rs.173 Crores in Q4 of 2014-2015. Net sales and income from operations on standalone basis for the whole year of FY2016 is Rs.543 Crores as against Rs.547 Crores in FY 2014-2015. I would say that the economic conditions impacted our performance. The net profit for Q4 was Rs.16 Crores as against a loss of Rs.45 Crores for the Q4 of 2014-2015. Net loss for the entire year for 2015 – 2016 is about Rs.4.67 Crores as against net loss of Rs.87 Crores in FY 2014-2015.

During the year, we have received a dividend income from the subsidiaries amounting to Rs.20.93 Crores against Rs 9.96 crore in FY 2014-2015. We also had a profit on sale of non-current investment of about Rs.7.9 Crores during FY 2015 – 2016. The same when compared to last year was about Rs.9.15 Crores.

Efforts that were made in reducing the cost during the year through focussed actions have helped us to reduce the cost as well as write back the provisions that were made. You may have noticed that significant cost has been reduced during year and as a result we have been able to curtail our losses during the year as compared to loss of last year. But then we were able to do this through our efforts to complete projects and collected retention money of over Rs.50 Crores during the year.

The challenges continued in the market place because the key sectors for TRF which are Power, Steel, Mining and Port sectors were depressed, and saw little improvement during the year. As a result we have not received any project order during the year. However, the company was able to book highest product order for a value of Rs.244 Crores during the year when compared with our previous best order booking of Rs.213 Crores way back in 2008 – 2009. Similarly, in case of Port and Yard Equipment, our order book is again at a record at Rs.133 Crores compared to the previous best order booking of Rs.122 Crores during the financial year 2012 - 2013. As a result, the order book position as of March 31, 2016 is about Rs.1100 Crores of which Rs.600 Crores is in project orders and the balance comprises product and services.

During the year the focus also has been on pushing new products into the new market. So, the company developed new products such as Smooth Double Roll Crushers, which generates lesser fines and provides higher efficiency up to 95% to the customers, we also developed Travelling Plough Feeder and Hexagonal Frame for pipe conveyors, with additional features for ease of maintenance to the customers.

As you all know, the networth of the company was fully eroded as on March 31, 2015 in compliance with the provisions of the Sick Industries Company’s Act, the Company has made a reference to the BIFR. We have submitted the revival scheme, which envisages turning around the company on our own effort.

Going forward, the focus would be to close projects which are in advanced stage, collect retention amount, focus on building people capability, optimize costs through improvement initiatives, improve the share of revenue from Product and Spares business, restructure and strengthen the organization; these are our priority areas.

In terms of subsidiaries, just to give you an idea, during the year 2015-2016, all the operating subsidiary companies made profit. Turnover for the York group in financial year 2015-2016 is Rs.360 Crores as against Rs.343 Crores during 2014 – 2015. Consolidated profit before tax for the York group is Rs.11.6 Crores compared to Rs.49 Crores during the previous year. This year profit included an exceptional income of Rs.42 Crores.

York has faced many challenges because of the devaluation of currencies of the major export markets like Australia and South Africa which hurt the revenue as well as profitability of the company. As we have mentioned during Q3 press conference, we said that York has completed consolidation of its two facilities into a single location. Going forward, this is our China plan. It should improve the market share and reduce cost.

York India continues to do well with its dominant market share.

As far as DLT group is concerned, the group achieved a turnover of Rs.126 Crores during FY 2015-2016 as against Rs.12 Crores during the previous year. Consolidated profit before tax of the group for FY 2015-2016 is Rs.1.7 Crores compared to a loss of Rs.3.3 Crores during FY 2014-2015. The group has faced challenging and difficult market conditions yet they were able to improve market share in Bangladesh, which is the main market for the company. It has secured major order from Iran and this augurs well for the company.

In terms of Adithya Automotive Applications, the company achieved revenue of about Rs.95 Crores during the year when compared to Rs.104 Crores during the previous year. Major reason for drop in revenue is lower unit price, which is because of reduction in steel prices. Profit before tax for this FY is Rs.8.1 Crores during the year compared to Rs.6.8 Crores during 2014-2015.

In terms of HRIL, it achieved a turnover of Rs.29 Crores during FY 2015-2016 compared to Rs.45 Crores during 2014-2015. Consolidated profit is Rs.1.2 Crores during the year compared to Rs.11.8 Crores during the previous year.

Global economic conditions, the depression in the Mining, Steel and aggregate sectors coupled with a strong pound during the financial year, impacted the turnover as well as profitability of HRIL.

So, we are through, can we now initiate the question and answer session please.

Moderator: Thank you very much. Ladies and Gentlemen we will now begin the question and answer session. Our first question is from the line of Arjun Vaidyanathan of Almondz Global Securities. Please go ahead.

Arjun Vaidyanathan: Thank you for giving me an opportunity. Just wanted to know about timeline of this Rs.2.5 Crores which we are expected to receive, any quarter-wise timeline is there, completion of projects and then we will be able to receive this money, because we have given this to the BIFR because it is within our internal accruals we will be able to turn around the company?

P.S. Reddy: Sorry, when you are talking about the Rs.2.5 Crores, it is not clear to us.

Arjun Vaidyanathan: Sorry, it is Rs.250 Crores retention money, which is lying with various projects?

P.S. Reddy: Yes, out of Rs.250 Crores, as I had clarified during Q3, we are looking at three major projects which we would be completing the performance guarantee test over the next three to four months and there is a timeline available for all these projects to collect the entire retention money of Rs.250 Crores. In my view, in the next 18 months or so, we should be able to complete the performance guarantee test, till all the requirements, contractual obligations so that we are able to realise the entire money.

Arjun Vaidyanathan: Sir, what about the remaining Rs 6.4 billion trade receivables, is there any trade receivables, which is more than six months old more than a year old?

P.S. Reddy: Yes, there is an ageing analysis that is done in an ongoing basis as a part of the effort to improve our collections and cash flow. So if you look, compared to the last financial year, while overall there is an increase in the debt, but if you look at the retention money, efforts that have been made to complete the projects and collect retention money of over Rs.50 Crores, has helped us to bring down the retention money of nearly Rs.270 Crores to under Rs.250 Crores now. It has started working and as you may have noticed, the Q4 performance also has, because the Q4 we have been able to achieve revenue which is almost 50% of the annual revenues overall debts have gone up.

Arjun Vaidyanathan: Sir, what is our overall outlook for the borrowings for the FY2017? At what level this will remain, total debt?

P.S. Reddy: Our view is, that debt should not increase, it should drop because as we said, the focus is on completing the projects and collecting retention money; it should only reduce it should not increase.

Arjun Vaidyanathan: And sir, this current order book for the projects, any timeline for the completion?

P.S. Reddy: The current order book, we have, just to tell you the major project which is there here is the Nabinagar project. It is NTPC joint venture with Bihar government. This, I think, in the next 18 – 24 months we should be able to complete this project.

Arjun Vaidyanathan: Prospects for new orders, our bidding process, where we are in advanced stage of getting orders and all these things?

P.S. Reddy: Right now it is very difficult to talk about advanced stage, because of the current market conditions, while we have been submitting offers, the offers are not getting converted into orders because of uncertainty in the market place.

Arjun Vaidyanathan: Overall market outlook, what is our view, is there any improvement like L&T was mentioning there was some improvement and all these things?

P.S. Reddy: Yes, there is some improvement in the sense you see positive signals in the market place but we are not sure whether that would translate into sound orders.

Arjun Vaidyanathan: So, prospects for our 2018-2019 topline from the projects are not still very good, that is what analysis will be?

P.S. Reddy: 2018-2019 is, I would say, still slightly far away. We are talking about, even if you look at the current financial year, the Rs.1100 Crores will see through for the next two to three quarters. All depends on how the market would respond in terms of with new orders over the next two to three quarters will tell us how we are going to perform during Fy'18-19.

Moderator: Thank you. Our next question is from the line of Abhijit Vara of Sundaram Mutual Fund. Please go ahead.

Abhijit Vara: Thanks for taking my question. Sir, I have couple of questions, first one is, you mentioned that there were some write backs in terms of provisions, could you please clarify and going forward also, if you can give us some outlook on how do we look at this provision-based expenditure.

P.S. Reddy: As a project organization, you have certain inherent risks in the business and to mitigate the risk you have certain provisioning policies, which are followed. Based on the provisioning policies, we have been keeping provisions and the efforts have been made to realise the amounts, which have been kept under provisions. For example, if you take debtors, depending based on the age, there is a certain provision we make but in view of the current market conditions where you know there is a delay in payment from the customers, already gone for provisions, we have been able to put efforts and realise them. The moment you realise those amounts, the provisions are written back. That is what we mean by writing back of provisions.

Abhijit Vara: I am sorry I could not follow the previous question, which was asked earlier. What is ageing analysis for these debtors?

P.S. Reddy: Yes, there is an ageing analysis that is done as an ongoing process to collect and improve our cash flows and what I was saying was if you look at overall debtors they have increased because of our Q4 performance. Q4, our revenue is almost half of the overall revenues. Therefore, while overall debtors have increased, if you look at the focus that has been made on completing the projects and collecting retention money, overall retention money has dropped. That is what we are trying to say.

Abhijit Vara: And also some sense on the automobile project Sir?

P.S. Reddy: You are talking about AAA?

Abhijit Vara: Yes.

P.S. Reddy: AAA as I said, for the year ending 2015-2016 though the revenue has been slightly less than the previous year revenues, but in terms of the profitability they have improved the profitability because they were able to reduce cost in the cost order and improve margins.

Abhijit Vara: How does the outlook look Sir?

P.S. Reddy: We would say that the level should be sustained.

Abhijit Vara: And lastly, would you be giving any guidance for top line and margins?

P.S. Reddy: No, we do not give guidelines, this is not as per our…

Moderator: Thank you. We will take the next question from the line of John Perinchery. Please go ahead.

John Perinchery: Sir, sometime back we had mentioned that we have made a reference to the BIFR and have registered rehabilitation plan on that, so what is the status now?

P.S. Reddy: We have submitted the turnaround plan now and the reference has been registered with BIFR. The steps that we are aware of are that the BIFR would appoint what is called an operating agency. Operating agency then would work with the company and vet the turnaround plan and if needed, they would make changes to the turnaround plan following which the plan would be implemented.

John Perinchery: Does this plan also involve any capital infusion from the promoter's side?

P.S. Reddy: We are exploring all possible opportunities, that is one of the options but that is not the only lever that is envisaged in the turnaround plan.

Moderator: Thank you. Our next question is from the line of Abhijit Vara of Sundaram Mutual Fund. Please go ahead.

Abhijit Vara: Sir, if your effort to BIFR would it impact any bidding for future projects?

P.S. Reddy: It is like this, in case of government sectors, where is power, there yes, it would impact but we are also looking at those sectors where such kind of restriction is not there.

Abhijit Vara: So, private projects you can still take up, is it?

P.S. Reddy: Absolutely, we do not see any issues. Even within government sectors also, we are making a representation in terms of how we are able to deliver on the projects, which are on hand today even though we have become a BIFR company without impacting the plans.

Abhijit Vara: Any idea sir, how much that would be as a portion of order book, these government orders?

P.S. Reddy: Government orders would be, I would say, over 50% would be the public sector orders in fact.

Abhijit Vara: Of Rs.1100 Crores or just the projects order?

P.S. Reddy: No, I am talking about the project orders of Rs.300 Crores.

Abhijit Vara: And by when would the scheme be finalised - BIFR, would it be made available to shareholders?

P.S. Reddy:` BIFR scheme is not made available to the shareholders, it is now with BIFR. First they have to go through that and they have to follow their formalities.

Abhijit Vara: But your lending - if you want to enhance your borrowing limits on this, would there be any sort of concerns from the lenders or constraints?

P.S. Reddy: As of now we have not yet seen any constraints.

Moderator: Thank you. Our next question is from the line of Rahul Mehta. He is an individual investor. Please go ahead.

Rahul Mehta: Yes, Mr. Reddy, actually I have been following this company for now last almost four to five years and I have been very disappointed as a shareholder. There has been no growth in the company at all for the last four years and five years back I remember the MD saying that we will touch a turnover of Rs.2500 Crores by 2013. Now we are already in 2016 and still the turnover is about Rs.1250 Crores. So when can we expect Rs.2500 Crores top line and when are they going to come into net profit and declare some dividend?

P.S. Reddy: I do appreciate your sentiments. The issue is like this – we wanted to be clear in terms of - do we chase top line at the cost of bottom line or should we chase a profitable top line. Look at profitable top line. As we have been explaining to you for the past couple of sessions on the investor's conference that the challenges we have faced is **(inaudible) 23.26** global economic conditions were not envisaged five years ago when the company set its aspiration of achieving a top line of Rs.2500 Crores. Unforeseen economic conditions have impacted the organization significantly. As economic conditions improve I am sure the growth will happen. Question now is that how long does it take for the revival of the economy, it is difficult to answer at this moment but we hope that the worst is over.

Rahul Mehta: When you say the worst is over, does it mean that we can expect profit at the net level for the current year ending March 2017 because last year we had reported about Rs.36.34 Crores of net loss.

P.S. Reddy: The issue is that we will not be able to give any guidance on…

Rahul Mehta: No, I am not asking you for the guidance, I am just asking you for, will this year be a year where TRF turns around completely, that is my only question because being a shareholder, it is huge well to destruction. We saw a price of Rs.1200 and now we are at Rs.300.

P.S. Reddy: I just said earlier the economic conditions have impacted the company significantly but yes, the efforts are on to come out of the current situation as early as possible. You have to wait for some more time, I would say couple of quarters and watch the performance and you will see it. I can only tell you about the last year, if you look at the last year, the financial year of 2015-2016, out of the four quarters, the company has reported profits in two quarters, two out of four quarters the company has done well. Third quarter, we were significantly impaired by the delay in clearances by the customers, unexpected increases in the project cost. Otherwise, third quarter also in our view was, if you remember in Q2 conference call, we were sounding very positive about Q3 before we encountered with unexpected issues towards the end of Q3. If you look at the last four quarters, which have gone by, the things are much better than the previous financial years. I would say that, based on that we need to look at it as and when the economy improves, I am sure things should work out well. Very difficult for us to give you a specific guidance in terms of when we will be able to turn around. I would say that the efforts are always there to turn around at the earliest possible.

Rahul Mehta: What is the current total debt of the company, consolidated debt?

P.S. Reddy: One second, I would request CFO to talk about the consolidated debt.

Subhashish Datta: Our consolidated debt at the gross level is Rs.633 Crores.

Rahul Mehta: Sir, I had one suggestion actually. The promoter holdings currently stands at about 34% that is, Tata Steel is holding I think about 34%. So cannot we reduce the debt by giving the preferential shares to Tata Steel at the current market price thereby two things can happen, one, the debt can come down significantly which will lessen the debt interest cost and secondly, the promoter holding in the company grow up which will also give an indication to the shareholders that they are really committed to this business.

Subhashish Datta: Thanks. This proposal if you remember, I think, was made in Q2 conference call I guess. We have done our job on this. So it will take some more time because it is not only this option, we are looking at various options. We are looking at the best possible option for us to minimise the cost of debt. This is one of the options we have kept open.

Rahul Mehta: Yes, if the promoters can take the holdings from 34% to 51%, so if they are raising it by 17% via preferential issue, that can bring down the debt by half and basically turn around the whole company.

Subhashish Datta: Thanks for the suggestion. So we will actively pursue that.

Moderator: Thank you. Our next question is from the line of Rohit Gupta. He is an individual investor. Please go ahead.

Rohit Gupta: Good afternoon Sir. Was looking at the product division this quarter. It seems to perform really well. So how are we looking at the next quarters also?

Subhashish Datta: Mr. Gupta, future guidance we will not be able to give you but if you remember in the last three conference calls we have had, we have talked about the focus on the product development. I hope you are able to relate what we mentioned versus what the results are. Inherently we have talked about … in product business we do not have risks the way we have risks in project business, organization has been on product and the Q4 results are there in front of you.

Rohit Gupta: Sir and we were talking about some price escalation clause two quarters back, so what is the status on that?

Subhasish Datta: If you remember, I think we talked about this price escalation clause where when it was mentioned that the dropping steel prices should help the company to reduce cost, then we mentioned that in our project contracts, we have price escalation clause, it is not only escalation, it is also you will have to pass on the reduction in prices of the input material to customer. So you will not be able to capture the full benefits of reduction that is what we mentioned. The price escalation clause is a risk mitigation measure to protect us from increase in cost; it will also protect the customer from reduction in cost, it works both ways.

Moderator: As there are no further questions from the participants I now hand the floor back to Mr. John Perinchery of Emkay Global for closing comments.

John Perinchery: I would like to thank the management and all the participants on the call, have a good day.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial services that concludes this conference, thank you for joining us. You may now disconnect your lines.