June 30, 2022

TRL Krosaki Refractories Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	205.00	124.47	[ICRA]AA (Stable); Reaffirmed
Fund-based Limits	237.00	357.00	[ICRA]AA (Stable); Reaffirmed
Non-Fund based Facilities	170.24	170.24	[ICRA]A1+; Reaffirmed
Commercial Paper	75.00	75.00	[ICRA]A1+; Reaffirmed
Total	**687.24**	**726.71**	

**Instrument details are provided in Annexure-1;*

Rationale

The reaffirmation of the ratings considers the healthy financial and operational performances of TRL Krosaki Refractories Limited (TRL) in FY2022, supported by a sharp demand recovery from the end-user industries, most notably steel. The company recorded its best-ever revenues, profits and sales volumes in FY2022 as a sharp rise in refractory realisations supported higher contribution levels. ICRA notes that a favourable demand environment last fiscal aided TRL to largely pass on the impact of the rising inputs costs amid increased raw material prices, sea freight inflation and elevated energy costs, helping the company report a 370-basis points improvement in the operating margins in FY2022 over FY2021. Given the healthy order pipeline at the start of the current fiscal, ICRA expects TRL's FY2023 earnings to also remain at healthy levels. Notwithstanding the rise in TRL's total debt to support the increased scale of operations in FY2022, the healthy operating profits translated into strong credit indicators for the company, as reflected in an interest coverage of 11.7 times and Total Debt/OPBDITA of 1.6 times. The ratings also factor in TRL's leadership position in the domestic refractory market with a wide product portfolio of high-quality refractories, strong brand image and a reputed client base. TRL's cost competitiveness in certain categories of refractories due to its captive raw material sources and long-term arrangements with key raw material suppliers strengthen its operating profile. The ratings also favourably factor in the significant operational and management synergies of TRL with its parent, Krosaki Harima Corporation (KHC, Nippon Steel Corporation, rated Baa2 (Stable) by Moody's, holds a 42.9% stake in KHC). TRL's growth has been supported by technology assistance provided by its parent in the high precision and margin accretive tap hole clay and flow control refractory segments. In March 2022, TRL commissioned (under trial run phase currently) its new alumina-graphite refractory unit, a high-margin product used in the steel-making process, with technology assistance from KHC. Post scaling up production of this niche product line, the same would support revenue growth and strengthen the operating profile by aiding in margin expansion.

The long-term rating, however, continues to be constrained by the company's exposure to the cyclicality inherent in the steel industry as ~65% of its revenues is earned through sales to steel companies. Moreover, the pricing power of the refractory players, including TRL, is limited due to the fragmented industry structure with surplus capacity in certain refractory segments and competition from imported refractories on the back of low duty protection, giving easy market access to large and established overseas refractory manufacturers. ICRA, however, notes that the focus on Cost per Tonne (CPT) contracts and Refractory Engineering Management Services (REMS) business resulted in a differentiated competitive position for the company. Moreover, an increase in the sales volume of products used as consumables in the steel making process considerably lowered the company's dependence on the project-related business, where revenues are more uneven. The ratings also factor in TRL's exposure to fluctuations in supply and prices of raw materials, particularly for basic refractories and high alumina refractories, which are largely imported from China.

While macro headwinds like monetary tightening by global central banks to fight inflation and the Russia-Ukraine war could potentially slow down global economic activities in the near term, ICRA expects domestic steel demand to grow at a healthy rate of 7-8% in FY2023 supported by higher government spend on infrastructure. This is expected to support TRL's profitability in the current fiscal. The Stable outlook is underpinned by ICRA's expectations that TRL would continue to maintain its leadership position in the domestic refractory market with healthy cash accruals relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Market leader in the domestic refractory market, a reputed client base – TRL is the largest manufacturer of refractory products in India. It has a comprehensive range of refractory products covering all grades and shapes for industries like steel, copper, cement, aluminium, glass and other non-ferrous industries. TRL is among the largest manufacturers of dolomite refractories in the world and the only manufacturer of the same in India. It is also the leading supplier of silica refractories for coke ovens and glass industry worldwide. The company has a reputed client base, which includes renowned entities like Tata Steel Ltd. (TSL), Steel Authority of India Ltd. (SAIL), JSW Steel Ltd. etc. The company gets repeat orders from its reputed clientele, reflecting TRL's acceptable quality of refractory products. Moreover, the reputed client base reduces counterparty risk to a large extent. TRL's revenues are diversified in terms of geographical presence. Its exports account for 15-20% of its total sales. Access to overseas markets insulates TRL's revenue profile from demand fluctuations in the domestic market and provides higher growth opportunities.

Financial profile characterised by strong credit metrics and healthy liquidity position – TRL's credit indicators remain strong, as reflected in an interest coverage of 11.7 times and Total Debt/OPBDITA of 1.6 times in FY2022 despite a rise in total debt to support the increased scale of operations. The liquidity profile remains healthy with undrawn working capital lines of ~Rs.364 crore as on March 31, 2022.

Strong parentage with significant operational and management synergies – TRL derives significant operational and management synergies from its parent, KHC, a global leader in the refractories business. TRL's growth has been supported by technology assistance provided by its parent in the high precision and margin accretive tap hole clay and flow control refractory segments. Moreover, a 42.9% of KHC's equity is held by Nippon Steel Corporation, a global integrated steel producer. KHC holds a 77.62% stake in TRL at present, after purchasing TSL's stake in the company in December 2018.

Credit challenges

Exposure to cyclicality inherent in the steel industry – TRL is exposed to the cyclicality inherent in the steel industry as it earns ~65% of its revenues from sales to steel companies. However, an increase in the sales volume of products used as consumables in steel making considerably reduced the risk of the business model due to lower dependence on project-related business.

Intense competition in the industry – The pricing power of the refractory players in India, including TRL, is limited owing to the fragmented industry structure with surplus capacity in certain refractory segments and competition from imported refractories on the back of low duty protection, giving easy market access to large and established overseas refractory manufacturers. Besides, intensifying competition from large and established foreign refractory manufacturers operating out of India constrains pricing power to an extent. ICRA, however, notes that the focus on CPT contracts and REMS business resulted in a differentiated competitive position for the company. TRL has taken over the management of some of the smaller domestic refractory manufacturers through management and buyback contracts to consolidate its position in a fragmented Indian industry.

Exposure to fluctuations in supply and prices of raw materials – The company imports a large portion of its raw materials, particularly for basic refractories and high alumina refractories, from China. There have been supply disruptions in the past, leading to elevated raw material prices, due to pollution control measures undertaken in China. While TRL's long-term relationships with suppliers resulted in stable supply linkages, any disruption in supply may result in an increase in raw material prices, going forward, impacting the profitability of the company.

Liquidity position: Adequate

TRL's liquidity position has been assessed as **adequate** with undrawn working capital lines of ~Rs.364 crore as on March 31, 2022 and healthy cash flow from operations expected over the medium term. The company has a total capex commitment of around Rs.114 crore and debt repayment obligations of Rs.44.19 crore in FY2023 against the said sources of cash. ICRA expects the company to be able to comfortably meet its capex commitment and service its debt obligations and yet be left with sufficient liquidity buffer in the form of unutilised credit lines.

Rating sensitivities

Positive factors – ICRA may upgrade TRL's long-term rating if a sustained improvement in end-user demand and realisations lead to a significant increase in turnover and profit margins of the company. The specific trigger for a rating upgrade would be RoCE above 25% on a sustained basis.

Negative factors – Pressure on TRL's ratings may arise if there is a significant decline in profitability and cash accruals due to volatility in raw material prices and weak demand from end-user industries. The specific trigger for rating downgrade would be an interest coverage ratio below 7 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of TRL.

About the company

TRL Krosaki Refractories Limited (TRL) was initially established in 1958 under the name of Tata Refractories Limited as a joint venture between Tata Steel Limited (TSL) and Didier Werke AG of Germany. Gradually, Didier exited the operations and TSL had the majority stake of 51%. TSL increased its stake in the company to 77.46% between FY2006 and FY2010. In May 2011, TSL sold a 51% stake in the company to Krosaki Harima Corporation (KHC) of Japan, a subsidiary of Nippon Steel Corporation and a leading global player in flow control refractories. The company was subsequently renamed as TRL Krosaki Refractories Limited in 2011. On December 31, 2018, TSL sold its entire 26.62% stake to KHC, following which KHC's stake in the company rose to 77.62%.

Key financial indicators (Audited)

TRL Standalone	FY2021	FY2022
Operating Income (Rs. crore)	1423.9	1923.6
PAT (Rs. crore)	44.5	102.8
OPBDIT/OI (%)	6.0%	9.7%
PAT/OI (%)	3.1%	5.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.2
Total Debt/OPBDIT (times)[1]	2.4	1.6
Interest Coverage (times)	6.9	11.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 30, 2022	Jun 28, 2021	Jun 29, 2020	Jun 17, 2019
1	Term Loans	Long-term	124.47	124.47	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
2	Fund-based Limits	Long-term	357.00	-	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)	[ICRA]AA(Stable)
3	Non-Fund based Facilities	Short-term	170.24	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Commercial Paper	Short-term	75.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund-based Limits	Simple
Non-Fund based Facilities	Very simple
Commercial Paper	Very simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

[1] excluding lease liability

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loans	FY2020	NA	FY2025	124.47	[ICRA]AA (Stable)
NA	Fund-based Limits	NA	NA	NA	357.00	[ICRA]AA (Stable)
NA	Non-Fund based Facilities	NA	NA	NA	170.24	[ICRA]A1+
Unplaced	Commercial Paper	NA	NA	7-365 days	75.00	[ICRA]A1+

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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