June 30, 2023

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	124.47	80.28	[ICRA]AA (Stable); Reaffirmed
Fund-based Limits	357.00	507.19	[ICRA]AA (Stable); Reaffirmed/Assigned
Non-Fund based Facilities	170.24	170.24	[ICRA]A1+; Reaffirmed
Commercial Paper	75.00	75.00	[ICRA]A1+; Reaffirmed
Total	**726.71**	**832.71**	

**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), supported by a healthy demand from the end-user industries, most notably steel. The company recorded its best-ever revenues and profits in FY2023 as a sharp rise in refractory realisations relative to input costs supported higher contribution levels. The operating margins improved by 220 basis points in FY2023, aided by execution of higher priced orders received in FY2022, product mix enrichment and cost optimisation measures taken through recycling of refractories, which save raw material costs. The ratings also consider the comfortable financial risk profile of the company, characterised by a conservative capital structure, comfortable debt coverage metrics, healthy return indicators and adequate liquidity position. The ratings also factor in TRL's dominant position in the domestic refractory market with a wide product portfolio of high-quality refractories, strong brand image and a reputed client base. 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 its new alumina-graphite refractory unit, a high-margin product used in the continuous casting of steel, with technology assistance from KHC. Post scaling up of 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, remains constrained by the project specific risks associated with the large-scale expansion/growth plans of the company. ICRA notes that these capex plans are large vis-à-vis TRL's current balance sheet size. While benefits from the capex plans would accrue over the medium term, it is expected to increase leverage levels for the next few years. The rating is also tempered by the company's exposure to the cyclicality inherent in the steel industry as ~65% of its revenues is earned through sales made 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. 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 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 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.

The Stable outlook is underpinned by ICRA's expectations that notwithstanding the expected moderation in the profit margin in the current fiscal from the level of FY2023, the absolute earnings of the company will remain supported due to healthy demand from the steel industry, its primary consumer segment (steel demand is expected to grow by around 7-8% in the current fiscal, as per ICRA's estimates). Notwithstanding the large expansion/growth plans of the company, which will be part funded by debt, ICRA expects the company's credit indicators to still remain healthy going forward, albeit some moderation from the existing levels.

Key rating drivers and their description

Credit strengths

Dominant position in the domestic refractory market, a reputed client base – TRL is the second 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 the 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 conservative capital structure, robust debt coverage metrics, healthy return indicators and liquidity position – The return indicators of the company remain healthy, as reflected by the core RoCE remaining above 20% in the last four out of the five fiscals. The company's moderate debt levels compared to its sizeable net worth resulted in a comfortable capital structure, as reflected by a gearing of 0.4-0.5 times over the last five fiscals. The coverage indicators, too, remained healthy, as reflected by an interest coverage of above 10 times in the last four out of the five fiscals. The liquidity profile remains adequate, supported by undrawn working capital lines of ~Rs.364 crore as on March 31, 2023. Notwithstanding the large expansion/growth plans of the company, which will be part funded by debt, ICRA expects the company's credit indicators to still remain healthy going forward, albeit some moderation from the existing levels.

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. In March 2022, TRL commissioned its new alumina-graphite refractory unit, a high-margin product used in the continuous casting of steel, with technological assistance from KHC. 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

Large-sized expansion/growth plan in pipeline; will remain exposed to project related risks – The company has large sized capex/growth plans accumulating around Rs.1,500 crore, to be incurred over the next four to five years, of which around Rs.750 crore has been earmarked for the greenfield capex and the remaining towards capacity expansion, upgradation and sustenance capex and small-ticket acquisitions. The capex plans are large vis-à-vis TRL's current balance sheet size and hence remains exposed to operational and execution risks. Besides the long gestation period for the greenfield capex, the operational risks associated with the project will increase if the project commissioning coincides with a cyclical downturn in the steel sector, which is the primary consumer for TRL. However, TRL's experience in project execution and easy access to established technology from the parent are expected to mitigate project execution and market risks to an extent.

Exposure to cyclicality inherent in the steel industry; exposure to fluctuations in supply and prices of raw materials – 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. 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.

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.

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, 2023 and healthy cash flow from operations of around Rs. 130-140 crore expected in the current fiscal. Against these sources of cash, the company has a total capex commitment of around Rs. 165 crore and debt repayment obligations of around Rs.53 crore in FY2024. 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 ratings 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	FY2022	FY2023
Operating Income (Rs. crore)	1920.9	2295.0
PAT (Rs. crore)	102.8	155.3
OPBDIT/OI (%)	9.6%	11.8%
PAT/OI (%)	5.4%	6.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0
Total Debt/OPBDIT (times)	1.7	1.0
Interest Coverage (times)	11.6	11.9

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, 2023 (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jun 30, 2023	Jun 30, 2022	Jun 28, 2021	Jun 29, 2020
1	Term Loans	Long-term	80.28	80.28	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund-based Limits	Long-term	507.19	-	[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, are available on ICRA's website: Click Here

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	80.28	[ICRA]AA (Stable)
NA	Fund-based Limits	NA	NA	NA	507.19	[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:

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