June 06, 2024

TRL Krosaki Refractories Limited: Ratings reaffirmed; assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based - Term loans	80.28	307.47	[ICRA]AA (Stable); reaffirmed/assigned for enhanced amount
Long-term - Fund-based limits	507.19	507.00	[ICRA]AA (Stable); reaffirmed
Short-term - Non-fund based facilities	170.24	170.24	[ICRA]A1+; reaffirmed
Commercial paper	75.00	75.00	[ICRA]A1+; reaffirmed
Total	**832.71**	**1059.71**	

**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 steady demand from the end-user industries, primarily steel. The company recorded its best-ever revenues and profits in FY2024. The operating margins improved by 113 basis points in FY2024, aided by moderation in several key cost components. The ratings also consider the company's comfortable financial risk profile, characterised by a conservative capital structure, satisfactory debt coverage metrics, healthy return indicators and an adequate liquidity position. TRL's dominant position in the domestic refractory market with a wide product portfolio of high-quality refractories, a strong brand image and a reputed client base further supports the rating action. The ratings 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). The technology support from the parent in the high precision and margin-accretive tap hole clay and flow control refractory segments has aided TRL's growth. 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.

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 the leverage levels for the next few years. The ratings are 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 refractory players, including TRL, is limited due to the fragmented industry structure. ICRA, however, notes that the focus on cost-per-tonne (CPT) contracts and the refractory engineering management services (REMS) business has 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 has considerably lowered the company's dependence on project-related business, where the revenues are more uneven. The ratings also factor in TRL's exposure to fluctuations in the 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 despite the expected moderation in the operating profit margin in the current fiscal from the level of FY2024, the company's absolute earnings will remain supported by healthy demand from the steel industry, its primary consumer segment (steel demand is expected to grow by around 9-10% in the current fiscal, as per ICRA's estimates). ICRA expects the company's credit indicators to remain healthy, though moderating from the existing levels, amid its debt-funded expansion plans.

Key rating drivers and their description

Credit strengths

Dominant position in domestic refractory market, a reputed client base – TRL is the second-largest manufacturer of refractory products in India. It has a diverse range of refractory products covering all grades and shapes for the 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 one in India. It is also the leading supplier of silica refractories for coke ovens and the 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 the acceptability of its refractory products. Moreover, the reputed client base reduces the counterparty risk to a large extent. TRL's revenues are also diversified in terms of geographical presence. Exports account for 13-16% of its total sales. The access to the overseas markets insulates TRL's revenue profile from the demand fluctuations in the domestic market and provides higher growth opportunities.

Comfortable financial profile – The return indicators of the company remain healthy, reflected in the core RoCE staying above 20% in the last five of the six fiscals. TRL's moderate debt levels compared to its sizeable net worth led to a comfortable capital structure, reflected in a gearing of 0.2-0.5 times over the last five fiscals. The coverage indicators, too, remained healthy, with an interest coverage of above 10 times in the last five of the six fiscals. The liquidity profile is adequate, supported by undrawn working capital lines of ~Rs. 447 crore as on March 31, 2024. Notwithstanding the large expansion/growth plans of the company, which will be part funded by debt, ICRA expects the company's credit indicators to remain healthy, though moderating 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 expansion/growth plans in pipeline; will remain exposed to project-related risks – The company has large capex/growth plans accumulating over Rs. 1,000 crore, to be incurred over the next three years. Of this, around Rs. 800 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, it 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 its easy access to established technology from the parent are expected to mitigate the project execution and market risks to an extent.

Exposure to cyclicality inherent in steel industry and 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. Supply disruptions in the past due to the pollution-control measures undertaken in China have resulted in elevated raw material prices. While TRL's long-term relationships with suppliers lead to stable supply linkages, any disruption in supply may increase raw material prices, going forward, impacting the profitability of the company.

Intense competition in the industry – The pricing power of refractory players in India, including TRL, is limited owing to the fragmented industry structure. Surplus capacity in certain refractory segments and competition from imported refractories on the back of low duty protection gives 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 the pricing power to an extent. ICRA, however, notes that the focus on CPT contracts and the REMS business has resulted in a differentiated competitive position for the company. The company has entered into contract manufacturing arrangements with some smaller domestic refractory manufacturers, who exclusively manufacture for TRL, which has helped it consolidate its position in a fragmented Indian industry.

Liquidity position: Adequate

TRL's liquidity position remains adequate with undrawn working capital lines of ~Rs. 447 crore as on March 31, 2024 and healthy cash flow from operations expected in the current fiscal. Against these sources of cash, the company has a total capex commitment of Rs. 260-270 crore, for which long-term funding is already in place. TRL had debt repayment obligations of around Rs. 27 crore in FY2024. ICRA expects the company to be able to comfortably meet the equity portion of 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 leads to a significant increase in the company's turnover and profit margins.

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. A specific trigger for 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 held 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 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	FY2023	FY2024
Operating Income (Rs. crore)	2289.8	2502.6
PAT (Rs. crore)	155.3	241.2
OPBDIT/OI (%)	11.6%	12.7%
PAT/OI (%)	6.8%	9.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.7
Total Debt/OPBDIT (times)	1.0	0.5
Interest Coverage (times)	11.7	14.9

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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 06, 2024	Jun 30, 2023	Jun 30, 2022	Jun 28, 2021
1	**Term loans**	Long-term	307.47	53.35	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	**Fund-based limits**	Long-term	507.00	-	[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 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	FY2030	307.47	[ICRA]AA (Stable)
NA	**Fund-based limits**	NA	NA	NA	507.00	[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.

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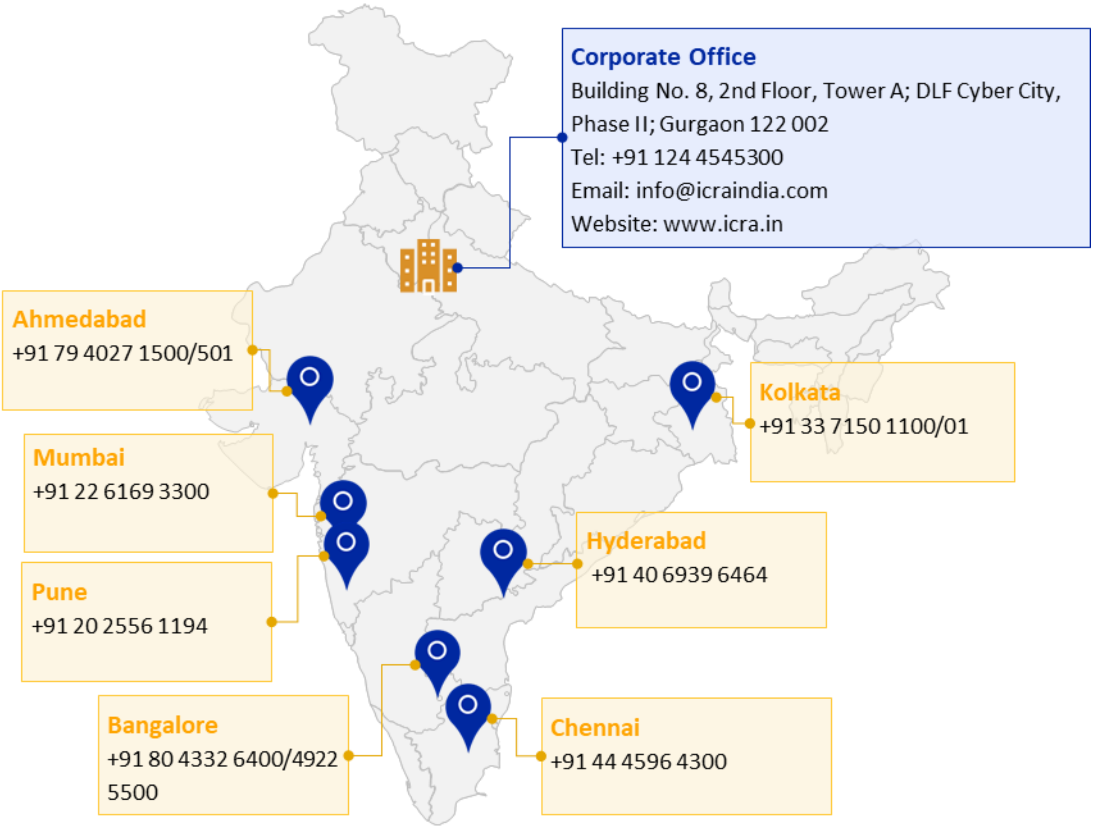

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