

July 25, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs409	Rs390
EPS change FY12E/13E (%)	-9/-9
Target Price change (%)	-9
Nifty	5,680
Sensex	18,871

Price Performance

(%)	1M	3M	6M	12M
Absolute	14	(24)	(24)	(53)
Rel. to Nifty	9	(21)	(23)	(55)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Material Handling
Bloomberg	TRF@IN
Equity Capital (Rs mn)	110
Face Value(Rs)	10
No of shares o/s (mn)	11
52 Week H/L	970/354
Market Cap (Rs bn/USD mn)	4/90
Daily Avg Volume (No of sh)	119669
Daily Avg Turnover (US\$m)	1.3

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	39.6	39.6	39.6
FII/NRI	0.0	0.1	0.8
Institutions	11.0	12.8	12.4
Private Corp	13.9	13.3	13.3
Public	35.5	34.2	33.9

Source: Capitaline

Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com
+91 22 6612 1273

Purna Jhavar

prerna.jhavar@emkayglobal.com
+91 22 6612 1337

- Improved performance – Standalone Revenue up 4% yoy to Rs1.5 bn & Net profit of Rs32 mn – in line. Product delivers with 23% margins, Project disappoint with Rs60 mn EBIT loss
- Auto components posts strong operational performance (1) Revenue up 29% (2) EBITDA margins up 110 bps yoy to 3.3%. But APAT low at Rs5 mn due to low other income & high tax
- TRF shares optimistic outlook for FY12E (1) Order inflows at Rs10 bn (2) MHE revenue growth at 25% (3) Auto to drive growth – Sales Rs6 bn at 5% margin
- Downgrade consolidated earnings by 9% yoy to Rs34.1 for FY12E and Rs39.0 for FY13E. Retain HOLD with revised price target of Rs390 per share (@10X FY13E)

An improved performance – Net profit at Rs32 mn

After a dismal performance in Q4FY11, TRF posted an improved performance in Q1FY12 with net profit of Rs32 mn – in line with estimates. Standalone revenues grew 4% yoy to Rs1.5 bn – led by Products division (up 18% yoy to Rs0.7 bn). EBITDA margins dropped 60 bps yoy to 6.7% – but ahead estimates of 5.5%. Improvement in margins was due to increased revenue contribution from high margin Product division. Consequently, operating profit decline was muted at 4% yoy to Rs100 mn – above estimates. However, high interest and taxation as well as low other income offset strong operational performance. Net profit of Rs32 mn (-57% yoy) was in line with estimates.

...Led by Products division – Revenue up 18% yoy, EBIT margins at 23%

Products division posted strong all-round performance for the fifth consecutive quarter. Revenues increased 18% yoy to Rs674 mn, inline with estimates. EBIT margins improved 300 bps yoy to 23.3% (highest in past 14 quarters) – attributed to better revenue mix. Hence, segment profits grew 36% yoy to Rs157 mn – above estimates.

But Project division posts EBIT loss of Rs60 mn

The Project division disappointed with EBIT losses for the second consecutive quarter. This was due to the negative impact of a declining order backlog & operating leverage. After posting strong revenue booking in Q4FY11, Project division revenues declined 7% yoy to Rs1.0 bn. Led by declining revenue and negative impact of operating leverage, segment EBIT loss stood at Rs60 mn (Q1FY11 profit of Rs37 mn) – below estimates.

Auto components posts improved operational performance

TRF's auto components business posted an improved operational performance – on the back of improving business outlook and commissioning of new axle plant at Pune. (1) Revenues grew by 29% yoy to Rs1.2 bn – split as York Rs0.8 bn, DLT Rs0.3 bn and AAA Rs0.2 bn (2) Operating margins improved by 110 bps yoy to 3.3% - ahead estimates. (3) Operating profit increased 89% yoy to Rs41 mn (nearing peak run rate of Rs54 mn). But, low other income and high tax incidence offset operational performance. Consequently, net profit stood at Rs5 mn (Q4FY11 profit of Rs21 mn) – below estimates

Consolidated Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	8,659	879	10.1	481	41.9	13.6	33.9	10.1	7.3	3.2
FY11P	11,136	507	4.6	319	27.5	-34.3	20.7	15.4	14.7	3.2
FY12E	13,979	832	6.0	462	34.1	23.9	23.2	12.4	8.9	2.6
FY13E	16,570	989	6.0	523	39.0	14.4	21.7	10.9	7.4	2.2

Standalone Quarterly Financials

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
Revenue	1,907	1,447	1,080	1,494	3,214	68.5	115.0	7,236	6,499	11.3
Expenditure	1,740	1,343	1,043	1,264	3,195	83.6	152.7	6,846	5,669	20.7
Consumption of RM	1,225	714	373	435	2,134	74.3	390.8	3,656	3,452	5.9
<i>as % of sales</i>	64.2	49.4	34.5	29.1	66.4			50.5	53.1	
Payment to Subcontractor	230	348	262	499	694	201.3	39.0	1,803	1,013	78.0
<i>as % of sales</i>	12.1	24.0	24.3	33.4	21.6			24.9	15.6	
Employee Cost	124	106	121	113	117	-5.6	3.2	457	431	6.2
<i>as % of sales</i>	6.5	7.3	11.2	7.6	3.6			6.3	6.6	
Other expenditure	162	175	287	217	249	54.4	14.9	929	774	20.0
<i>as % of sales</i>	8.5	12.1	26.6	14.5	7.8			12.8	11.9	
EBITDA	167	104	37	230	19	-88.6	-91.8	390	830	-53.0
Depreciation	14	8	9	10	12	-12.4	23.4	39	32	20.7
EBIT	153	96	28	220	7	-95.5	-96.8	352	798	-55.9
Other Income	31	40	28	5	13	-56.1	150.3	87	37	138.2
Interest	31	24	19	39	42	39.1	8.8	125	97	28.1
PBT	153	113	37	187	-22	-114.4	-111.8	314	737	-57.4
Total Tax	40	37	-37	13	-7	-118.1	-155.5	6	242	-97.6
Adjusted PAT	114	75	74	174	-15	-113.1	-108.6	308	496	-37.8
Extra ordinary items	-23	0	-300	0	0	-100.0	NA	0	0	NA
Reported PAT	90	75	-226	174	-15	-116.5	-108.6	8	472	-98.2
Adjusted EPS	10.3	6.8	6.7	15.8	-1.4	-113.1	-108.6	28.0	45.1	-37.8

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	8.7	7.2	3.4	15.4	0.6	-820	-1,480	5.4	12.8	-740
EBIT	8.0	6.6	2.6	14.7	0.2	-780	-1,450	4.9	12.3	-740
EBT	8.0	7.8	3.4	12.5	-0.7	-870	-1,320	4.3	11.3	-700
PAT	6.0	5.2	6.9	11.6	-0.5	-640	-1,210	4.3	7.6	-340
Effective Tax rate	25.8	33.2	-102.3	6.9	32.5	670	2,560	1.8	32.8	-3,090

Order inflows dry spell continues, Though TRF optimistic

TRF's order backlog declined 8% qoq and 35% from peak in Q1FY11 on back of negligible order inflows for the fourth consecutive quarter. TRF secured Rs0.3 bn orders in Q1FY12, in the Products division. Dismal Project order inflows was due to continued delay in finalization of orders by customers. However, TRF expects order momentum to pick-up in ensuing quarters led by Steel sector (Tata Steel, Kalinganagar). It indicated an order bid-pipeline of Rs10-12 bn

TRF shares optimistic guidance for FY12E

- TRF has guided for a revenue growth of 25% for FY12E in the material handling business factoring continued traction in Products division and satisfactory progress in key projects (NTPC – Barh, Mauda and Vindhyachal). It expects operating margins of 6-7%
- Expects Auto components business to grow by 50% in FY12E to Rs6.0 bn – led by commissioning of new facilities in Pune, gain in market share in trailers, and healthy product acceptance by customers.
- TRF has guided for operating margins of 5% in the auto components business (Vs 6% guided earlier).
- Expects to secure order inflows worth Rs10 bn – led by Steel sector.

We downgrade our earnings by 9%

We have revised our consolidated earnings down by 9% each to Rs34.1 for FY12E and to Rs39.0 for FY13E to factor (1) Operating margins at 5% in auto components business (vs 5.8% factored earlier) (2) Lower revenue growth in Project division – attributed to continued decline in order backlog. However, pro-longed delay in pick-up in order inflow momentum, TRF's inability to profitably execute its unexecuted order book or slow turnaround of auto business are impending risks to earnings. We retain our HOLD rating with revised price target of Rs390.

Revision in consolidated earning estimates

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	14,544	13,979	-3.9	17,238	16,570	-3.9
EBITDA	907	832	-8.3	1,075	989	-7.9
EBITDA Margin (%)	6.2	6.0	-30 bps	6.2	6.0	-30 bps
APAT	413	375	-9.2	470	429	-8.8
EPS (Rs)	37.6	34.1	-9.2	42.8	39.0	-8.8

Standalone Segmental Performance

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Segment Revenues							
Project & Services	1,111	760	1,093	2,862	1,037	-6.6	-63.8
Products & Services	571	589	731	614	674	18.1	9.8
Less: Intersegment Revenues	234	269	330	262	210	-	-
Total	1,447	1,080	1,494	3,214	1,502	3.7	-53.3
Segment Results							
Project & Services	37	-53	88	-48	-60	-264.7	25.0
Products & Services	116	106	146	71	157	35.8	120.2
Total	152	53	234	23	97	-36.6	320.3
Add- Unall Income / (Exp)	-16	3	-8	-303	0	-	-
Less- Interest Exp	24	19	39	42	48	101.4	12.6
PBT	113	37	187	-322	48	-57.2	-115.0
Segment Capital Employed							
Project & Services	1,893	1,790	1,804	1,758	1,982	4.7	12.7
Products & Services	575	550	704	778	954	65.8	22.7
Unallocated	-695	-792	-787	-855	0	-100.0	-100.0
Total	1,773	1,547	1,721	1,681	2,936	65.6	74.7
Segment Margins (%)							
Project & Services	3.3	(7.0)	8.1	(1.7)	(5.8)	-910	-410
Products & Services	20.2	17.9	20.0	11.6	23.3	300	1170
Average	9.1	3.9	12.8	0.7	5.6	-340	500

Consolidated Quarterly Financials

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
Revenue	2,393	1,925	2,484	4,332	2,720	13.7	-37.2
Expenditure	2,267	1,860	2,220	4,282	2,579	13.8	-39.8
Consumption of RM	1,351	944	1,124	2,918	1,520	12.5	-47.9
<i>as % of sales</i>	<i>56.4</i>	<i>49.0</i>	<i>45.2</i>	<i>67.4</i>	<i>55.9</i>		
Payment to Subcontractor	354	291	507	685	452	27.5	-34.0
<i>as % of sales</i>	<i>14.8</i>	<i>15.1</i>	<i>20.4</i>	<i>15.8</i>	<i>16.6</i>		
Employee Cost	199	207	215	209	237	19.0	13.3
<i>as % of sales</i>	<i>8.3</i>	<i>10.7</i>	<i>8.6</i>	<i>4.8</i>	<i>8.7</i>		
Other expenditure	363	418	375	469	371	2.2	-21.1
<i>as % of sales</i>	<i>15.2</i>	<i>21.7</i>	<i>15.1</i>	<i>10.8</i>	<i>13.6</i>		
EBITDA	126	65	264	50	141	11.6	179.5
Depreciation	18	20	22	25	23	28.2	-8.5
EBIT	108	45	242	25	118	8.9	366.7
Other Income	46	40	4	36	15	-67.4	-58.7
Interest	36	31	51	57	64		
PBT	118	54	195	4	69	-42.0	1633.6
Total Tax	46	-19	27	-3	31	-33.6	-1295.8
Adjusted PAT	72	73	167	7	38	-47.5	476.7
Minority Interest	7	-7	-4	20	2	-76.2	-91.6
Adjusted PAT (after MI)	65	80	171	-14	36	-44.4	-365.4
Extra ordinary items	0	-300	0	0	0	NA	NA
Reported PAT	65	-220	171	-14	36	-44.4	-365.4
Adjusted EPS	5.9	7.3	15.6	-1.2	3.3	-44.8	-369.1

Margins (%)						(bps)	(bps)
EBIDTA	5.3	3.4	10.6	1.2	5.2	-10	400
EBIT	4.5	2.4	9.7	0.6	4.3	-20	370
EBT	4.9	2.8	7.8	0.1	2.5	-240	240
PAT	3.0	3.8	6.7	0.2	1.4	-160	120
Effective Tax rate	39.3	(34.7)	14.0	(65.3)	45.0	570	11,030

Key Consolidated Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	8,659	11,136	13,979	16,570
<i>Growth (%)</i>	19.6	28.6	25.5	18.5
Expenditure	7,781	10,629	13,146	15,581
Materials Consumed	5,978	8,174	10,430	12,526
Employee Cost	694	830	918	1,050
Manufacturing Exp	403	518	571	644
Other Exp	705	1,107	1,228	1,361
EBITDA	879	507	832	989
<i>Growth (%)</i>	9.8	(42.3)	64.2	18.9
EBITDA margin (%)	10.1	4.6	6.0	6.0
Depreciation	61	85	95	100
EBIT	817	422	737	890
EBIT margin (%)	9.4	3.8	5.3	5.4
Other Income	41	125	92	64
Interest expenses	126	176	204	219
PBT	732	371	625	735
Tax	251	52	163	212
<i>Effective tax rate (%)</i>	34.3	14.1	26.1	28.8
Adjusted PAT	481	319	462	523
<i>Growth (%)</i>	18.7	(33.7)	44.9	13.3
Net Margin (%)	5.6	2.9	3.3	3.2
(Profit)/loss from JVs/Ass/MI	20	16	87	94
Adj. PAT After JVs/Ass/MI	461	303	375	429
E/O items	7	-300	0	0
Reported PAT	467	3	375	429
<i>Growth (%)</i>	15.4	(99.4)	14,447.8	14.4

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	739	371	625	735
Depreciation	61	85	95	100
Interest Provided	125	176	204	219
Other Non-Cash items	-75	0	0	0
Chg in working cap	-521	-572	-377	-399
Tax paid	-244	-52	-163	-212
Operating Cashflow	85	7	384	444
Capital expenditure	-268	-623	-150	-100
Free Cash Flow	-183	-616	234	344
Other income	0	0	0	0
Investments	-478	4	0	0
Investing Cashflow	-478	4	0	0
Equity Capital Raised	33	0	0	0
Loans Taken / (Repaid)	1,049	1,117	0	0
Interest Paid	-125	-176	-204	-219
Dividend paid (incl tax)	-76	-22	-33	-55
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	881	919	-237	-274
Net chg in cash	220	308	-3	69
Opening cash position	215	435	521	518
Closing cash position	435	742	518	587

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	110	110	110	110
Reserves & surplus	1,362	1,338	1,680	2,054
Net worth	1,472	1,448	1,790	2,164
Minority Interest	597	687	774	868
Secured Loans	1,996	3,129	3,129	3,129
Unsecured Loans	170	155	155	155
Loan Funds	2,166	3,283	3,283	3,283
Net deferred tax liability	-27	-17	-17	-17
Total Liabilities	4,208	5,400	5,829	6,298
Gross Block	1,705	2,328	2,478	2,578
Less: Depreciation	623	708	803	902
Net block	1,082	1,620	1,675	1,676
Capital work in progress	136	136	136	136
Investment	37	33	33	33
Current Assets	7,634	9,194	11,824	13,684
Inventories	1,554	1,805	2,765	3,277
Sundry debtors	4,198	5,223	6,896	8,175
Cash & bank balance	435	521	518	587
Loans & advances	1,446	1,645	1,645	1,645
Other current assets	0	0	0	0
Current Lia & Prov	4,681	5,582	7,838	9,231
Current liabilities	4,375	5,263	7,519	8,912
Provisions	305	319	319	319
Net current assets	2,953	3,612	3,985	4,453
Misc. exp	0	0	0	0
Total Assets	4,208	5,400	5,829	6,298

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	10.1	4.6	6.0	6.0
Net Margin	5.6	2.9	3.3	3.2
ROCE	24.1	8.8	13.1	14.7
ROE	33.9	20.7	23.2	21.7
RoIC	27.6	10.2	15.0	16.7
Per Share Data (Rs)				
EPS	41.9	27.5	34.1	39.0
CEPS	47.4	35.2	42.7	48.0
BVPS	133.7	131.6	162.7	196.6
DPS	7.5	2.0	3.0	5.0
Valuations (x)				
PER	10.1	15.4	12.4	10.9
P/CEPS	8.9	12.0	9.9	8.8
P/BV	3.2	3.2	2.6	2.2
EV / Sales	0.7	0.7	0.5	0.4
EV / EBITDA	7.3	14.7	8.9	7.4
Dividend Yield (%)	1.8	0.5	0.7	1.2
Gearing Ratio (x)				
Net Debt/ Equity	1.2	1.9	1.5	1.2
Net Debt/EBIDTA	2.0	5.5	3.3	2.7
Working Cap Cycle (days)	105.1	107.6	99.2	92.9

Recommendation History: TRF Limited – TRF IN

Date	Reports	Reco	CMP	Target
13/05/2011	TRF Q4FY11 Result Update	Hold	460	426
01/02/2011	TRF Q3FY11 Result Update	Accumulate	504	586
27/10/2010	TRF Q2FY11 Result Update	Accumulate	689	754
27/07/2010	TRF Q1FY11 Result Update	Hold	817	882

Recent Research Reports

Date	Reports	Reco	CMP	Target
26/05/2011	Elecon Engineering Q4FY11 Result Update	Buy	67	89
13/05/2011	McNally Bharat Q4FY11 Result Update	Buy	189	260
25/03/2011	Elecon Engineering Management Meet Update	Buy	65	89
22/03/2011	Eng. Capital Goods & Infra. ECI Strategy			

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.