

November 3, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs353	Rs282
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,266
Sensex	17,482

Price Performance

(%)	1M	3M	6M	12M
Absolute	12	(2)	(35)	(45)
Rel. to Nifty	1	1	(33)	(35)

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	665/305
Market Cap (Rs bn/USD mn)	4/81
Daily Avg Volume (No of sh)	33392
Daily Avg Turnover (US\$m)	0.2

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	34.3	39.6	39.6
FII/NRI	5.3	0.0	0.1
Institutions	10.2	11.0	12.8
Private Corp	13.7	13.9	13.3
Public	36.5	35.5	34.2

Source: Capitaline

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Improved performance; But no catalysts... Retain Hold

- **Improved operational performance – Standalone sales up 13% yoy to Rs1.2 bn with EBITDA mgn of 10.5% - negated by forex loss of Rs54 mn. Projects div. EBIT loss reduces to Rs11 mn**
- **Auto components surprises positively with 7.1% EBITDA margins (+380 bps qoq). Revenue growth healthy at 18% qoq to Rs1.4 bn. Net loss of Rs2 mn due to forex loss of Rs60 mn**
- **Dry run in order inflows continues for 6th consecutive quarter. Order book down 3% qoq to Rs12.8 bn. Retains guidance of Rs10 bn inflows for FY12E on back of Rs5 bn L1 orders**
- **Retain our FY12E and FY13E consolidated earnings estimates of Rs32.7 and Rs29.4 per share respectively. With no upside catalysts, retain HOLD rating with price target of Rs282**

Strong operational performance – Negated by forex losses

Despite strong operational performance, TRF standalone net profit was below estimates – this was due to forex losses. Key result highlights (1) Standalone revenue growth healthy at 13% yoy to Rs1.2 bn (though down 19% qoq) – led by both Products (up 16% yoy) and Projects (up 24% yoy) divisions (2) EBITDA margins improved 390 bps qoq to 10.5% - owing to favourable revenue mix (3) EBITDA up 28% qoq to Rs128 mn (4) Forex loss of Rs54 mn (MTM – Rs51 mn) negates strong operational performance (5) Hence net profits at Rs21 mn (down 36% qoq) was below estimates.

Products sustains momentum – Revenues up 16%, EBIT margin at 20%

Products division witnessed continued momentum on back of healthy opening order book of Rs3 bn Revenues grew 16% yoy to Rs685 mn – meeting expectations. Led by favourable revenue mix, EBIT margins improved 200 bps yoy to 20.0%. Consequently, segment EBIT growth was strong at 30% yoy to Rs137 mn – above estimates.

Project division – EBIT losses reduce to Rs11 mn

Project division also posted an improved operational performance – despite a low opening order backlog and high input costs. (1) Led by a low opening order backlog, revenues declined 9% sequentially (up 24% yoy) to Rs941 mn – below estimates. (2) However, segment EBIT loss reduced to Rs11 mn (down from Rs60 mn in Q1FY12) – owing to NTPC (VIndhyachal) project reaching revenue booking threshold.

Automotive business surprises positively – EBITDA margins at 7.1%

TRF's auto components recorded strong all-round performance – led by contribution from new facilities at Pune (1) Revenues growth at 18% qoq to Rs1.4 bn – split as York Rs0.9 bn, DLT Rs0.3 bn and AAA Rs0.2 bn (2) Sharp 380 bps qoq improvement in operating margins 7.1% - ahead estimates. (3) Highest ever operating profit at Rs102 mn – up 152% qoq (4) But net loss at Rs2 mn – due to Rs60 mn forex loss.

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	8.4	6.4	2.6
FY11	11,136	543	4.9	321	27.7	-33.7	20.9	12.7	12.2	2.7
FY12E	13,992	804	5.7	398	32.7	18.1	22.4	10.8	8.3	2.2
FY13E	14,517	820	5.6	393	29.4	-10.1	17.0	12.0	7.8	1.9

Standalone Quarterly Financials

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Revenue	1,080	1,494	3,214	1,502	1,217	12.7	-18.9	2,719	2,528	7.6
Expenditure	1,043	1,264	3,195	1,402	1,089	4.3	-22.3	2,490	2,387	4.4
Consumption of RM	373	435	2,134	627	395	6.0	-37.0	1,022	1,087	-6.0
as % of sales	34.5	29.1	66.4	41.7	32.5			37.6	43.0	
Payment to Subcontractor	282	499	674	438	350	24.0	-20.1	789	630	25.1
as % of sales	26.1	33.4	21.0	29.2	28.8			29.0	24.9	
Employee Cost	121	113	117	128	139	14.5	8.2	267	227	17.5
as % of sales	11.2	7.6	3.6	8.5	11.4			9.8	9.0	
Other expenditure	267	217	269	208	205	-23.4	-1.7	413	442	-6.6
as % of sales	24.8	14.5	8.4	13.9	16.8			15.2	17.5	
EBITDA	37	230	19	100	128	249.0	28.4	228	141	61.7
Depreciation	9	10	12	9	10	15.6	5.7	20	17	15.8
EBIT	28	220	7	90	118	321.2	30.8	209	124	67.9
Other Income	28	5	13	6	-36	-229.8	-739.6	-31	68	-144.8
Interest	19	39	42	48	54	179.3	12.9	102	43	136.4
PBT	37	187	-22	48	28	-23.5	-41.9	76	149	-49.0
Total Tax	-37	13	-7	16	7	-119.7	-53.5	23	0	232160.0
Adjusted PAT	74	174	-15	32	21	-72.1	-36.3	53	149	-64.5
Extra ordinary items	-300	0	0	0	0	-100.0	-	0	0	-
Reported PAT	-226	174	-15	32	21	-109.1	-36.3	53	-151	-135.2
Adjusted EPS	6.7	15.8	-1.4	2.9	1.9	-72.1	-36.3	4.8	13.6	-64.5

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	3.4	15.4	0.6	6.7	10.5	710	390	8.4	5.6	280
EBIT	2.6	14.7	0.2	6.0	9.7	710	370	7.7	4.9	280
EBT	3.4	12.5	-0.7	3.2	2.3	-110	-90	2.8	5.9	-310
PAT	6.9	11.6	-0.5	2.2	1.7	-520	-50	2.0	5.9	-400
Effective Tax rate	-102.3	6.9	32.5	32.8	26.3	12,860	-650	30.4	0.0	3,040

No revival in order inflows; Order book cover down to 1.8x revenues

The dry run in order inflows continued amidst delays and deferrals in order finalizations as well as highly competitive business conditions. TRF recorded order inflows worth Rs0.7 bn – all in the Products division. Consequently, TRF's order backlog declined 3% qoq and 33% yoy to Rs12.8 bn. The forward order book cover has also deteriorated from 2.2X in Mar'11 to 1.8X revenues in Sep'11.

...Retains order inflow guidance of Rs10 bn; L1 in orders worth Rs5 bn

Despite a dismal H1FY12, management has retained its order inflow guidance of Rs10 bn on the back of (1) L1 orders worth Rs5 bn – (a) supercritical order from NTPC – worth Rs3.8 bn and (b) Rs1 bn order from NTPC-TN Port & Yard Trust JV (2) Commencement of Tata Steel Kalinganagar project – expects MHE orders worth Rs3 bn in H2FY12E.

Retain FY12E and FY13E earnings estimates, Maintain Hold rating

Despite strong improvement in operational performance in Q2FY12, risks to earnings remain from (1) concerns on profitability of incremental order inflows (2) profitable execution of current order backlog (3) concerns on sustainability of operating performance in auto business and (4) high DER at 2.4X (Sep'11). We retain our FY12E and FY13E consolidated earnings estimates of Rs32.7 and Rs29.4 per share respectively. With no upside catalysts, we retain HOLD rating with price target of Rs282 per share.

Standalone Segmental Performance

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11
Segment Revenues									
Project & Services	760	1,093	2,862	1,037	941	23.9	-9.2	1,978	1,871
Products & Services	589	731	614	674	685	16.2	1.5	1,359	1,160
Less: Intersegment Revenues	269	330	262	210	409	-	-	618	503
Total	1,080	1,494	3,214	1,502	1,217	12.7	-18.9	2,719	2,528
Segment Results									
Project & Services	-53	88	-48	-60	-11	-80.0	-82.5	-71	-16
Products & Services	106	146	71	157	137	29.5	-12.9	294	221
Total	53	234	23	97	126	139.2	30.6	223	205
Add- Unall Income / (Exp)	3	-8	-303	0	-44	-	-	-44	-12
Less- Interest Exp	19	39	42	48	54	179.3	12.9	102	43
PBT	37	187	-322	48	28	-23.5	-41.9	76	149
Segment Capital Employed									
Project & Services	1,790	1,804	1,758	1,982	2,258	26.2	14.0	2,258	1,790
Products & Services	550	704	778	954	879	59.8	-7.9	879	550
Unallocated	-792	-787	-855	0	-1,404	77.1	-	-1,404	-792
Total	1,547	1,721	1,681	2,936	1,734	12.0	-40.9	1,734	1,547
Segment Margins (%)						(bps)	(bps)		
Project & Services	(7.0)	8.1	(1.7)	(5.8)	(1.1)	580	470	(3.6)	(0.9)
Products & Services	17.9	20.0	11.6	23.3	20.0	200	-330	21.6	19.1
Average	3.9	12.8	0.7	5.6	7.8	380	210	6.7	6.8

Consolidated Quarterly Financials

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11
Revenue	1,925	2,484	4,332	2,720	2,657	38.1	-2.3	11,135	8,659
Expenditure	1,860	2,220	4,282	2,579	2,427	30.5	-5.9	10,629	7,850
Consumption of RM	944	1,124	2,918	1,520	1,418	50.2	-6.7	6,337	4,944
as % of sales	49.0	45.2	67.4	55.9	53.3			56.9	57.1
Payment to Subcontractor	291	507	685	452	366	25.7	-18.9	1,837	1,034
as % of sales	15.1	20.4	15.8	16.6	13.8			16.5	11.9
Employee Cost	207	215	209	237	268	29.8	13.0	830	691
as % of sales	10.7	8.6	4.8	8.7	10.1			7.5	8.0
Other expenditure	418	375	469	371	374	-10.6	0.9	1,626	1,181
as % of sales	21.7	15.1	10.8	13.6	14.1			14.6	13.6
EBITDA	65	264	50	141	231	255.0	64.0	505	809
Depreciation	20	22	25	23	25	27.0	8.9	85	61
EBIT	45	242	25	118	206	354.2	74.8	420	748
Other Income	40	4	36	15	-95	-338.2	-736.3	126	124
Interest	31	51	57	64	70			176	125
PBT	54	195	4	69	40	-26.1	-41.4	371	746
Total Tax	-19	27	-3	31	22	-215.0	-29.8	52	251
Adjusted PAT	73	167	7	38	18	-74.7	-50.9	319	495
Minority Interest	-7	-4	20	2	-6	-9.9	-479.0	16	20
Adjusted PAT (after MI)	80	171	-14	36	25	-69.0	-30.8	303	475
Extra ordinary items	-300	0	0	0	0	-100.0	-	-300	-7
Reported PAT	-220	171	-14	36	25	-111.3	-30.8	3	467
Adjusted EPS	7.3	15.6	-1.2	3.3	2.3	-69.7	-31.1	30.3	47.5
Margins (%)						(bps)	(bps)		
EBIDTA	3.4	10.6	1.2	5.2	8.7	530	350	4.5	9.3
EBIT	2.4	9.7	0.6	4.3	7.7	540	340	3.8	8.6
EBT	2.8	7.8	0.1	2.5	1.5	-130	-100	3.3	8.6
PAT	3.8	6.7	0.2	1.4	0.7	-310	-70	2.9	5.7
Effective Tax rate	(34.7)	14.0	(65.3)	45.0	53.9	8,860	890	14.1	33.6

Key Consolidated Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	8,659	11,136	13,992	14,517
Growth (%)	19.6	28.6	25.7	3.8
Expenditure	7,781	10,593	13,188	13,697
Materials Consumed	5,978	8,174	10,350	10,733
Employee Cost	694	832	1,080	1,098
Manufacturing Exp	403	591	652	683
Other Exp	705	996	1,106	1,184
EBITDA	879	543	804	820
Growth (%)	9.8	(38.2)	48.0	2.0
EBITDA margin (%)	10.1	4.9	5.7	5.6
Depreciation	61	85	95	100
EBIT	817	458	709	720
EBIT margin (%)	9.4	4.1	5.1	5.0
Other Income	41	91	92	59
Interest expenses	126	176	261	241
PBT	732	374	540	538
Tax	251	52	142	146
Effective tax rate (%)	34.3	14.0	26.3	27.0
Adjusted PAT	481	321	398	393
Growth (%)	18.7	(33.2)	23.7	(1.2)
Net Margin (%)	5.6	2.9	2.8	2.7
(Profit)/loss from JVs/Ass/MI	20	16	37	69
Adj. PAT After JVs/Ass/MI	461	305	360	324
E/O items	7	-303	0	0
Reported PAT	467	3	360	324
Growth (%)	15.4	(99.4)	13,282.6	(10.1)

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	739	71	540	538
Depreciation	61	85	95	100
Interest Provided	125	189	261	241
Other Non-Cash items	-75	-10	0	0
Chg in working cap	-521	-342	-362	-72
Tax paid	-244	-156	-142	-146
Operating Cashflow	85	-163	391	661
Capital expenditure	-268	-320	-150	-100
Free Cash Flow	-183	-483	241	561
Other income	0	0	0	0
Investments	-478	-208	0	0
Investing Cashflow	-478	-208	0	0
Equity Capital Raised	33	0	0	0
Loans Taken / (Repaid)	1,049	1,041	0	0
Interest Paid	-125	-189	-261	-241
Dividend paid (incl tax)	-76	-97	-33	-55
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	881	756	-294	-296
Net chg in cash	220	65	-52	266
Opening cash position	215	435	521	468
Closing cash position	435	500	468	734

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	110	110	110	110
Reserves & surplus	1,362	1,338	1,665	1,934
Net worth	1,472	1,448	1,775	2,044
Minority Interest	597	687	724	793
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	5,765	6,103
Gross Block	1,705	2,315	2,465	2,565
Less: Depreciation	623	732	827	926
Net block	1,082	1,583	1,638	1,639
Capital work in progress	136	173	173	173
Investment	37	33	33	33
Current Assets	7,634	9,194	11,783	12,412
Inventories	1,554	1,805	2,767	2,871
Sundry debtors	4,198	5,223	6,903	7,162
Cash & bank balance	435	521	468	734
Loans & advances	1,446	1,645	1,645	1,645
Other current assets	0	0	0	0
Current lia & Prov	4,681	5,582	7,862	8,154
Current liabilities	4,375	5,263	7,543	7,835
Provisions	305	319	319	319
Net current assets	2,953	3,612	3,921	4,258
Misc. exp	0	0	0	0
Total Assets	4,208	5,400	5,765	6,103

Key ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	10.1	4.9	5.7	5.6
Net Margin	5.6	2.9	2.8	2.7
ROCE	24.1	9.5	12.7	12.1
ROE	33.9	20.9	22.4	17.0
RoIC	27.6	11.1	14.5	14.0
Per Share Data (Rs)				
EPS	41.9	27.7	32.7	29.4
CEPS	47.4	35.5	41.4	38.5
BVPS	133.7	131.6	161.3	185.8
DPS	7.5	2.0	3.0	5.0
Valuations (x)				
PER	8.4	12.7	10.8	12.0
P/CEPS	7.4	10.0	8.5	9.2
P/BV	2.6	2.7	2.2	1.9
EV / Sales	0.6	0.6	0.5	0.4
EV / EBITDA	6.4	12.2	8.3	7.8
Dividend Yield (%)	2.1	0.6	0.9	1.4
Gearing Ratio (x)				
Net Debt/ Equity	1.2	1.9	1.6	1.2
Net Debt/EBITDA	2.0	5.1	3.5	3.1
Working Cap Cycle (days)	105.1	107.6	98.2	102.8

Recommendation History: TRF Limited – TRF IN

Date	Reports	Reco	CMP	Target
19/10/2011	Engineering and Capital Goods Sector Update			
25/07/2011	TRF Q1FY12 Result Update	Hold	409	390
13/05/2011	TRF Q4FY11 Result Update	Hold	460	426
01/02/2011	TRF Q3FY11 Result Update	Accumulate	504	586

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/10/2011	Greaves Cotton Q2FY12 Result Update	Buy	89	103
24/10/2011	Blue Star Q2FY12 Result Update	Hold	197	185
21/10/2011	Larsen and Toubro Q2FY12 Result Update	Accumulate	1,336	1,603
21/10/2011	Thermax Q2FY12 Result Update	Accumulate	425	495

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