

August 29, 2014

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit I	2.00	SMERA BB-/Stable (Assigned)
Cash Credit II	2.00	SMERA BB-/Stable (Assigned)
Term Loan I	1.49	SMERA BB-/Stable (Assigned)
Term Loan II	0.04	SMERA BB-/Stable (Assigned)
Letter of Credit/Bank Guarantee	3.50	SMERA A4 (Assigned)

SMERA has assigned ratings of '**SMERA BB-**' (read as SMERA double B minus) to the Rs.5.53 long-term bank facilities and '**SMERA A4**' (read as SMERA A four) to the Rs.3.50 crore short-term bank facilities of Railfab. The outlook is '**Stable**'.

The ratings are constrained by the decline in the firm's operating profit margin amidst intense competitive pressure. The ratings are also constrained by the firm's exposure to customer concentration risk. The ratings factor in risks related to the firm's working capital-intensive operations and stretched liquidity position. However, the ratings are supported by the firm's moderate financial risk profile, healthy revenue growth and experienced management. The ratings also draw comfort from the firm's long-standing association with the Indian Railways.

Railfab, established in 1994, is a Punjab-based partnership firm engaged in manufacturing of fabricated components used in railways. Railfab's operating profit margin declined from 10.78 per cent in FY2011-12 to 9.94 per cent in FY2012-13. The firm is highly dependent on tender-based orders sourced through an intensely competitive bidding process. Railfab is exposed to customer concentration risk arising from high dependence on the Indian Railways. The firm's operations are working capital-intensive. Railfab's weak liquidity position is reflected in Gross current assets of 258 days and collection period of 69 days in FY2012-13. The firm's utilisation of working capital limit is thus high at 98 per cent during December 2013 to May 2014.

Railfab's moderate financial risk profile is marked by leverage of 1.47 times as on 31st March, 2013 and interest coverage ratio of 2.18 times in FY2012-13. Railfab's revenues have grown at a healthy compound annual growth rate (CAGR) of 15 per cent during FY2011 to FY2014. The firm benefits from its experienced management who has around 25 years of experience in the firm's line of business. Railfab has long-standing association of around two decades with the Indian Railways.

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Outlook: Stable

SMERA believes Railfab will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and profitability while achieving efficient working capital management. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected revenues and profitability, or in case of delays in collection of dues from customers.

About the group

Railtech group was established in the year 1990 and is engaged in manufacturing and supplying components to the Indian Railways. The group has five independent verticals - Rail Components, Electrical, Metal Fabrication, Metal Trading, Bio Toilets and constitutes of four individual identities Railtech, Railfab, Techfab and Inovtech.

About the Company

Railfab is the flagship company of Punjab based Railtech Group. Railfab is a partnership firms established in 1994 by the Jain family. The company supplies fabricated products to Indian Railways for more than 10 years and are recognized vendors for its rail coach factory in Kapurthala, Chennai and Rae Bareli.

For FY2012-13, Railfab reported PAT of Rs.0.43 crore on operating income of Rs.20.79 crore, as compared with PAT of Rs.0.33 crore on operating income of Rs.12.63 in FY2011-12. The company's net worth stood at Rs.3.42 crore as on March 31, 2013, as compared with Rs.2.86 crore a year earlier.

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