

Press Release

Fabro Forge

August 08, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 10.00 crore bank facilities of Fabro Forge. The outlook is '**Stable**'.

Established in 2007, Fabro Forge (FF) is engaged in the manufacture of railway track components (rail clip- II, III, V, HTS bolts and nuts). The firm, led by partners, Mrs. Jyoti Kedia and Mr. Rishab Kedia is an approved manufacturer and caters to Research Design and Standard Organization (RSDO).

Key Rating Drivers

Strengths

• Approved vendor for RSDO

The group undertakes tender based contracts. It has been able to bag repeat orders from the railways evident from the rise in revenue to Rs 110.66 crore in FY2017 (Provisional) from Rs 56.65 crore in FY2015 thereby registering compounded annual growth rate (CAGR) of 39.76 per cent. Further, the group has healthy order book position of ~ Rs 106 crore likely to be executed by around October, 2017.

• Moderate working capital cycle

The working capital cycle is moderate as reflected in the Gross Current Asset (GCA) of 115 days in FY2017 (Provisional) as against 154 days in FY2016. This is owing to the inventory days of nearly 90 days that the group needs to maintain. Also, the firm has relied on creditors to fund its working capital requirements resulting in high TOL/TNW of 4.72 times in FY2017 (Provisional), a fall from 6.12 times in FY2016. The high reliance on creditors to fund its working capital cycle shows the bargaining strength of the group.

• Experienced management and long track of operations

The group is engaged in the manufacture and supplying of railway track items since 1988. The firm is led by Mr. Subhash Kedia who possesses experience of nearly three decades in the said line of business.

Weaknesses

• Moderate financial risk

The moderate financial risk profile is marked by low net worth base of Rs 9.95 crore in FY2017 (Provisional) as compared to Rs 7.77 crore in FY2016. The group's consolidated gearing stood high at 2.13 times in FY2017 (Provisional), a fall from 3.17 times in FY2016. The coverage indicators are comfortable with interest coverage ratio (ICR) of 2.48 times in FY2017 (Provisional) as against 2.15 in FY2016. The NCA/TD stood comfortable and improved to 0.15 times in FY2017(Provisional) from

0.08 times in FY2016. Going forward, the financial risk profile is expected to remain moderate.

• Volatility in raw material prices

The major raw material used is billets. Any adverse movement in raw material prices can affect margins considering that raw material costs constitute, on an average nearly 82 per cent of the total revenue during the period FY2014- FY2017. The group operates in a competitive industry with competition from other players thereby limiting its success strike rate to around 10 per cent.

Analytical Approach

For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of Eastern Track Udyog Private Limited (ETUPL), Ked Sati Iron & Steels Private Limited (KSISPL) and Fabro Forge (FF), together referred to as the Jai Dadi Group. The consolidation is on account of operational and financial linkages, apart from common ownership.

Outlook: Stable

SMERA believes that the group will maintain a stable outlook over the medium term, owing to its experienced management and orders in hand. The outlook may be revised to 'Positive' in case of increase in scale of operations and improved profitability while prudently managing its working capital requirement. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues, fall in margins and higher working capital requirement.

About the Group

The Jai Dadi Group was incorporated in 1988 by Mr. Subhash Kedia. The group is engaged in the manufacture and supply of fish plates, groove rubber sole plate (GRSP), metal liner, single coil spring washer among others. Additionally, the group is also engaged in the construction of railway bridges which constitutes around 10 per cent of its total revenue. The group consists of three companies - Eastern Track Udyog Private Limited, Ked Sati Iron & Steel Private Limited and Fabro Forge. The nature of business is tender based.

About the Rated Entity - Key Financials

For FY2017 (Provisional), the group achieved net profit after tax (PAT) of Rs.1.91 crore on operating income of Rs.110.66 crore as compared with PAT of Rs.0.78 crore on operating income of Rs.95.81 crore in FY2016. For FY2017 (Provisional), FF on standalone basis achieved net profit after tax (PAT) of Rs.0.22 crore on operating income of Rs.19.14 crore as compared with PAT of Rs.0.22 crore on operating income of Rs.19.80 crore in FY2016.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Consolidation Of Companies - <https://www.smerra.in/criteria-consolidation.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB / Stable
Proposed Letter of Credit/Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in
Aniruddha Dhar Analyst - Rating Operations Tel: 033-66201212 aniruddha.dhar@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.