

Press Release

Fabro Forge (FF)

January 02, 2020

Rating Upgraded and Reaffirmed



Total Bank Facilities Rated	Rs. 10.00 crore
Long Term Rating	ACUITE BB+/ Stable (Upgraded from ACUITE BB/ Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs 10.00 crore bank facilities of Fabro Forge (FF). The outlook is '**Stable**'.

The rating upgrade reflects significant improvement in revenue and profitability leading to improvement in financial risk profile. The group's revenues have increased in FY 19 to Rs 170.27 crore from Rs 109.45 crore in FY 17 thereby achieving a Compounded Annual Growth Rate (CAGR) of 15.87 per cent from FY 17 to FY 19. The improvement in revenue is on account of increase in orders. At the same time, the operating margins of the company have improved by around 650 bps over the same period, leading to healthy accretion to reserves. The gearing of the company has sequentially improved to around 1.50 times as on March 31, 2019 as compared to 2.13 times as on March 31, 2017. Acuité, expects the company to continue to record healthy growth rate in revenues over the medium term on the back of healthy demand prospects.

Jai Dadi Group was incorporated in 1988 by Mr. Subhash Kedia and has three main units namely, Eastern Track Udyog Private Limited, Kedsati Iron & Steel Private Limited and Fabro Forge. The group is involved in the manufacturing and supplying of railway track items for more than 2 decades. The entities undertake tender based contract from railways to manufacture and supply of railway track items in the form of fish plates, elastic rail clips, HTS nuts and bolts, channel sleepers to name a few.

Established in 2007, the firm Fabro Forge is engaged in manufacturing all types Elastic Rail Clip- II, III, V and HTS Bolts and Nuts. The firm undertakes tender based contracts to supply railway track items.

ETUPL was established as a proprietorship firm in 1988 by Mr. Subhash Kedia which was later reconstituted in 1996 as a partnership firm. Further in 2006, the firm was converted into a private limited company. The company undertakes tender based contract to manufacturing of railway track items in the form of fish plates; groove rubber sole plate (GRSP); Elastic Rail Clip (ERC) ERC-II, III, V; Metal Liner; Single Coil Spring Washer; Composite Grooved Rubber Sole Plate; Glued Joint; HTS bolt and nuts; GFN Liners; Channel Sleepers. The manufacturing unit is located in Asansol (West Bengal). The company is an approved manufacturer and supplier of Research Design and Standard Organization (RSDO).

Incorporated in 2007, the company Kedsati Iron and Steel Private Limited is engaged in manufacturing all types of fish plates; groove rubber sole plate (GRSP) -6mm; Elastic Rail Clip (ERC) ERC-II, III, V; Metal Liner; Single Coil Spring Washer; Composite Grooved Rubber Sole Plate; Glued Joint; HTS bolt and nuts. The company has a in house rolling mill where billets are rolled and thereby converted into various products The manufacturing unit is located in Liluah with an installed capacity of 25000 MT per annum.

Analytical Approach

Acuité has taken a consolidated view on business and financials of the Eastern Track Udyog Private Limited, Kedsati Iron & Steel Private Limited and Fabro Forge, while arriving at the rating since all the three entities are in the same line of business, common management and have significant operational linkages. The group is herein referred to as Jai Dadi Group.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The group was established in 1988 by Mr. Subhash Kedia. Thus, the group has an operational track record of more than three decade. The directors and partners Mr. Subhash Kedia and Mrs. Jyoti Kedia have experience of more than three decade on count of track record of operations of the group. The long track record of operations and experience of management have helped the company maintain healthy order book position of Rs. 175.20 crore, thereby giving a revenue visibility for near to medium term. Acuité believes that Jai Dadi Group will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Approved vendor for RDSO**

The group, an approved contractor for RDSO has been able to bag repeat orders from Indian Railways. The revenue of the group rose to Rs 170.27 crore in FY2019 from Rs 165.03 crore in FY2018 and Rs 109.45 crore in FY 2017 thereby registering compounded annual growth rate (CAGR) of 15.87 per cent. Further, the group has healthy order book position of ~ Rs 175 crore lending revenue visibility.

- **Moderate financial risk profile**

The financial risk profile of the group is marked by moderate net worth, moderate gearing, and healthy debt protection metrics. The net worth of the group stood moderate at Rs 37.39 crore as on 31st March, 2019 as against Rs 21.02 crore as on 31st March, 2018, mainly on account of retention of profits in the same period. The gearing of the group stood moderate at 1.50 times as on 31st March, 2019 as against 2.06 times as on 31st March, 2018. The total debt of Rs 56.23 crores as on 31st March, 2019 includes long term debt of Rs 0.81 crore, unsecured loans of Rs 31.05 crore and short term debt of Rs 24.36 crore. The interest coverage ratio stood comfortable at 4.83 times in FY 19 as against 6.21times in the previous year. Debt service coverage ratio stood comfortable at 3.84 times in FY 19 as against 4.67 times in FY 18. Net Cash Accruals/ Total debt (NCA/TD) stood at 0.34 times in FY 19 as against 0.28 times in FY 18. Acuité expects the financial risk profile to improve marginally in absence of major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The company' operations are working capital intensive marked by Gross Current Assets (GCA) days of 178 days in FY 19 as against 125 days in FY 18. The GCA days are mainly dominated by inventory days of 78 days in FY 19 as against 69 days in the previous year. The raw material inventory and finished goods inventory is maintained for 45 days to 60 days. The debtor days stood high at 74 days in FY 19 as against 34 days in FY 18. The working capital intensity is further reflected from nearly full utilization of working capital facilities. The working capital is likely to remain intensive over the medium term.

- **Volatility in raw material prices and intense competition**

The main raw material used by the company is billets. Any adverse movement in the prices of billets can affect margins considering that raw material costs constituted around 70 per cent of the total revenue during FY2019. Additionally, the group faces competition from other players in the industry.

Rating Sensitivity

- Sustenance in revenue growth and profitability
- Improvement in working capital management

Material Covenants

None

Liquidity Profile

Jai Dadi Group has adequate liquidity position marked by moderate net cash accruals against its debt maturities in FY 19. The net cash accruals stood at Rs 18.90 crore in FY 19 as against Rs 12.11 crore in FY 18. The group maintains unencumbered cash and bank balances of Rs 0.22 crores as on 31st March, 2019. The current ratio of the company stood at 1.27 times as on 31st March, 2019 and 0.95 times as on 31st March, 2018. The operations of the group are working capital intensive in nature marked by Gross Current Assets (GCA) of 178 days in FY2019 as against 125 days in FY2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term.

Outlook: Stable

Acuite believes that Jai Dadi Group will continue to benefit over the medium term on the back of its long track record of operation and moderate financial risk profile. The outlook may be revised to 'Positive' in case the group achieves significantly higher than expected revenues and profitability followed by improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of further elongation in its working capital management or the group incurs any debt funded capex plans.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	170.27	165.03
PAT	Rs. Cr.	15.98	10.30
PAT Margin	(%)	9.38	6.24
Total Debt/Tangible Net Worth	Times	1.50	2.06
PBDIT/Interest	Times	4.83	6.21

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

None

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
22 November, 2019	Proposed Cash Credit	Long Term	5.00	ACUITE BB (Indicative)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A4+ (Indicative)
30 August, 2018	Proposed Cash Credit	Long Term	5.00	ACUITE BB (Indicative)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A4+ (Indicative)
08 August, 2017	Proposed Cash Credit	Long Term	5.00	ACUITE BB/Stable (Assigned)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00 (Reduced from Rs 5.00 crore)	ACUITE BB+ (Upgraded from ACUITE BB)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.50 (Reduced from Rs 5.00 crore)	ACUITE A4+ (Reaffirmed)
Proposed non-fund based facility	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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