



SMERA RATINGS LIMITED

Frontier Alloy Steels Limited (FASL)**Rating
Rationale****April 01, 2014**

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	10.00	SMERA BBB-/Stable (Assigned)
Term Loan	9.60	SMERA BBB-/Stable (Assigned)
SLC	1.50	SMERA A3 (Assigned)
Bank Guarantee	6.00	SMERA A3 (Assigned)
Letter of Credit	5.00	SMERA A3 (Assigned)

SMERA has assigned ratings of '**SMERA BBB-**' (read as **SMERA triple B minus**) to the Rs.21.10 crore long-term (fund based) bank facilities and '**SMERA A3**' (read as **SMERA A three**) to the Rs.11.00 crore short-term (non-fund based) bank facilities of Frontier Alloy Steels Limited (FASL). The outlook is '**Stable**'. The ratings are supported by the company's healthy profit margins and strong debt protection metrics. The ratings are further supported by the company's long track record of operations, experienced management and strong growth in revenues. However, the ratings are constrained by the company's susceptibility to volatility in raw material prices and significant customer concentration.

FASL, incorporated in 1986, is a Kanpur-based company engaged in manufacturing of alloy castings, high capacity springs and fabrication for use in Indian railways (IR). The company reported healthy net profit margin of 6.75 per cent in FY2012-13 (refers to financial year, April 01 to March 31). FASL has strong debt protection metrics with leverage at 0.71 times as on March 31, 2013 and healthy interest coverage ratio of 7.88 times in FY2012-13.

FASL benefits from its experienced management. Mr. Kundan Lal Bhatia, Chairman of FASL, is an electrical engineer with more than four decades of experience in the steel manufacturing and casting industry. FASL registered CAGR revenue growth of about 17 per cent during FY2008-09 to FY2012-13, primarily due to increase in orders from IR and diversification of customer base.

Net profit margins of FASL is susceptible to volatility in raw material prices, as melting scrap and ferro alloys are highly volatile commodity. FASL faces customer concentration risk as it sells its products to Indian Railway and private wagon manufactures in the ratio of around 60:40.

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Outlook: Stable

SMERA believes that FASL will maintain its business and financial risk profiles over the medium term supported by its established relationship with customers and its conservative financial policy. The outlook may be revised to 'Positive' if FASL penetrates new product markets, while maintaining its profitability, leading to increase in scale of operation. Conversely, the outlook may be revised to 'Negative' if the company undertakes a large, debt-funded, capital expenditure (capex) program or its profitability declines, leading to deterioration in its capital structure.

About the company

FASL, incorporated in 1986, is a Kanpur-based company engaged in manufacturing alloy castings, high capacity springs and fabrication for use in Indian railways (IR). Products of FASL include coupler assembly, fabricated bogies, draft gears, draw bar, axle box, and rubber components which find its application in Indian Railways (IR), rolling stock and automobile sector. The company sells its products to IR and private wagon manufactures in the ratio of around 60:40.

FASL's registered office is located in Kanpuri. FASL has two units, one in Kanpur (Uttar Pradesh) and the other in Paonta Sahib (Himachal Pradesh). It has total capacity of 18,000 tonnes per annum (tpa) for castings and 2100 tpa for rubber components and 1000 tpa.

For FY2012-13, FASL reported PAT of Rs. 6.97 crore on operating income of Rs.103.34 crore as compared with PAT of Rs.4.46 crore on operating income of Rs.101.96 crore for FY2011-12. FASL's net worth stood at Rs.31.58 crore as on March 31, 2013.

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