

June 10, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	10.00	SMERA BBB/ Stable (upgraded from SMERA BBB-/Stable)
Term Loan	7.32	SMERA BBB/ Stable (upgraded from SMERA BBB-/Stable)
Proposed Term Loan	2.28	SMERA BBB/Stable (upgraded from SMERA BBB-/Stable)
Letter of Credit	5.00	SMERA A3+ (upgraded from SMERA A3)
Bank Guarantee	6.00	SMERA A3+ (upgraded from SMERA A3)
Standby Line of Credit	1.50	SMERA A3+ (upgraded from SMERA A3)
Fixed Deposit	5.00	SMERA FBBB/Stable (Assigned)

SMERA has upgraded the rating of Rs.19.60 crore long-term (fund based) bank facilities to '**SMERA BBB' (read as SMERA triple B)**' from 'SMERA BBB-' (read as SMERA triple B minus) and the Rs.12.50 crore short term (non-fund based) bank facilities to '**SMERA A3+' (read as SMERA A three plus)**' from 'SMERA A3' (read as SMERA A three) of Frontier Alloy Steel Limited (FASL). SMERA has also assigned a rating of '**SMERA FBBB' (read as SMERA F triple B)**' to the proposed fixed deposit facilities of Rs. 5.00 crore of FASL. The outlook is '**Stable**'.

The upgrade reflects the consistent growth in the company's scale of operations and profitability apart from a healthy financial risk profile. The upgrade also factors in the healthy revenue visibility, with moderate order book position and increasing contribution from the export market in addition to the company's experienced management. However, the rating remains constrained by the company's susceptibility to volatility in raw material prices and significant customer concentration risk.

Update

FASL has shown consistent revenue growth over the years registering Rs.95.47 crore in FY2013-14 from Rs.61.15 crore in FY2009-10. The company has reported net revenue of Rs.98.34 crore (provisional) for the period April 2014 to March 2015. FASL's debt-to-capital ratio improved marginally to 0.52 times as on March 31, 2014 (from 0.58 times as on March 31, 2013). The company's operating profit margin increased to 14.71 per cent in FY2013-14 from 13.11 per cent in the previous year. FASL reported healthy return on capital employed (ROCE) at 17.24 per cent in FY2013-14 from 20.84 per cent in FY2012-13. The company has healthy order book approximately at Rs.60.00 crore as on May 30, 2015. Also, export revenues went up to Rs.1.63 crore in FY2014-15

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(provisional) as compared to Rs.0.57 crore in FY2013-14. FASL's comfortable liquidity position is reflected in the moderate utilisation (68 per cent) of cash credit limit from November 2014 to May 2015. FASL plans to raise fixed deposit of Rs. 5.00 crore in FY2015-16.

The company continues to benefit from its experienced management. Mr. Kundan Lal Bhatia, the Chairman is an electrical engineer with more than four decades of experience in the steel manufacturing and casting industry.

However, on the financial front, the net profit margins of the company are susceptible to volatility in raw material prices. Besides, FASL faces customer concentration risk. The company sells its products to the Indian Railways (around 16 zones across India) and private wagon manufacturers in the ratio of around 60:40. Moreover, the company's ability to diversify its customer base, and achieve anticipated contribution from the export market will remain a key rating sensitivity factor.

Outlook: Stable

SMERA believes FASL will maintain a stable business risk profile over the medium term. The company will continue to benefit from its established operations and experienced management. The outlook may be revised to 'Positive' in case the company registers sustained growth in revenues and accruals while maintaining its working capital cycle. The outlook may be revised to 'Negative' in case of an inordinate elongation in its working capital cycle or a significant debt funded capex, leading to deterioration in its financial risk profile.

About the Company

FASL, incorporated in 1986, is a Kanpur-based company engaged in the manufacture of alloy castings, high capacity springs, fabricated bogies to name a few for the Indian Railways (IR). The company has two manufacturing units with a total capacity of 18,000 tonnes per annum (tpa) at Kanpur, (Uttar Pradesh) and Paonta Sahib, (Himachal Pradesh) for castings, rubber components and fabrication. Additionally, the company has also begun exporting castings to USA.

FASL reported profit after tax (PAT) of Rs.6.65 crore on operating income of Rs.95.47 crore for FY2013-14, as compared with PAT of Rs.6.97 crore on operating income of Rs.103.34 crore in FY2012-13. The company reported net revenue of Rs.98.34 crore (provisional) for the period April 2014 to March 2015. The net worth stood at Rs.41.44 crore as on March 31, 2014, as against Rs.34.10 crore a year earlier.

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