

Frontier Alloy Steels Limited: Upgraded

Facilities	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	10.00	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Standby Line of Credit	1.50	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Term Loan	2.23 (reduced from Rs. 7.32 crore)	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Letter of Credit	5.00	SMERA A2 (Upgraded from SMERA A3+)
Letter of Credit (Proposed)	7.00	SMERA A2 (Assigned)
Bank Guarantee	6.00	SMERA A2 (Upgraded from SMERA A3+)
Long Term Facilities (Proposed)	0.37 (reduced from Rs. 2.28 crore)	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Fixed Deposits	5.00	SMERA FBBB/Stable (Withdrawn)

SMERA has upgraded the rating of Rs.14.10 crore long-term (fund based) bank facilities of Frontier Alloy Steels Limited (FASL) to **'SMERA BBB+' (read as SMERA triple B plus)** from 'SMERA BBB' (read as SMERA triple B) and the Rs.18.00 crore short term (non-fund based) bank facilities to **'SMERA A2' (read as SMERA A two)** from 'SMERA A3+' (read as SMERA A three plus). Further, SMERA has withdrawn the rating of **'SMERA F BBB' (read as SMERA F triple B)** on the Rs.5.00 crore fixed deposit. The outlook continues to remain **'Stable'**.

The upgrade reflects significant improvement in the financial risk profile marked by increase in interest coverage ratio, profitability indicators and leverage of the company. The upgrade also factors in the healthy revenue visibility supported by moderate order book position. SMERA also notes the consistent growth in the company's scale of operations. The ratings continue to be supported by an experienced management and established track record of operations. However, the ratings remain constrained by the susceptibility of profit margins to volatility in raw material prices and significant customer concentration risk. Notwithstanding the growth in revenues, the scale of operations is considered as moderate.

Update

For FY2015-16 (refers to financial year, April 01 to March 31), FASL has registered net profit of Rs.8.07 crore on operating income of Rs.124.84 crore in contrast with net profit of Rs.5.82 crore on operating income of Rs.106.94 crore in FY2014-15. FASL reported healthy return on capital employed (ROCE) at 20.91 per cent in FY2015-16 from 16.19 per cent in FY2014-15. The company has healthy order book of approximately Rs.70.00 crore as on July 30, 2016. The financial risk profile continues to remain healthy marked by low leverage (debt-equity ratio) of 0.25 times as on March 31, 2016 against 0.39 times during the previous year and strong interest coverage ratio of 7.49 times in FY2015-16 as compared to 4.84 times in FY2014-15 (refers to financial year, April 01 to March 31). The total debt of Rs.15.21 crore (as on March 31, 2016) includes interest bearing unsecured loans of Rs.1.75 crore from promoters, friends and relatives that are subordinated to bank debt. SMERA has treated such unsecured loans as quasi-equity.

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 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 market will remain a key rating sensitivity factor.

Outlook: Stable

SMERA believes FASL will maintain a stable outlook over the medium term owing to the company's 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. Conversely, the outlook may be revised to 'Negative' in case of an inordinate elongation in its working capital cycle or significant debt funded capex, leading to deterioration in its financial risk profile.

Rating Sensitivity Factors

- Sustaining improvement in revenue and profitability profile
- Efficient working capital management
- Large debt fund capital expansion

Criteria applied to arrive at the ratings:

- Manufacturing entities

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.8.07 crore on operating income of Rs.124.84 crore for FY2015-16, as compared with PAT of Rs.5.82 crore on operating income of Rs.106.94 crore in FY2014-15. The net worth stood at Rs.52.86 crore as on March 31, 2016, as against Rs.45.42 crore a year earlier.

Rating History

Date	Name of the Instruments	Amount (Rs. Crore)	Ratings		Outlook
			Long Term	Short Term	
10 June, 2015	Cash Credit	10.00	SMERA BBB (Upgraded)	-	Stable
	Term Loan	7.32	SMERA BBB (Upgraded)	-	Stable
	Standby Line of Credit	1.50	SMERA BBB (Upgraded)	-	Stable
	Letter of Credit	5.00	-	SMERA A3+ (Upgraded)	-
	Bank Guarantee	6.00	-	SMERA A3+ (Upgraded)	-
	Fixed Deposit	5.00	SMERA FBBB (Assigned)	-	Stable
	Proposed Term Loan	2.28	SMERA BBB (Upgraded)	-	Stable
01 April, 2014	Cash Credit	10.00	SMERA BBB- (Assigned)	-	Stable
	Term Loan	9.60	SMERA BBB- (Assigned)	-	Stable
	Standby Line of Credit	1.50	-	SMERA A3 (Assigned)	Stable
	Bank Guarantee	6.00	-	SMERA A3 (Assigned)	-
	Letter of Credit	5.00	-	SMERA A3 (Assigned)	-

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. 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.