



Farsight

## MORNING FARSIGHT

Wednesday, September 12, 2018

**FRONTIER SPRINGS**

**CMP:RS 170**

**TRGT:RS 200**

**TIME HORIZON: 1 YEAR**

Frontier Springs, India's largest manufacturer and one of the world's leading manufacturer of high-capacity Hot Coil Springs, with diameters of 10-65 milli metres (mm) and a maximum free height up to 1,000mm, as also having a Forging Division with products like Screw Coupling for Coaches, Shaft for Silent Block etc., is looking a good buy due to multiple steps being taken by the company to accelerate growth, coupled with good Q1FY19 earnings and attractive valuations. Company has 2 manufacturing plants, one each in Kanpur (U.P.) and Poanta Sahib (H.P.), with a total installed capacity of 8,000 TPA, on single shift of eight hour and the company is in the process to install new machineries such as 1,200MT PRESS, VMC and 6 MT Hammer, which would be used to manufacture products for heavy industries. Company is also the FIRST Company in India to receive orders for manufacturing of springs for Link-Hofmann Busch (LHB) coaches which were being imported till date. Presently LHB Coaches are used in Super Fast trains such as Shatabdi & Rajdhani Express. We believe that Frontier Springs will also benefit through higher demand from Railways, with Regional Rapid Transit System (RRTS), which is a rail based high-speed transit system with a design speed of 180 kmph and an average speed of 100 kmph in Delhi. The execution of such kind of orders would increase the turnover and profits manifold for Frontier Springs, which was seen in Q1FY19 as well. Company has also bought new Load testing Machine from China for Testing of above springs and also setting up a new powder coating plant at Rania. Company is also holding RDSO registration for its various products including, coil springs for railway wagons, coaches and locomotives, steel liners & wear plates for wagons, suspension hanger for coaches, brake block hanger, screw couplings, knuckle pins, yoke pins for locomotives, spring single coil for EMD locomotives making it eligible for Railway Tenders For FY18, company's PBT more than doubled to Rs 5.5 cr from Rs 2.3 cr, on an income of Rs 60 cr, giving healthy PBT margin of 9.2%, leading to an EPS of Rs 9.05 in FY18 against Rs 5.42 in FY17. Now, FY19 holds a promise to be even better for the company, with Q1FY19 PAT having risen by more than 3.5x to Rs 2.2 cr from Rs 60 lakh only, and EPS has come in at Rs 5.67 for first quarter for FY19, which means company has done more than 62% of entire FY18 profits in Q1 of FY19 itself, as management efforts are seen yielding rich rewards, coupled with higher order inflows from Railways, which is accelerate further in significant way with increased penetration of Metro Railways across India. Company has tiny equity of Rs 3.96 cr with FV of Rs 10. Q1FY19 RoE has come in over 20%, EBITDA margin is over 16.8% and PAT margin is over 11.8%, which are indicative of robust business model, despite lower scale of operations, which holds a really good potential to grow in the coming year. On an estimated EBITDA of Rs 13 cr for FY19 and an EPS of Rs 20, stock is trading at an EV/EBITDA of 6x and PE of 8.5x, which are attractive, and given company is one of the largest supplier of Hot Coil Springs to Railways, BHEL, other earth moving equipment manufacturers; power plants; and other heavy industries. Share ruling at Rs 170 can move to Rs 200 in 1 year timeframe.

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Disclosure of interest statement – • Analyst interest of the stock / Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.