Reissued Rating Rationale

Brickwork Ratings assigns 'BWR BBB' & 'BWR A3' for Bank Loan Facilities amounting to ₹ 427 Cr of Archon Engicon Limited

Brickwork Ratings (BWR) has assigned the **Ratings**[1] of 'BWR BBB' for the long term Bank Loan facilities of ₹ 180.50 Cr & 'BWR A3' for the Short term Bank Loan facilities of ₹ 246.50 Cr of Archon Engicon Limited *("AEL" or "the Company")*.

Facility	Limits (₹ Cr)	Tenure	Rating
Fund Based **Line of Credit** **Cash Credit**	**23.50** **157.00**	**Long Term**	**BWR BBB** (Pronounced BWR Triple B) **Outlook : Stable**
Non Fund Based **Letter Of Credit** **Bank Guarantee**	**96.50** **150.00**	**Short Term**	**BWR A3** (Pronounced BWR A Three)
Total	**427.00**	**(INR Four Hundred Twenty Seven Crore only)**	

BWR has principally relied upon the audited financial results up to FY 14 and further projected financials of Archon Engicon Limited (AEL), publicly available information and information/clarification provided by the Company management.

The rating takes cognizance of the vast experience of AEL's promoters in the Transmission & Distribution (T&D) segment of the power sector, continued growth in the scale of operation, long standing relationship with reputed clientele and moderate order book position. However the rating strengths are partially mitigated by customer concentration risk, working capital intensive nature of operations, AEL's exposure to volatile raw material prices and its presence in a highly competitive transmission & distribution infrastructure (TDI) sector.

Background

Incorporated in 2004, AEL started its operations with telecom tower manufacturing, erection and commissioning. In FY10, it ventured into transmission tower manufacturing and now it is a turnkey solution provider for transmission and distribution (T&D) line projects. The company operations include manufacturing and supply of tower material and design, engineering, procurement, commissioning and testing of T&D lines. AEL has its manufacturing facility located at Santej, near Kalol, Gujarat with installed capacity (galvanizing shop) of~ 48000 mtpa. During FY12, the company entered into the supply of tower structures for renewable energy.

AEL is an approved vendor for Power Grid Corporation of India Limited for the manufacturing and supply of transmission towers and substation structures. It is also an approved vendor for

[1] ***Please refer to www.brickworkratings.com for definition of the Ratings***

major state electricity boards (SEBs) like Gujarat Energy Transmission Corporation Limited, UP Power Transmission Corporation Limited, Haryana Vidyut Prasaran Nigam Limited, Rajasthan Rajya Vidyut Prasaran Nigam Limited, Madhya Pradesh Power Generating Co. Ltd. and Maharashtra State Electricity transmission Corporate Limited. AEL has over five years of experience in providing turnkey services in power transmission, three years in solar power and over a decade of operational expertise in telecommunication domain.

Management

Company's management team is led by Mr. Chandrashekhar B. Panchal, MD of AEL. He has close to two decades of experience in transmission & distribution infrastructure (TDI) sector Majority of shareholding in AEL is held by Chandrashekhar B. Panchal(65.64%) and 30.16% owned by Mr. Hiren Patel .The Company is professionally managed and has qualified personnel from the field of production; finance and administration to assist the top-level management.

Operation

AEL's business is broadly categorized in to supply of towers which involves manufacturing of tower components and supplying it on the project site; turnkey Projects involves making tower structures ,carrying out site construction, civil work, installation of tower, placing cables, conductors etc. and Renewable energy segment where AEL provide solar panel mounting structures . AEL has moderate order book of around Rs.627 Cr as on August 30, 2014 representing 0.96x of revenue in FY14.In addition AEL is expecting a significant rise in its current order book on account of orders under negotiation where AEL qualified under L1 list. The order book largely consists of turnkey T&D line projects and material supply for T&D lines. AEL's business model is working capital intensive in nature due to its involvement in turnkey T&D line projects where payments from its customers are milestone-based, which results in increase in the work-in progress. At present AEL is in the process of getting merge with a listed entity i.e. Mahesh Agricultural and Steel Forgings Ltd (MAISF) and Put the detailed application of the merger to BSE on 9th May, 2014

Financial Performance

TOI of AEL witnessed CAGR 21% over a period of four years ending FY 14 stood at Rs.636.07 Cr led by higher order execution however Y-o-Y basis AEL witnessed lower incremental growth in business ending FY 14. For the period till Aug 2014 of the current year of 2014-15, the company has clocked in the turnover to the tune of Rs.276 Cr and going forward BWR believes that AEL will continue its growth momentum and will be able to post double digit growth on the back its current order book position.

In 2013-14 AEL reported operating margins of 7.82% and the company is able to maintain its margins at operating levels close to 8.5% since past four years ended as on March 2014 reflecting its ability to maintain its margins in different business cycles. The marginal reduction in operating margin by 27 bps in FY 14 is partly on account of raw material price volatility and aggressive bidding but going forward margins would be expected to improve on account of execution of higher margin turnkey T&D line projects as AEL derives substantial portion of revenues from the said segment .Increase in interest cost resulted in lower PAT margin by 36 bps to 2.49% in FY 14.

The solvency position improved marginally as indicated by an overall gearing of 1.14x as on March 31, 2014, compared with 1.43x as on March 31, 2013. As of March 2015 the gearing of the company is estimated to increase y-o-y to ~1.24 times on account of total debt increase to support its incremental working capital requirements. Over the medium term the gearing is estimated to remain close to 1.20 times. Interest coverage marginally improved to 1.75 times in FY 14 from 1.69 times in FY 13. As on 31 March 2014, total debt of the company was Rs.133.83 Cr, of which working capital debt constituted 96% .Operations of AEL continued to remain working capital intensive in nature with more than 80% of its total operating capital employed being deployed in net current assets for past four years ended FY14. The average working capital limit utilization remained at 93% during the trailing 12-months ended July 2014.

Going forward, no significant change is expected in AEL's cash conversion cycle primarily because of higher receivables and overall working capital requirements are expected to rise with its scale of operations. As on March 31, 2014 debtors level of the company elevated to Rs.219.14 Cr representing Y-o-Y increase of 43% despite of lower incremental growth in its total income . High receivable level is majorly due to higher sales cloaked in Q4 to the tune of the Rs.213.37 Cr, however company's receivables were blocked with a few state power sector utilities and diamond power collectively worth Rs.9.21 Cr which is O/S for more than 5 months as on 31-Aug-2014

Rating Outlook

The ability of AEL to manage its working capital in view of its growing scale of operations along with reduction in receivables, improvement in profitability would be the key rating sensitivities

Any further decline in its EBITDA margins from the current levels, larger than anticipated working capital requirement and any debt led capital expenditure or expansion plan would be negative from rating perspective. On the contrary in case there is improvement in operating margin and working capital management, thereby supporting its liquidity may result in positive rating action

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