

Rating Rationale

Brickwork Ratings revises rating to 'BWR BB-' / 'BWR A4' (Outlook: Negative) for Archon Engicon Ltd.'s Bank Loan facilities aggregating to ₹ 438.25 Cr

Brickwork Ratings on a review downgrades the following **Rating¹** for Bank Loan facilities of Archon Engicon Ltd (**AEL or 'the Company'**):

Facility	Previous Rated Amt (₹Cr)	Present Rated Amt (₹Cr)	Tenure	Previous Rating [^] (14 th Oct'14)	Present Rating [^]
Fund Based	180.50	322.37	Long Term	BWR BBB (Pronounced BWR Triple B) Outlook: Stable	BWR BB- (Pronounced BWR Double B Minus) Outlook: Negative Downgrade
Line of Credit	23.50	--			
Cash Credit	157.00	120.18			
WCTL	--	148.88			
FITL-I (WCTL)	--	37.56			
FITL-II (CC)	--	15.75			
Non-Fund Based	246.50	115.88	Short Term	BWR A3 (Pronounced BWR A Three)	BWR A4 (Pronounced BWR A Four) Downgrade
Letter of Credit	96.50	--			
Bank Guarantee	150.00	115.88			
Total	427.00	438.25	Four Hundred and Thirty Eight Crores and Twenty Five Lakhs only		

BWR has principally relied upon the audited financial results upto FY15 of the company, publicly available information, limited information/clarifications provided by the company management and other inputs it has gathered about the rated facilities.

The downgrade is influenced by decline in revenues and cancellation of some large orders, huge loss incurred in FY15 due to AEL's exposure to volatile raw material prices, liquidity crunch due to stretched working capital cycle and customer concentration risk. The rating has taken note of support provided by the lenders by way of restructuring of credit facilities.

Background

"Archon Engicon Ltd" (AEL) incorporated in 2004 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.

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

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 major state electricity boards (SEBs) like Gujarat Energy Transmission Corporation Limited, UP Power Transmission Corporation Limited, Maharashtra State Electricity Transmission Corporate Limited, etc.

Ownership & Management

AEL is promoted by Mr. Chandrashekhar B. Panchal, Managing Director having more than two decades of experience in Transmission & Distribution Infrastructure (TDI) sector. Majority of shareholding in AEL as of 31st Mar'15 is held by Chandrashekhar B. Panchal (66.74%) and 30.16% owned by Mr. Hiren S. Patel. The Company is professionally managed and has qualified personnel from the field of production; finance and administration to assist the top-level management

Financial Performance

As per the audited financials for FY15, Gross Sales declined from ₹ 674.86 crs (FY14) to ₹507.89 crs, decline by 33% and incurred huge loss of ₹ 99.31 crs. BWR understands that this was due to cancellation of a large order from a power transmission company. As a consequence, Net worth of the Company stood at ₹ 20.33 crs reduced from ₹ 117.69 crs (FY14). Company's credit facilities have been restructured by the lenders under Corporate Debt Restructuring (CDR) scheme. The gearing of the company has increased drastically from 1.14 times (FY14) to 14.71 times (FY14) due to erosion of networth on account of loss and increase in debt component. Debtors' level of the company elevated from ₹ 219.14 crs to ₹ 299.79 crs (FY15) representing Y-o-Y increase of 37% despite of decrease in total income. Company has not shared the current year's performance or order-book position.

Rating Outlook:

Going forward, the ability of the company to comply with all the requirements stipulated under the CDR Scheme, achieve top-line and profitability numbers as per projections given to the lenders and manage the liquidity issues would be the key rating sensitivities.

Analyst Contact	Relationship Contact
analyst@brickworkratings.com	bd@brickworkratings.com
Phone	Media Contact
1-860-425-2742	media@brickworkratings.com

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