

Rating Rationale

Arco Steel Private Limited

Brickwork Ratings downgraded the ratings for the Bank Loan Facilities of ₹. 40.00 Crores of Arco Steel Private Limited.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (May, 2019)	Present
Fund based CashCredit e-DFS	10.00	10.00	Long Term	BWR BBB- Stable [Assigned]	BWR D [Downgraded]
Overdraft	-	7.50			
Non Fund Based Proposed Letter of Credit	25.00	-	Short Term	BWR A3 [Assigned]	BWR D [Downgraded]
Inland/Import LC	-	22.50			
Total	35.00	40.00	INR Forty Cores Only/-		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

**Complete details of Bank facilities is provided in Annexure-I

RATING ACTION

Brickwork Ratings has downgraded the long term and short term ratings to BWR D for the Bank Loan Facilities of ₹ 40.00 Crores of Arco Steel Private Limited.

The rating was downgraded due to devolvement of LC which were regularised beyond 30 days and also there were overdrawings in the account which were regularised beyond 30 days period during the latest one year.

BWR has essentially relied upon the audited financial statements of Arco Steel Private Limited. for FY18, FY19 and FY20, projections of FY 21 and 22 and publicly available information and information / clarifications provided by the entity's management/banker.

KEY RATING DRIVERS

Credit Risks:

1. LC devolvement/lack of Clarification from banker:

The rating was downgraded due to devolvement of LC during the latest one year which were regularised beyond 30 days and also there were overdrawings in the account which were regularised beyond 30 days period.



2. **Elongated conversion cycle and low coverage ratios and low profit margins:**
Conversion Cycle is Reported at 87 days in FY20 due to decrease in days payable. The coverage ratios as reflected by ISCR & DSCR stand at 1.71X & 0.73X in FY20P respectively and 2.66X & 0.68X in FY19A respectively. DSCR is low at 0.73 in FY20 & is also projected at 0.79 in FY21 which indicates stressed repayment of debt obligation. Debt Equity Ratio is increased to 4.46x in FY20 from 3.93x in FY19. The operating profit margin has increased marginally to 2.69 % in FY20 from 1.03% in FY19 whereas the net profit margin has increased to 0.50% FY20 from 0.30% in FY19 at lower level.
3. **Vulnerability to cyclical nature of industry and raw material price fluctuations :**
The steel industry is sensitive to the shifting business cycles including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Further, the firm is also exposed to raw material price fluctuations, thus, affecting their profitability margins.
4. **Intense Competition :**
Steel industry is highly fragmented and competitive. Arco Steel Private Limited faces intense competition from other large players in the market and thus, restricting their pricing power leading to thin profitability margins.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Going forward, the ability of the firm to improve its financial risk profile and maintaining adequate liquidity will remain the key rating sensitivities.

- **Positive:** The rating may be upgraded if the company inter alia, is able to improve its topline and generate profits along with reporting of satisfactory conduct of the account with the bank or on account of any other favourable factor.
- **Negative:** The rating may be downgraded if inter alia, there is any deterioration in financial risk profile, fails to maintain adequate liquidity or on account of any unforeseen unfavourable events.

LIQUIDITY POSITION

Adequate:

The company's liquidity position was adequate with a current ratio of 1.37x in FY20 as compared to 1.41x in FY19. The cash & cash equivalents at Rs. 3.41 Crs as on March 2020. Average Utilization is 81.72% of cash credit e-DFS facility and 66.18% of Overdraft, during the last six months.



COMPANY PROFILE

Arco Steel Private Limited was Incorporated in 2012 having Corporate Status of Private Limited. The Company deals in the Business of Wholesale Trading in Steel Coils having Registered office Andheri East, Mumbai, Maharashtra. The company is engaged in trading of hot rolled coils, cold rolled coils, galvanized steel coils, colour coated steel coils, PPGI, PPGL, BGL etc in their portfolio.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 20	FY19
Result Type		Audited	Audited
Total Operating Income	(in ₹ Cr)	163.74	244.16
EBITDA	(in ₹ Cr)	4.41	2.51
PAT	(in ₹ Cr)	0.82	0.74
Tangible Net Worth	(in ₹ Cr)	14.49	8.68
Total debt/ Tangible Net Worth	Times	4.46	3.93
Current ratio	Times	1.37	1.41

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: N.A

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Nil

RATING HISTORY FOR THE PREVIOUS THREE YEARS[including withdrawal and suspended]

Instrument /Facility	Current Rating			Rating History For The Previous Three Years			
	Type (Long Term/ Short Term)	Previous Amount (₹ Cr)	Present Amount (₹ Cr)	Rating	2020	2019	2018
Fund Based	Long Term	10.00	17.50	BWR D [Downgraded]	-	BWR BBB- Stable [Assigned]	-
Non Fund Based	Short Term	25.00	22.50	BWR D [Downgraded]	-	BWR A3 [Assigned]	-
Total		35.00	40.00	INR Forty Cores Only/-			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [What constitutes Non Cooperation](#)

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ANNEXURE I

Arco Steel Private Limited

Details of Bank Facilities rated by BWR

Sl.No.	Type of Facilities	Long Term [₹ Cr]	Short Term [₹ Cr]	Total [₹ Cr]
1	Fund based CashCredit e-DFS	10.00	-	10.00
2	Overdraft	7.50	-	7.50
3	Non Fund Based Inland/Import LC	-	22.50	22.50
TOTAL				40.00



For print and digital media

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