

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 35.00 Crores of Arco Steel Private Limited. (ASPL or Company)

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based Cash Credit e-DFS	10.00	Long Term	BWR BBB- (Pronounced Triple B minus) Outlook: Stable
Non Fund Based Proposed Letter of Credit	25.00	Short Term	BWR A3 (Pronounced A three)
Total	35.00	INR Thirty Five Crores Only	

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

Ratings: Assigned

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials of Arco Steel Private Limited (ASPL) for FY16, FY17 & FY18, provisional financials for FY19 and projected financials upto FY21 and publicly available information and information/clarifications provided by the management.

Liquidity position of the Company: Cash & cash equivalent stood at Rs.4.36 Crs as on 31st March, 2018. The Operating Cycle stood 26 days due to moderate payable days as on 31st March, 2018.

Description of Key Rating Drivers

- **Credit Strengths:**

Experienced Promoters: Mr. Harshvadan Shah, director of the company is having experience of more than four decades in the steel trading business.

Increase in revenue: Year on year increase in scale of operations of the company marked by total operating income of 207.05 Crs in FY17 to Rs. 213.83 Crs in FY18. Further, the company has achieved



total revenue of Rs. 244.36 crs in FY19 (Prov).

Financial risk profile: ISCR stood at 2.22x in FY18. Current ratio stood at 1.15x in FY18, however, same has improved to 1.42x in FY19 (Prov). Total Debt/TNW (Analyzed) stood at 0.53x in FY18. Long term borrowings of Rs. 22.41 crs in FY18 mainly includes unsecured loans from friends & relatives of Rs. 18.00 crs which is interest free loans and same is subordinated to the bank facilities. Further, as per undertaking of the management to the bank unsecured loans will not be withdrawn until the tenure of bank facilities and the company will be converting its part of unsecured loans to share capital in FY20.

- **Credit Risks:**

Operating profitability margin: The EBIDTA margin stood has declined to 0.91% in FY18 as compared to 1.23% in FY17. Further, the same has improved to 1.15% in FY19 (Prov). The company's revenue and margins are vulnerable to the volatility in the prices of raw materials.

Exposure to intense competition: ASPL remains exposed to intense competition in the steel trading business as there are numerous players in the industry with limited product differentiation.

Rating sensitivities

Going forward, the company's ability to achieve enhanced scale of operations with increased revenue, and profits, service the debt obligations promptly and manage its working capital efficiently will be the key rating sensitivities.

Analytical Approach

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 Outlook: Stable

BWR believes the **Arco Steel Private Limited** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Arco Steel Pvt. Ltd. (ASPL) was incorporated on October 1, 2012 as a private company. ASPL is engaged in trading of hot rolled coils, cold rolled coils, galvanized steel coils, colour coated steel coils, pre-painted galvanised iron etc. ASPL operates in the domestic market i.e. in the western and southern region. Mr. Harshit Shah and Mr. Harshvadan Shah are directors of the company.



Company Financial Performance

The company has achieved total operating income of Rs. 213.83 in FY18 with a PAT of Rs. 0.88 Crs. The tangible net worth (analyzed) stood at 25.58 crs. Company has achieved total operating income of Rs. 244.36 crs in FY19 (Prov).

Rating History for the last three years

S.No	Facility	Current Rating			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2018	2017	2016
1	Fund based Cash Credit e-DFS	Long Term	10.00	BWR BBB- (Pronounced Triple B minus) Outlook: Stable	Not rated	Not rated	Not rated
2	Non Fund Based Proposed Letter of Credit	Short Term	25.00	BWR A3 (Pronounced A three)	Not rated	Not rated	Not rated
	Total		35.00	₹ Thirty Five Crores Only			

Status of non-cooperation with previous CRA - Nil

Any other information - Nil

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type			
Operating Revenue	₹ Cr	213.83	207.05
EBITDA	₹ Cr	1.95	2.54
PAT	₹ Cr	0.88	0.64
Tangible Net worth (Analyzed) *	₹ Cr	25.58	6.70
Total Debt/Tangible Net worth (Analyzed) *	Times	0.53	0.89
Current Ratio	Times	1.15	1.37



* Tangible Net worth (Analyzed) is arrived after considering unsecured loans of Rs. 18.00 crs as quasi capital.

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Trading Entities](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.



DISCLAIMER

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