

Arcvac Forgecast Private Limited

June 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	31.50 (Reduced from 44.25)	CARE BBB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in rating assigned to the bank facilities of Arcvac Forgecast Private Limited (AFPL) derives strength from experienced promoters, satisfactory financial performance in FY24 (refers to period from April 01 to March 31) marked by improved sales volume of ingots and forgings and satisfactory capital structure and debt protection metrics. CARE Ratings Limited (CARE) takes note of capacity addition of ingots by 6000 MTPA and its successful commissioning from April 2024 onwards along with ongoing capacity addition of forgings by 4000 MTPA which is expected to cater to customers in non-premium segment vis-à-vis its current customers who are present only in the premium segment.

The rating is however constrained by customer concentration risk, susceptibility of profitability to volatility in the prices of raw materials and cyclicity associated with engineering and capital goods industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations beyond Rs 500 crore and operating margin beyond 16% on a sustained basis.
- Improvement in TD/GCA below 1.0x on a sustained basis.
- Diversification of customer profile.

Negative factors

- Decline in scale of operations below Rs. 300 crore and operating margin below 11.50% on a sustained basis.
- Any debt funded capex leading deterioration in TD/GCA beyond 2.50x
- Any time and cost overrun in the ongoing expansion project.
- Any exposure in group company (viz Vikrant Forge Private Limited) either in the form of loans and advances or receivables (exceeding Rs 5 crore at any point of time).

Analytical approach: Standalone

Outlook: Stable

The company is expected to sustain its operational and financial performance in view of long association with its major customers and robust domestic demand from end user industries over the medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters

AFPL is promoted by brothers, Mr. Raj Kumar Chhajera and Mr. Binod Chhajera. The promoters have been engaged in the forging business for more than three decades. The promoters started industrial forging business in 1992 as Vikrant Alloys & Forgings Private Limited (currently Vikrant Forge Private Limited). Subsequently, they conceived AFPL as an integrated industrial forging company to manufacture larger forgings and large volumes with modern technology. The plant was commissioned in 2007.

Satisfactory financial performance in FY24

The scale of operations of the company improved by around 11% to Rs 338.78 crore in FY24 as against Rs 306.55 crore in FY23 on the back of increase in sales volume of ingots and forgings due to higher demand for finished products. The PBILDT margin remained stable at 14.23% in FY24 as against 14.41% in FY23. The capacity utilization (CU) of ingot has increased from 79% in FY23 to 92% in FY24 on account of increase in domestic demand for ingot as indigenous sourcing of ingot was more cost effective for the customers due to global geo-political issues. The CU of forging unit has moderated from 88% in FY23 to 85% in FY24.

Satisfactory capital structure and debt protection metrics

The debt equity ratio and overall gearing have improved from 0.26x and 0.36x as on March 31, 2023 respectively to 0.13x and 0.24x as on March 31, 2024 on account of scheduled repayment of term loan coupled with accretion of profits to reserve. Similarly,

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Total Debt/GCA has also improved from 1.56x in FY23 to 0.97x in FY24 on account of reduction in debt levels coupled with increase in cash profits. Going forward, the capital structure of the company is expected to remain satisfactory in the absence of any planned debt funded capex in the near term.

Update on ongoing capex

The company is in the process of increasing its forging capacity from 16,000 MTPA to 20,000 MTPA in FY25 at a project cost of 8-9 crore to be entirely funded through internal accrual. The company has incurred around Rs 2 crore till March 2024 through internal accruals. The enhanced capacity is being set up to cater to demand of non-premium customers. This is expected to diversify its customer profile and reduce its dependence on demand from customers in the premium segment.

In addition, the company has budgeted an annual maintenance capex of around Rs 15 crore to meet its pent-up maintenance capex requirements proposed to be fully funded through internal accruals.

Key weaknesses

Customer concentration risk

AFPL's customer profile has remained concentrated with sales contribution from top 10 customers at 83% in FY24 and FY23, however, majority of its customers belong to the premium segment of the forging industry (including multi-national corporations) and have comfortable credit profiles which mitigates counterparty credit risk to large extent. Further, AFPL's sales to its group company viz Vikrant Forge Private Limited (VFPL) stood at 7% of total sales in FY24 (8% of total sales in FY23).

The management has stated that the company has added 6 new customers in FY24 and currently has an overall customer base of 58 customers, however; the company's dependence on top 10 customers continued to remain high.

Exposed to cyclicity associated with the engineering and capital goods industry

AFPL is exposed to the cyclicity associated with engineering and capital goods industry as its products serve as feedstock to this industry. Engineering and capital goods industry is cyclical in nature as it is strongly correlated to the economic cycles since its key users viz steel, cement, mining, infrastructure, construction sectors etc are heavily dependent on the state of economy. Further, global demand and supply situation also have a direct bearing on the domestic demand of the industry.

Susceptibility of profitability to volatility in the prices of raw materials

Raw-material comprises around 59% of AFPL's total cost of sales in FY24 and FY23. The major raw materials required for AFPL are scrap and ferro alloys, the prices of which are volatile in nature. Hence, any adverse movement in raw-material price without any corresponding movement in finished goods price might affect the performance of the company. As articulated by management, the company hedges its profitability margins against volatility in the prices of raw material through immediate purchase of raw materials after receiving the orders.

Liquidity: Adequate

The liquidity position of the company is adequate marked by gross cash accruals of Rs 39.70 crore in FY24 as against debt repayment obligations of Rs 15 crore in FY24 and Rs 18 crore in FY25. Going forward, the projected cash accruals are expected to be sufficient to meet the debt repayment obligations of the company. The average utilization of cash credit limit stood moderate at 68% for the last 12 months ended March 2024.

Environment, social, and governance (ESG) risks- Not Applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Castings & Forgings

Arcvac Forgecast Private Limited (AFPL), formerly known as Arcvac Forgecast Limited, incorporated in July 2003, was promoted by Chhajer family of Kolkata. The company is engaged in manufacturing of ingots and steel forging (open die) with annual installed capacity of 35,604 tpa and 16,000 tpa respectively.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	306.55	338.78
PBILDT	44.17	48.19
PAT	20.82	21.90
Overall gearing (times)	0.36	0.24
Interest coverage (times)	3.66	5.21

A: Audited, Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	15.00	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	March 2025	16.50	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	16.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-May-23)	1)CARE BB+; Stable (28-Jul-22)	1)CARE BB; Stable (23-Nov-21) 2)CARE BB-; Stable (02-Aug-21)
2	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-May-23)	1)CARE BB+; Stable (28-Jul-22)	-

LT: Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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