

Arcotech Limited
 October 5, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	266.81	CARE BB-; ISSUER NOT COOPERATING* (Double B Minus; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BB (Double B) on the basis of best available information
Short-term Bank Facilities	205.00	CARE BB-/CARE A4; ISSUER NOT COOPERATING* (Double B Minus/A Four; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BB/ CARE A4 (Double B / A Four) on the basis of best available information
Total	471.81 (Rs. Four Hundred and Seventy One Crore and Eighty One Lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Arcotech Limited to monitor the rating(s) vide e-mail communications/letters dated September 27, 2017, September 15, 2017, September 6, 2017, September 5, 2017, September 4, 2017, August 31, 2017 and July 6, 2017 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Further, Arcotech Ltd. has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on Arcotech Ltd.'s bank facilities will now be denoted as **CARE BB-/CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating have been revised on account of decline in profitability margins, elongated working capital cycle and deterioration in debt coverage metrics.

Detailed description of the key rating drivers

At the time of last rating on October 10, 2016, the following were the rating strengths and weaknesses (updated for the information available from stock exchange):

Key Rating Weaknesses

Elongation of working capital cycle and weakening of liquidity position: The company's operations are working capital intensive, due to elongated collection period as well as inventory holding period and higher credit period provided by the suppliers. The company's operating cycle stood elongated at 183 days for FY17 (refers to the period April 1 to March 31) (PY: 147 days), primarily due to higher inventory period of 127 days (PY: 115 days) and collection period of 120 days (PY: 91 days). The elongated working capital cycle and decline in profitability has adversely impacted the liquidity position of the company.

Decline in margins: The PBILDT margins moderated and stood at 12.41% in FY17 from 13.76% in FY16 due to higher operational cost. Consequently, its PAT margins also reduced to 3.58% (PY: 4.99%) on account of lower operating margin and higher interest expenses. However, the company has reported growth in total operating income by 15% to Rs.186.81cr during Q1FY18 (refers to the period April 1 to June 30) as against Rs. 162.12 crs in Q1FY17. The PAT margin declined from Rs. 9.84 crs in Q1FY17 to Rs. 5.93 crs in Q1FY18.

Deterioration in gearing and debt coverage metrics: The overall gearing (excluding acceptances) of the company stood at 1.18x as on March 31, 2017 (PY: 1.46x). Th company's total debt (excluding acceptances) to GCA ratio increased to 8.15x as on March 31, 2017 (PY: 6.24x) due to lower cash accruals during the year on account of increase in interest cost. Its interest coverage ratio deteriorated to 1.95x duing FY17 (PY: 2.53x) on account of higher interest cost and lower operating profits.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

Raw material price volatility risk: The major raw materials for the company's products are copper cathodes, brass and zinc, the prices of which are volatile. The prices of the copper are linked to prices prevailing on the London Metal Exchange (LME), thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. During FY16, the raw material cost contributed 91% of the total cost of production of the company, thus any volatility in prices of the same may impact the profitability of the company. However, the company's purchases and sales are largely correlated and any increase in raw material cost is passed on to the customers with regular price adjustment every fortnight.

Key Rating Strengths

Experienced promoters with long track record of operations: The Company was incorporated by Mr. Arvind K Saraf in 1981 as Shri Krishna Strips Ltd for manufacturing of copper & brass strips and foils with an installed capacity of 1666 MTPA, at its facility in New Delhi and has a track record of 34 years in this activity. Over the years, it has undertaken backward integration by adding melting and hot rolling facilities and has increased its manufacturing capacity to 24,000 MTPA. The company is managed by a team of highly qualified and experienced professionals from the non-ferrous industry and has established itself as one of the leading manufacturers of copper/brass strips and foils in India.

Semi Integrated operations with a wide product range: The company procures copper cathodes, zinc, scrap and other metals from metal mining companies and scrap dealers and undertakes melting, casting, rolling and slitting of the same to form semi-finished products like ingots, strips, sheets, plates, foils etc. Over the years, the company has expanded its product range to include other non-ferrous alloys like phosphor bronze, nickel silver, nickel brass, cupro nickel, aluminum bronze, tin bearing copper, silver bearing copper etc and can manufacture products with a wide range of properties by varying the composition of each metal in the alloys. The company manufactures a wide range of finished products ranging from 0.035 mm - 12 mm in thickness and from 4 mm to 406 mm in width in precise tolerances.

Reputed customer base: The Company's products find wide applications in the field of electrical industry, automotive radiators, gaskets, oil coolers, XLPE cables, torch body, battery caps, switch gear industry, ammunition cartridges, coins etc. Arcotech supplies its products to more than 100 OEM's and is also registered with several Government of India units in the defense, mint, railways and energy sector. The company has three distinct business segments including the government business, wherein it supplies copper coils for making coinage to the Indian Government mint and also supplies brass coils for ammunition to the ordinance factories. It undertakes direct supply of semi-finished products to companies primarily in the automobile ancillary industry and electronics industry along with terminal manufacturers, lock and key manufacturers etc. it also undertakes supply of products through its dealer network in the nonferrous industry.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Arcotech was incorporated as Shri Krishna Strips Ltd in 1984 and started its operations with a unit at New Delhi to manufacture cold rolled copper/brass strips & foils with a capacity of 1,666 MT. In 1988, the company undertook a backward integration project by adding melting and hot rolling facilities and increased its production capacity to 6,500 MTPA by 1992. In 2006, the company relocated its unit to Bawal, Haryana and its shares were listed on the Bombay Stock Exchange Ltd (NSE & BSE) with effect from December 28, 2007. The company currently undertakes manufacturing of brass & copper foils, strips and sheets including radiator brass foils and radiator copper foils with a capacity of 24,000 MTPA at its facility in Bawal (Haryana).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	730.49	735.57
PBILDT	100.55	91.31
PAT	56.17	40.01
Overall gearing (times)	1.46	1.18
Interest coverage (times)	2.53	1.95

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2018	6.81	CARE BB-; ISSUER NOT COOPERATING*
Non-fund-based-LT/ST-BG/LC	-	-	-	205.00	CARE BB- /CARE A4; ISSUER NOT COOPERATING*
Fund-based-Working Capital Facilities	-	-	-	260.00	CARE BB-; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	6.81	CARE BB-; ISSUER NOT COOPERATING*	-	1)CARE BB (10-Oct-16)	1) CARE BBB (24-Sept-2015)	-
2.	Non-fund-based-LT/ST-BG/LC	LT/ST	205.00	CARE BB- / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB / CARE A4 (10-Oct-16)	1) CARE BBB / CARE A3+ (24-Sept-2015)	-
3.	Fund-based-Working Capital Facilities	LT	260.00	CARE BB-; ISSUER NOT COOPERATING*	-	1)CARE BB (10-Oct-16)	1) CARE BBB (24-Sept-2015)	-

*Issuer did not cooperate; based on best available information

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