

Hilton Metal Forging Limited

July 01, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	7.00	CARE D (Single D)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Short Term Bank Facilities	25.00	CARE D (Single D)	Revised from CARE A4 (A Four)
Total Bank Facilities	32.00 (₹ Thirty-Two Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Hilton Metal Forging Limited (HMFL) takes into consideration the continuous overdrawals of more than 30 days in the bank facilities rated by CARE in the last three months due to poor liquidity position. The rating is further tempered owing to modest scale of operation, thin profitability margins leading to marginal cash accruals, weak debt coverage indicators and highly working capital intensive nature of operations, foreign exchange fluctuation risk and presence in competitive and fragmented industry.

Key Rating Sensitivities

Positive Factors

- Improvement in liquidity position and delay free track record for minimum period of consecutive three consecutive months

Detailed description of Key rating drivers

Key rating Weaknesses

On-going delays in debt servicing

The working capital limits have been overdrawn for period of more than 30 days in the last three months as well as in some of the previous months resulting in delays in debt servicing.

Growth in scale of operations; however, stood modest

During FY22, the total operating income (TOI) grew significantly by 76.50% to Rs. 84.19 crore from Rs. 47.70 crore in FY21. The improvement in TOI in FY22 can be attributed to better market conditions. Nevertheless, the scale of operations stood modest.

Thin profit margins and weak debt coverage indicators

The PBILDT margin though has improved to 6.61% in FY22 vis-à-vis losses reported at operating and net level in FY21. The profitability margins in FY22 reflect improvement in light of the significant growth in the scale of operations along with reduction in material cost. The material cost shows proportionate reduction wherein the % to TOI stood at 90.70% in FY22 vis-à-vis 102.15% in FY21. However, despite the improvement in PBILDT margins, the company's cash profits were negligible.

Besides, the debt coverage indicators marked by interest coverage ratio stood weak at 1.33x in FY22. Further, Total debt to GCA stood weak owing to increase in debt and cash profits being negligible.

Highly working capital-intensive nature of operations

The operating cycle remained stretched; however, improved from 506 days in FY21 to 305 days in FY22 mainly on account of improvement in inventory holding period and collection period. Inventory period has improved from 386 days in FY21 to 274 days in FY22. Nevertheless, HMFL's inventory cycle remained stretched as the flanges manufacturing is very long process driven activity. Furthermore, HMFL caters to different industries and manufactures products of various size/grades. Thus, the company has to maintain different sizes/grades of material to meet the manufacturing requirement towards respective products resulting in high WIP inventory. The collection period reduced significantly from 197 days in FY21 to 43 days in FY22. Owing to all of the above, the working capital limits remained over utilized in certain months during the period of June 01, 2021 to May 31, 2022.

Foreign exchange fluctuation risk

HMFL also earns revenue through export of goods (wherein export contribution in total revenue stood at 7.58% in FY22), which is likely to affect the profit margins owing to the volatility in foreign exchange rates. Further, the company does not follow any hedging practices. Also, the foreign exchange fluctuation risk continues to persist due to timing differences in the sales and receivables.

Presence in competitive and fragmented industry

Owing to presence of large numbers of players operating in the industry and low degree of product differentiation, the industry remained highly competitive and fragmented in nature limiting bargaining power of players of like HMFL and also led to liberal credit policies adopted by the management.

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

Liquidity: Poor

The liquidity position remained poor marked by negligible cash accruals to repayment obligations. Its working capital limits of Rs. 7.00 crore and Rs. 25.00 crore were over utilized during certain months from the period of June 2021 to May 2022. This could constrain the ability of the company to repay its debt obligations on a timely basis.

Analytical approach: Standalone

Applicable criteria:

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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Rating Methodology – Manufacturing Companies](#)

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

[Criteria for Short Term Instruments](#)

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

About the Company

Established as a proprietorship concern in the year 1999 and later on converted to public limited company in the year 2005, Hilton Metal Forging Limited (HMFL) is engaged in manufacturing of forged flanges, fittings and rings mainly applied in the oil & gas, petrochemical refineries, railways, electrical industry and pumps & valves industry. The manufacturing facility of the company is located at Wada, Thane with an installed capacity of 14,400 MTPA. HMFL is ISO 9001:2008 and ISO/TS 16949:2009 certified company. HMFL is registered with Technical Standards and Safety Authority (TSSA), Canada and enlisted with Engineers India Limited (EIL). It's an approved vendor of Kuwait Oil Company (KOC), Ministry of Defence (Ordnance Factory Board (OFB)) and Product development Oman LLC. Moreover, HMFL is an approved manufacturer of pipes, fittings and flanges for Sasol Technology (Pty) Ltd., South Africa.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
Total operating income	47.70	84.19	NA
PBILDT	-17.04	5.57	NA
PAT	-19.57	1.76	NA
Overall gearing (times)	1.33	1.34	NA
Interest coverage (times)	-4.32	1.33	NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

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

Covenants of rated instrument / facility: Not Available

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	7.00	CARE D
Fund-based - ST-EPC/PSC	-	-	-	-	25.00	CARE D

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	7.00	CARE D	-	1)CARE BB-; Stable (06-Aug-21)	1)CARE BB; Stable (24-Sep-20)	1)CARE BB; Stable (25-Sep-19)
2	Fund-based - ST-EPC/PSC	ST	25.00	CARE D	-	1)CARE A4 (06-Aug-21)	1)CARE A4 (24-Sep-20)	1)CARE A4 (25-Sep-19)
3	Non-fund-based - ST-Letter of credit	-	-	-	-	-	-	1)CARE A4 (25-Sep-19)
4	Non-fund-based - ST-Bank Guarantee	-	-	-	-	-	-	1)CARE A4 (25-Sep-19)

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Available**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-EPC/PSC	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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.

Contact us

Media Contact

Mr. Mradul Mishra
Contact no. - +91-22-6754 3573
Email ID – mradul.mishra@careedge.in

Analyst Contact

Mr. Vikash Agarwal
+91-22-67543408
Email ID - vikash.agarwal@careedge.in

Relationship Contact

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careedge.in

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