Hilton Metal Forging Limited

August 06, 2021

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term ratings assigned to the bank facilities of Hilton Metal Forging Limited (HMFL) is on account of moderation in the credit risk profile of the company owing to deterioration in the operating and financial performance of the company characterized by decline in scale of operations coupled with operating losses and cash losses incurred in FY21 (refers to the period from April 01 to March 31) as a result of challenging market conditions and elevated business risks. This has resulted into deterioration in capital structure as well as debt coverage indicators. Furthermore, the ratings are tempered by working capital intensive nature of operations resulting into elongated operating cycle, stretched liquidity position, foreign exchange fluctuation risk, and having presence in a cyclical, competitive and fragmented industry

The ratings, however, continue to derive strength from long track record of operations, highly experienced & qualified promoters, established relationship with reputed albeit concentrated customer base.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs.80.00 crore on a sustained basis
- Improvement in profit margins with PBILDT and PAT margin exceeding 7.50% and 1.50% respectively on a sustained basis
- Improvement in the debt coverage indicators with interest coverage ratio exceeding 2x with total debt to GCA reaching below 5x on a sustained basis.
- Improvement in the collection and inventory holding period below 90 days and 180 days respectively on a sustained basis
- Improvement in the average utilization of the working capital limits reaching below 80% on a sustained basis

Negative Factors

- Significant deterioration in capital structure from present levels thereby impacting credit risk profile of the company

Key Rating Weaknesses

Sharp decline in the scale of operations: The total operating income (TOI) of HMFL remained modest however reflected sharp decline in FY21 with the total operating income (TOI) decreasing significantly by 53.78% to Rs. 47.70 crore from Rs.103.21 crore in FY20 on account of subdued demand from the export market in view of the COVID-19 pandemic and its harsh effects on the export market leading to decline in export revenue.

Operating and cash losses reported in FY21 along with weak debt coverage indicators: Led by significant decline in the scale of operation on the back of subdued demand from the export market, the company has reported operating loss of Rs. 17.04 crore in FY21 vis-à-vis operating profitability of 7.46% in FY20. Similarly, it has reported net loss of Rs. 19.57 crore in FY21 vis-à-vis PAT margin of 1.50% in FY20. Also, the company has incurred losses due to non-absorption of costs. HMFL adopted reverse engineering method wherein they fabricated and casted the non moving inventory and sold them as final product thus saving on further losses.

On the back of operating losses incurred by the company, the debt coverage indicators remained weak with marked by below unity interest coverage ratio. However, the company has been able to manage the repayments on time as they have been able to realise their debtors which has helped them to support the business operations.

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

Highly working capital intensive nature of operations: The operating cycle remained stretched mainly on account of significantly higher inventory holding period and higher collection period. Furthermore, HMFL caters to different industries and manufactures products of various size/grades. Thus, the company maintains different sizes/grades of material to meet the manufacturing requirement towards respective products resulting in high WIP inventory. As a result of the same, the operating cycle remained stretched at 506 days in FY21 vis-à-vis 299 days in FY20 which further led to significantly higher utilization of its working capital limits which stood at ~96.83% during past twelve months ended June 2021. Nevertheless, the company has been able to realise its debtors which has helped the company to support its operations.

Foreign exchange fluctuation risk: HMFL continues to earn major portion of revenue from exports, which is likely to affect the profit margins owing to the volatility in foreign exchange rates. Nevertheless, the same are partially mitigated due to partial hedging policy adopted by the management.

Presence in cyclical, 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.

Key Rating Strengths
Long track record of operations and experienced promoters: HMFL has established track record of operations with more than a decade of existence in the industry. Moreover, the promoter-directors of the company are technically qualified and have experience of over two decades in the industry and also look after the overall operations. Over the years the directors have maintained relationship with its customers thus benefiting the company by securing repetitive orders.

Established relationship with reputed albeit concentrated customer base: The company has established long-term relationships with all of its reputed customers with presence in overseas countries viz. USA, Europe, Mexico, Canada and Australia who are mainly engaged in distribution of pipes, industrial valves & other fittings. Furthermore, the company has also started dealing domestically with reputed customers and secured reparative orders from them. However, the customer base of the company remained concentrated with top 5 customers comprised 59.54% of the net sales in FY21.

Moderate capital structure: The capital structure of HMFL though deteriorated to 1.25 times as on March 31, 2021 vis-à-vis 0.71 times as on March 31, 2020; yet it is considered to remain at moderate levels. The deterioration is on account of increase in working capital bank borrowings of the company along with availment of additional term loans and COVID support loans as on balance sheet date coupled with significant decline in the tangible net worth base led by operating and net losses reported by the company.

Liquidity analysis: Stretched
The liquidity position remained stretched marked by tightly matched accruals to repayment obligations. Its working capital limits remained 90% utilized during past twelve months ended June 2021. The investment in net working capital as a percentage of capital employed stood at 62.85% as on March 31, 2021 vis-à-vis 67.60% as on March 31, 2020, whereas the net cash flow from operating activities stood negative at Rs.3.26 crore vis-à-vis positive at Rs.1.58 crore in FY20. The free cash & bank balance stood low at Rs. 0.06 crore as on March 31, 2021 vis-à-vis Rs.0.16 crore as on March 31, 2020.

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
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 Defense (Ordnance

Factory Board (OFB)) and Product development Oman LLC. Moreover, HMFL is an approved manufacturer of pipes, fittings and flanges by Sasol Technology (Pty) Ltd., South Africa.
The company got listed on Bombay Stock Exchange (BSE) in the year 2007 and trading at Rs. 13.65 per share (as on July 29, 2021) with a free float market capitalization of Rs. 8.49 crore.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A*)
Total operating income	103.21	47.70
PBILDT	7.70	-17.04
PAT	1.55	-19.57
Overall gearing (times)	0.71	1.25
Interest coverage (times)	2.26	-4.32

A: Audited; A: Audited Abridged financials as per BSE Publication*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure 3

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-Cash Credit	-	-	-	7.00	CARE BB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	25.00	CARE A4

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB-; Stable	-	1)CARE BB; Stable (24-Sep-20)	1)CARE BB; Stable (25-Sep-19)	1)CARE BB; Stable (08-Aug-18)
2.	Fund-based - ST-EPC/PSC	ST	25.00	CARE A4	-	1)CARE A4 (24-Sep-20)	1)CARE A4 (25-Sep-19)	1)CARE A4 (08-Aug-18)
3.	Non-fund-based - ST-Letter of credit	-	-	-	-	-	1)CARE A4 (25-Sep-19)	1)CARE A4 (08-Aug-18)
4.	Non-fund-based - ST-Bank Guarantees	-	-	-	-	-	1)CARE A4 (25-Sep-19)	1)CARE A4 (08-Aug-18)

Annexure 3: Complexity level of various instruments rated for this Company

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

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.*

Contact us

Media Contact
Mradul Mishra
Contact No.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Mr. Vikash Agarwal
+91-22-67543604
Email ID - vikash.agarwal@careratings.com

Relationship Contact
Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

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

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.

****For detailed Rationale Report and subscription information, please contact us at** www.careratings.com