Hilton Metal Forging Limited

June 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	7.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Revised from CARE D (Single D); Stable outlook assigned
Short Term Bank Facilities	25.00	CARE A4 (A Four)	Revised from CARE D (Single D)

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Hilton Metal Forging Limited (HMFL) takes into consideration the clear track record of the company's debt servicing in the bank facilities rated by CARE for a period of more than 90 days. The revision in the ratings is also supported by growth in revenue and profitability leading to improved cash accruals along with equity infusion in the business resulting in satisfactory capital structure.

The rating, however, continues to be tempered owing to modest scale of operation, working capital intensive nature of operations demonstrated by elongated operating cycle, stretched liquidity position, foreign exchange fluctuation risk, and presence in competitive and fragmented industry.

The ratings, however, derive strength from experienced promoters and long track record of operations, established relationship with reputed albeit concentrated customer base, improvement in profitability margins along with satisfactory capital structure and debt coverage indicators.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in the scale of operations with a total operating income close to around Rs. 200 crore along with sustenance in PBILDT and PAT margin at around 14% and 6% respectively on a sustained basis
- Improvement in total debt to GCA to improve and stood below 4.50x on a sustained basis.
- Improvement in operating cycle to less than 150 days.

Negative factors

- Significant decrease in total operating income or profitability leading to significant lower cash accruals.
- Any major debt funded capex putting pressure on profitability and liquidity of the company.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is likely to achieve the sales and profitability given the satisfactory order book position which would help to maintain the envisaged operating performance over the near to medium term.

Detailed description of the key rating drivers

Key weaknesses

Modest scale of operations

The company has registered growth of 24.91% in its total income in FY23 as compared to FY22 wherein the total income stood at Rs. 104.64 crore in FY23 vis-à-vis Rs. 83.77 crore in FY22, which thereby reflects the company's growing scale of operations. The improvement in TOI in FY23 can be attributed to better demand within India. However, despite the improvement the scale of operations remained modest.

Working capital-intensive nature of operation

The operating cycle remained stretched; however, improved from 283 days in FY22 to 267 days in FY283 mainly on account of improvement in inventory holding period. Inventory period has improved from 252 days in FY22 to 242 days in FY23. Nevertheless, HMFL's inventory cycle remained elongated as the flanges manufacturing is very long process driven activity along with various approvals to be granted for the dispatch of export orders. 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 inventory. The collection period also increased to 71 days in FY23 from 43 days in FY22 owing to liberal credit policy of the company HMFL also procures the raw material on cash basis. Owing to all of the above, the average utilization of the working capital limits stood almost fully utilised. Going forward, improvement in the operating cycle is expected owing to higher execution in domestic business and the same remains critical from credit perspective.

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

Foreign exchange fluctuation risk
HMFL also earns revenue through export of goods (wherein export contribution in total revenue stood at 6% in FY23), 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.

Key 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, including the global ones belonging to USA, Europe, Mexico, Canada and Australia who are mainly engaged in distribution of pipes, industrial valves & other fittings in their respective countries and to other parts of the world.
However, the customer base of the company stood concentrated with top 5 customers contributing to 78.79% of TOI in FY23 vis-à-vis 75.06% in FY22. Further, the order book position of the company remained moderate with total unexecuted orders worth Rs. 51.50 crore as on May 08, 2023 thus providing better revenue visibility to the company.

Improvement in profitability margins
As a result of growth in the scale of operations along with proportionate reduction in the fixed overheads like material cost (wherein the material cost stood at 83.81% of TOI in FY23 vis-à-vis 90.70% in FY22), employee cost and others, the PBILDT margin has improved significantly to 13.54% in FY23 vis-à-vis 6.61% in FY22. Further, in light of the growth in operating profitability along with reduction in depreciation expense, the PAT margin stood at 5.51% in FY23 vis-à-vis 2.09% in FY22. This has led to improvement in cash accruals.

Satisfactory capital structure and debt coverage indicators
The capital structure of HMFL stood comfortable with an overall gearing of 0.59 times as on March 31, 2023 (vis-à-vis 1.34 times as on March 31, 2022) wherein the improvement is on account of significant improvement in the tangible net worth base and capital infusion along with reduction in the debt level given the lower utilization of working capital limits and repayment of term loan.
Further the debt coverage indicators reflected by TD/GCA improved to 5.68 times as on Mar 31, 2023 given the GCA reported at Rs. 9.30 crore in FY23 and lower debt position. Interest coverage ratio remained comfortable at 2.65 times in FY23 vis-à-vis 1.33 times in FY22 owing to improvement in operating profits.

Liquidity: Stretched

The liquidity position of the company remained stretched with almost full utilisation of working capital limits as the working capital cycle of the company is elongated.

Applicable criteria:
Policy on default recognition
Liquidity Analysis of Non-financial sector entities
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Financial ratios - Non-Financial Sector
Short Term Instruments
Manufacturing Companies
Rating Methodology - NON - Ferrous Metals

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

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 stainless-steel forging flanges allied pipe fitting items, Butt Weld Fittings, Railway Wheels, Gear Blanks, Forged Crankshafts for Automotive sector and Annealed Nickel Alloy and rings and Valve Body bonnet, stainless steel forged flanges forged fittings and lap-joint stub-ends (seamless) which find application in the oil and gas sector, petro chemical and refineries, marine and ship building, paper, pulp, pumps and valves industry and agricultural sectors. The manufacturing facility of the company is located at Wada, Thane with an installed capacity of 14,400 MTPA.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)*
Total operating income	47.70	84.19	104.83
PBILDT	-17.04	5.57	14.19
PAT	-19.57	1.76	5.78
Overall gearing (times)	1.33	1.34	0.59
Interest coverage (times)	-4.32	1.33	2.65

A: Audited; *As published on BSE; Note: 'the above results are latest financial results 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 the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Not Applicable

Complexity level of various instruments rated for this company: 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	-	-	-	-	7.00	CARE B+; Stable
Fund-based - ST-EPC/PSC	-	-	-	-	25.00	CARE A4

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 2023-2024	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
i1	Fund-based - LT-Cash Credit	LT	7.00	CARE B+; Stable	-	1)CARE D (01-Jul-22)	1)CARE BB-; Stable (06-Aug-21)	1)CARE BB; Stable (24-Sep-20)
2	Fund-based - ST-EPC/PSC	ST	25.00	CARE A4	-	1)CARE D (01-Jul-22)	1)CARE A4 (06-Aug-21)	1)CARE A4 (24-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the 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 - ST-EPC/PSC	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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