Maiden Forgings Limited

February 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	39.00	CARE BBB-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Maiden Forgings limited (MFL) derives strength from the growing scale of operations of the company coupled with moderate profitability margins. The rating also draws strength from the moderate capital structure of the company along with the experience and resourcefulness of the promoters. However, the rating is constrained by working capital intensive nature of operations of the company along with exposure to foreign currency fluctuation risk. The rating is also constrained by the cyclicality associated with the steel industry and impact of the fluctuation in steel prices on the operating margins of the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations as marked by total operating income of above Rs.300 crore with PBILDT Margin above 12% on sustained basis.
- Improvement in the liquidity position of the company marked by an operating cycle of below 90 days.

Negative factors

- Deterioration in the capital structure of the company marked by an overall gearing above 1.00x.
- Decrease in scale of operations as marked by total operating income of below Rs.180.00 crore with PBILDT margin below 5.5% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity shall benefit from its established base of customers and suppliers as well as the experience of its promoters.

Detailed description of the key rating drivers:

Key strengths

Growing Scale of Operations with moderate profitability margins

The company has recorded growth of ~5% from Rs. 210.72 crores in FY22 (refers to the period from April 01, 2021, to March 31, 2022) to Rs 221.01 crore in FY23 (refers to the period from April 01, 2022, to March 31, 2023) marked by improvement in capacity utilisation on the back of recovery in the economy. Furthermore, from past five fiscals, MFL has shown continuous growth and has grown with a CAGR of 1.5%. Though, margins have remained moderate on account of increase in raw material cost which the company could not pass it on to its customers completely. The PBILDT and PAT margin stood at 10.02% and 4.30% respectively as on March 31, 2023 (PY: 5.84% and 1.04%). The improvement was on account of change in product mix by the company with focus shifting towards higher gross margin yielding products like Stainless Steel bright bars, wires and pneumatic nails.

H1FY24 (refers to the period from April 01, 2023, to September 30, 2023): The company has recorded turnover of Rs 115.50 crore with PBILDT margin of 9.09%. Though, the margins will slightly moderate going forward due to the increase in the raw material price of steel, which is the primary raw material for the company.

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

Moderate capital structure and debt coverage indicators

The capital structure of MFL stood moderate marked by debt to equity and overall gearing ratio of 0.55x and 1.69x respectively as on March 31, 2023, as compared to 0.87x and 2.23x respectively as on March 31, 2022. The improvement is primarily on account of repayment of certain term loans along with the improved net worth of the company. Debt coverage indicators marked by total debt to gross cash accruals and interest coverage ratio also remained moderate and stood at 5.17x and 4.04x respectively as on March 31, 2023, as compared to 12.65x and 2.07x respectively in the previous fiscal. Furthermore, the company raised Rs. 23.82 crores via Initial Public offering during April 2023, which resulted in improvement in the net worth base of the company. Post IPO, the overall gearing of the company has improved to 0.89x as on September 30, 2023, along with a TDGCA of 2.58x. Going forward, CARE expects the capital structure of the company to remain moderate.

Experienced Promoters with long track record of operations

MFPL is currently led Mr. Nishant Garg (Managing Director), who is an MBA by qualification. He has an experience of more than a decade in the steel Industry and has been at the helm of the affairs of Maiden Forgings Limited since 2022. He is also supported by Mr. Neeraj Naman, the COO of the company. Mr. Neeraj Naman has more than 10 years of experience in the banking Industry. They are also supported by an able management team along with in house team for quality check. It is expected that company will benefit from the extensive experience of the promoters in the industry.

Long established base of customers and suppliers albeit supplier concentration risk

The company has a diversified customer base with top 5 customers only accounting to approximately 12% of the total sales. The company has been doing regular business with these customers and had developed a long-term relationship with them. The company also has a reputed supplier base, albeit running a supplier concentration risk since the top 5 suppliers provide approximately 44% of the total purchases for the company with Taksh Metal Company and Steel Authority of India Limited together supplying approximately 23% of the total steel to the company.

Key weaknesses

Elongated working capital cycle.

The company has an elongated operating cycle of 108 days as on March 31, 2023, as compared to 105 days as on March 31, 2022. Inventory period remains on the higher side at 84 days as on March 31, 2023 (PY: 71 days). The company maintains higher inventory in order to beat its competitors in lead time. The company usually deliver an order of Stainless Steel bars in 30-35 days, whereas their competitors take around 90 days. The creditor period remains moderate at 18 days as on March 31, 2023 (PY: 18 days). The collection period has improved to 43 days as on March 31, 2023, as compared to 51 days in the previous fiscal. Resultantly, the average working capital limits utilization stood at 91% during the past 12 months ended as on October 2023. The net cash flow from operating activities stood at Rs.16.45 crore in FY23 (vis-à-vis Rs. -1.15 crore in FY22). Thus, the ability of the company to improve the liquidity position by efficiently managing the operating cycle would be critical from the credit perspective.

Foreign Currency Fluctuation risk

The company exported goods worth Rs. 5.71 crores in FY23 as compared to Rs.8.06 crores in FY22. The total export sales amounted to approximately 2.5% of the total sales of the company. The company has also imported capital goods worth Rs. 2.39 crores in FY23 providing nature hedge to some extent. Therefore, in the absence of any hedging policy the company is exposed to fluctuation in foreign currency exchange prices. The company made a forex gain of Rs.0.07 crores as on March 31, 2023.

Vulnerability of operating profit margin to fluctuations in raw material prices

The raw material consumption constitutes around 90% of the total expenses of the company. Therefore, the operating profitability margin is directly affected by fluctuations in raw material prices. Since, steel being a commodity, its prices vary a lot over time, thereby exposing the operating margins of the company to volatility associated with steel prices.

Liquidity: Adequate

The company is expected to generate gross cash accruals amounting to Rs. 15.50 crores as against repayment obligations of Rs. 4.67 crores in FY24. Further, the company has Rs. 3.19 crores of cash and bank balance as on March 31, 2023. The current ratio and quick ratio stood at 1.35x and 0.61x respectively as on March 31, 2023 (PY: 1.35x and 0.65x). The average working capital utilisation is however on the higher side at 91% for the trailing 12 months ending October 2023. However, post IPO, the average utilisation of the company has reduced and stood at approximately 80% for trailing 4 months ending December 31, 2023.

Assumptions/Covenants: Not Applicable

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

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Iron and Steel

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Metals & Mining	Ferrous Metals	Iron & Steel

Maiden Forgings Limited (MFL) was incorporated in 1988 as a sole proprietorship firm. It became a private limited company in 2005 and a public limited company in 2022. The company is engaged in manufacturing of wide range of Bright Steel bars and wires from past 35 years, along with increasing focus on value add & specialized products. MFL has complete in-house manufacturing facility including testing, pickling & annealing. MFL has 3 manufacturing units located in Ghaziabad with an installed manufacturing capacity of 50,000 MT p.a.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24(UA)
Total operating income	210.72	221.01	115.50
PBILDT	12.30	22.15	11.29
PAT	2.19	9.51	4.18
Overall gearing (times)	2.23	1.69	0.89
Interest coverage (times)	2.07	4.04	3.79

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Infomerics has placed the rating assigned to the bank facilities of Maiden Forgings Limited into Issuer Not Cooperating category vide their press release dated November 10, 2023, on account of their inability to carry out a review in the absence of requisite information.

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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	39.00	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 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
1	Fund-based - LT-Cash Credit	LT*	39.00	CARE BBB-; Stable				

*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

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.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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