

## Hilton Metal Forging Limited

July 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	7.00	CARE C; Stable	Revised from CARE B+; Stable
Short Term Bank Facilities	25.00	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1

### Rationale & key rating drivers

The revision in the ratings assigned to the bank facilities of Hilton Metal Forging Limited (HMFL) factors in stretched liquidity position resulting in delinquencies in debt servicing to banks and NBFC (not rated by CARE).

The rating is further tempered owing to modest scale of operation, thin profitability, working capital intensive nature of operations, foreign exchange fluctuation risk and presence in competitive and fragmented industry.

The rating, however, continues to derive strength from the extensive experience of the promoter in the industry and long track record of operations, established relationship with reputed albeit concentrated customer base, comfortable 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 with PBILDT and PAT margin exceeding 16.50% and 8% respectively on a sustained basis.
- Improvement in total debt to GCA to improve and stood below 4.00x on a sustained basis.
- Improvement in operating cycle to less than 150 days.
- Improvement in liquidity position and delay free track record for facilities not rated by CARE.

#### Negative factors

- Significant decrease in total operating income due to termination of contracts or lack of demand.

**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

##### Delays in debt servicing

The company has delayed the repayment of dues amounting to Rs. 0.27 crore to Banks and Non-banking Financial Company (NBFC) during the year, ranging for period of 30 to 89 days. The said facilities are not rated by CARE. For the facilities rated by CARE, the banker feedback is satisfactory with no delays and defaults.

##### Modest scale of operations

The company has registered growth of 31.92% in its total income in FY24 over FY23 wherein the total income stood at Rs. 138.42 crore vis-à-vis Rs. 104.93 crore in FY23, which thereby reflects the company's growing scale of operations. The improvement in TOI in FY24 can be attributed to better demand within India. However, despite the improvement the scale of operations remained modest.

##### Deterioration in profitability margins

Given the increased overheads viz. material cost, employee cost and others, the PBILDT margin deteriorated slightly to 10.89% in FY24 vis-à-vis 13.62% in FY23. Further, in light of the decline in operating margin along with reduction in depreciation expense, the PAT margin stood at 4.83% in FY24 vis-à-vis 5.58% in FY23.

##### Working capital-intensive nature of operation

The operating cycle remained stretched; however, improved from 267 days in FY23 to 239 days in FY24 mainly on account of improvement in inventory holding period. Inventory period has improved from 242 days in FY23 to 213 days in FY24.

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. 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 88 days in FY24 vis-

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

à-vis 71 days in FY23 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 at 96%. Going forward, improvement in the operating cycle is expected owing to higher execution in domestic business and the same remains critical from credit perspective.

#### **Foreign exchange fluctuation risk**

HMFL also earns revenue through export of goods (wherein export contribution in total revenue stood at 10% in FY24), 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.

##### **Established relationship with reputed albeit concentrated customer base**

The company has established long-term relationships with all 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 86.49% in FY24 vis-à-vis 75.16% of TOI in FY23. Further, the order book position of the company remained moderate with total unexecuted orders worth Rs. 52.06 crore as on June 24, 2024 thus providing better revenue visibility to the company.

#### **Liquidity: Stretched**

The liquidity position is stretched characterized by moderate accruals and low cash balance of Rs. 0.12 crore as on March 31, 2022 (along with lien marked FDs of Rs. 1.05 crore). Its bank limits are utilized up to around 96% for the past 12 months ending March 2024 and provides no liquidity backup. The net cash flow from operating activities stood positive at Rs. 4.83 crore in FY24 vis-à-vis negative CFO at Rs. 21.57 crore in FY23.

#### **Applicable criteria**

[Policy on default recognition](#)

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

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

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

[Short Term Instruments](#)

[Rating Methodology - NON - Ferrous Metals](#)

[Manufacturing Companies](#)

#### **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, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	84.19	104.93	138.42
PBILDT	5.57	14.30	15.08
PAT	1.76	5.86	6.69
Overall gearing (times)	1.34	0.59	0.54
Interest coverage (times)	1.33	2.67	2.33

A: Audited; 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 the various instruments rated:** 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 C; 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	7.00	CARE C; Stable	-	1)CARE B+; Stable (29-Jun-23)	1)CARE D (01-Jul-22)	1)CARE BB-; Stable (06-Aug-21)
2	Fund-based - ST-EPC/PSC	ST	25.00	CARE A4	-	1)CARE A4 (29-Jun-23)	1)CARE D (01-Jul-22)	1)CARE A4 (06-Aug-21)

LT: Long term; ST: 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](mailto:care@careedge.in) for any clarifications.

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