Hilton Metal Forging Limited

August 08, 2018

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating of the bank facilities of Hilton Metal Forging Limited (HMFL), factors in the increase in scale of operations with improvement in profit margins and debt coverage indicators.

The ratings continue to constrain by its modest scale of operations, moderate profit margins, moderately weak debt coverage indicators and working capital intensive nature of operations. The ratings further continue to be constrained by susceptibility of margins to volatile input prices and presence in cyclical & competitive industry.

The ratings, however, continue to derive strength from highly experienced & qualified promoters, reputed & diversified customer base and comfortable capital structure.

The ability of HMFL to increase the scale of operations and improve profit margins amidst cyclical & competitive industry, along with maintaining the capital structure and improving the liquidity position with efficient working capital management are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations with moderate profitability: The scale of operations of HMFL remained modest with TOI of Rs.94.95. Further the same has been increasing during last three years ending FY18 on account of increase in demand from its domestic and export customers. The PBILDT margin remained at moderate level in the range of 5%-7.09% and has been increasing owing to better realization from the customers. Further the company reported net profit in FY18 as against losses in last two years owing to proportionately lower interest and depreciation cost.

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 has to maintain different sizes/grades of material to meet the manufacturing requirement towards respective products resulting in high WIP inventory.

Forex 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 competitive and fragmented industry: Further 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.

Key Rating Strengths

Experienced promoters: 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.

Comfortable capital structure: Owing to healthy networth base with moderate dependence on external borrowings, the capital structure continues to remain comfortable. Furthermore, with improvement in the operating performance led by increase in profits and cash accruals, debt coverage indicators have also improved and remained at moderate level.

Diversified 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 the same.

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

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[Criteria for Short Term Instruments]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Hilton Metal Forging Limited (HMFL) is engaged in manufacturing of forged flanges 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, registered and approved with various international standard authorities.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	80.81	94.95
PBILDT	5.69	6.73
PAT	-0.43	0.27
Overall gearing (times)	0.45	0.59
Interest coverage (times)	1.88	2.18

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

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

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.*

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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.

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	-	-	-	18.00	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	6.00	CARE A4
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB; Stable	-	1)CARE BB-; Stable (04-Oct-17)	1)CARE BB- (13-Oct-16)	1)CARE BB (09-Sep-15)
2.	Fund-based - ST-EPC/PSC	ST	18.00	CARE A4	-	1)CARE A4 (04-Oct-17)	1)CARE A4 (13-Oct-16)	1)CARE A4 (09-Sep-15)
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A4	-	1)CARE A4 (04-Oct-17)	1)CARE A4 (13-Oct-16)	1)CARE A4 (09-Sep-15)
4.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A4	-	1)CARE A4 (04-Oct-17)	1)CARE A4 (13-Oct-16)	1)CARE A4 (09-Sep-15)

CARE Ratings
Professional Risk Opinion

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