Hilton Metal Forging Limited (Revised)

September 24, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	7.00	**CARE BB; Stable (Double BB; Outlook: Stable)**	**Reaffirmed**
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

The ratings assigned to the bank facilities of Hilton Metal Forging Limited (HMFL) continue to be constrained by its modest albeit growing scale of operations, moderate profit margins, moderate debt coverage indicators and highly working capital intensive nature of operations. The ratings further continue to be constrained by foreign exchange fluctuation risk, presence in 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 and comfortable capital structure.

Rating Sensitivities

Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs.150 crore on a sustained basis
- Improvement in profit margins with PBILDT and PAT margin exceeding 10% and 3% respectively on a sustained basis
- Improvement in the debt coverage indicators with interest coverage ratio exceeding 3x 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

- Deterioration in the capital structure with the overall gearing exceeding 1.00x on a sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest albeit growing scale of operations: The scale of operations of HMFL remained modest with total operating income (TOI) remained in the range of Rs.80.81 crore to Rs.103.21 crore during FY17-FY20. Further, the same has continuously increased during said period on account of increase in demand from its domestic and export market during the years. However, during Q1FY21, the TOI has significantly decreased to Rs.2.65 crore (vis-à-vis Rs.21.09 crore in Q1FY20) due to nationwide lockdown was announced by the government on the view of COVID-19 pandemic situation.

Moderate profit margins and debt coverage indicators: The profit margins of the company remained moderate with PBILDT margin remained in the range of 7.04%-7.46% during FY17-FY20. However, the same has been marginally improved due to better realization from customers along with efficient management of the overhead costs during the said period. However, the PAT margin has remained fluctuating during the said period. Nevertheless, the profit margins continue to remain at moderate level. On account of the same with moderately high dependence on working capital borrowing, the debt coverage indicators stood relatively moderate level.

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 299 days in FY20 (vis-à-vis 254 days in FY19) which further led to significantly higher utilization of its working capital limits.

Foreign exchange fluctuation risk: HMFL continues to earn major portion of revenue from exports contributing 37% of the total sales, 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.

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

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 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 60.60% of the net sales in FY20.

Comfortable capital structure: Owing to healthy networth base with moderately high dependence on external borrowings, the capital structure continues to remain comfortable with overall gearing stood at 0.71 times as on March 31, 2020 (vis-à-vis 0.68 times as on March 31, 2019).

Liquidity analysis: Stretched

The liquidity position remained stretched characterized by tightly matched accruals vis-à-vis repayment obligations and low free cash & bank balance of Rs.0.16 crore as on March 31, 2020. The average utilization of its working capital limits during past 12 months ended July 2020 stood at 91.34%. Further, the current ratio stood high at 1.58x as on March 31, 2020 (vis-à-vis 1.64x as on March 31, 2019) while the quick ratio stood weak at 0.62x as on March 31, 2020 (vis-à-vis 0.51x as on March 31, 2019). The net cash flow from operating activities stood positive at Rs.1.58 crore in FY20. The company had availed moratorium against interest payments of working capital limits and also against term loan repayments provided under moratorium scheme provided by RBI under COVID-19 pandemic situation and the same were approved by the banker.

Analytical approach: Standalone

Applicable Criteria

CARE's Policy on Default Recognition
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology – Manufacturing
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, registered and approved with various international standard authorities. The administrative office of the company located at Kandivali, Mumbai.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	101.57	103.21
PBILDT	7.41	7.70
PAT	1.55	1.55
Overall gearing (times)	0.68	0.71
Interest coverage (times)	2.21	2.26

A: Audited

Current year performance: During Q1FY21, the company has achieved TOI of Rs.2.65 crore and incurred net loss of Rs.3.89 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB; Stable	-	1)CARE BB; Stable (25-Sep-19)	1)CARE BB; Stable (08-Aug-18)	1)CARE BB-; Stable (04-Oct-17)
2.	Fund-based - ST-EPC/PSC	ST	25.00	CARE A4	-	1)CARE A4 (25-Sep-19)	1)CARE A4 (08-Aug-18)	1)CARE A4 (04-Oct-17)
3.	Non-fund-based - ST-Letter of credit	-	-	-	-	1)CARE A4 (25-Sep-19)	1)CARE A4 (08-Aug-18)	1)CARE A4 (04-Oct-17)
4.	Non-fund-based - ST-Bank Guarantees	-	-	-	-	1)CARE A4 (25-Sep-19)	1)CARE A4 (08-Aug-18)	1)CARE A4 (04-Oct-17)

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

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. Ashish Kambli
+91-22-67543684
Email ID- ashish.kambli@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**