Hilton Metal Forging Limited

September 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	7.00	**CARE BB; Stable (Double B; 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 scale of operations, moderate profit margins, moderately weak debt coverage indicators and highly working capital intensive nature of operations. The ratings further continue to be constrained by susceptibility of margins to volatile input prices and 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. The ratings also factored in the constant growth in TOI and improvement in profit margins & working capital management.

The ability of HMFL to further increase the scale of operations and improve profit margins amidst competitive and fragmented industry, along with maintain the capital structure and improve 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: The scale of operations of HMFL remained modest with total operating income (TOI) remained in the range of Rs.80.81 crore to Rs.101.57 crore during FY17-FY19. Further, the same has continuously increased during said period on account of increase in demand from its export market along with increase in scrap sales made during the years.

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%-7.29% during FY17-FY19. However, the same has been marginally improved due to better realization from export market along with efficient management of the overhead costs during the said period. Moreover, the PAT margin has also improved 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 247 days in FY19 (vis-à-vis 214 days in FY18) 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, 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 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

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

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 62.34% of the net sales in FY19.

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 0.68 times as on March 31, 2019 (vis-à-vis 0.66 times as on March 31, 2018).

Liquidity Analysis:
The liquidity position is marked by moderately comfortable current ratio and weak quick ratio at 1.64 times and 0.51 times respectively as on March 31, 2019 (1.55 times and 0.54 times respectively as on March 31, 2018). Further, cash flow from operating activities stood negative at Rs.2.66 crore as on March 31, 2019. The average fund based working capital limits remained very high at 98.50% in the last 12 months ended August 2019. Moreover, free cash & bank balance stood at Rs.0.08 crore as on March 31, 2019 (vis-à-vis Rs.0.28 crore as on March 31, 2018).

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	94.95	101.57
PBILDT	6.73	7.41
PAT	0.27	1.55
Overall gearing (times)	0.66	0.68
Interest coverage (times)	2.18	2.21

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB; Stable	-	1)CARE BB; Stable (08-Aug-18)	1)CARE BB-; Stable (04-Oct-17)	1)CARE BB- (13-Oct-16)
2.	Fund-based - ST-EPC/PSC	ST	18.00	CARE A4	-	1)CARE A4 (08-Aug-18)	1)CARE A4 (04-Oct-17)	1)CARE A4 (13-Oct-16)
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A4	-	1)CARE A4 (08-Aug-18)	1)CARE A4 (04-Oct-17)	1)CARE A4 (13-Oct-16)
4.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A4	-	1)CARE A4 (08-Aug-18)	1)CARE A4 (04-Oct-17)	1)CARE A4 (13-Oct-16)

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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