

Hilton Metal Forging Limited

October 04, 2017

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hilton Metal Forging Limited (HMFL) continue to be constrained by modest scale of operations coupled with fluctuating cash accruals, 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.80.81 and low cash accruals. Further the same has been fluctuating during last three years ending FY17 on account of fluctuation in demand from its customers. The PBILDT margin remained at moderate level in the range of 5.11% - 6.86% and has been fluctuating owing to fluctuating sales. Further the entity reported net losses in last two years owing to high fixed cost but reported cash profits. Despite improvement in the operating performance led by a increase in profits and cash accruals, debt coverage indicators remained relatively weak.

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 network base dependence on external borrowings remained low. Further despite net losses during last two years ending FY17, capital structure continues to remain comfortable.

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.

Analytical approach: Standalone

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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. The company is listed at BSE and is trading at Rs.37.50 per share (as on September 28, 2017) with a free float market capitalization of Rs.24.36 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	67.88	80.81
PBILDT	3.47	5.55
PAT	-1.58	-0.32
Overall gearing (times)	0.41	0.42
Interest coverage (times)	1.51	1.83

A: Audited

Status of non-cooperation with previous CRA: Not Applicable**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.

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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB-; Stable	-	1)CARE BB- (13-Oct-16)	1)CARE BB (09-Sep-15)	1)CARE BB (07-Aug-14)
2.	Fund-based - ST-EPC/PSC	ST	18.00	CARE A4	-	1)CARE A4 (13-Oct-16)	1)CARE A4 (09-Sep-15)	1)CARE A4 (07-Aug-14)
3.	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A4	-	1)CARE A4 (13-Oct-16)	1)CARE A4 (09-Sep-15)	1)CARE A4 (07-Aug-14)
4.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A4	-	1)CARE A4 (13-Oct-16)	1)CARE A4 (09-Sep-15)	1)CARE A4 (07-Aug-14)

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