May 31, 2017

# Happy Forgings Limited

**Summary of rated instruments**

| Instrument* | Rated Amount (in crore) | Rating Action |
|---|---|---|
| Fund-based – Cash Credit | 75.0 | [ICRA]BBB+ (Positive); Revised from [ICRA]BBB (stable) |
| Fund-based – Term Loan | 143.57 | [ICRA]BBB+ (Positive); Revised from [ICRA]BBB (stable) |
| Non fund-based limits | 31.44 | [ICRA]A2; Revised from [ICRA]A3+ |
| Unallocated limits | 19.99 | [ICRA]BBB+ (Positive)/[ICRA]A2; Revised from [ICRA]BBB (stable)/[ICRA]A3+ |
| **Total** | **270.0** | |

*Instrument details are provided in Annexure-1

**Rating action**

ICRA has revised the ratings for the Rs. 270.0-crore[1] fund-based limits, non-fund based limits, term loans and unallocated limits of Happy Forgings Limited (HFL) from [ICRA]BBB (pronounced ICRA triple B) and [ICRA]A3+ (pronounced ICRA A three plus) to [ICRA]BBB+ (pronounced ICRA triple B plus) and [ICRA]A2 (pronounced ICRA A two). The outlook on the long-term rating has been revised from 'Stable' to 'Positive'.

**Rationale**

The revision in the ratings take into account consistent improvement in HFL's operating and financial performance over the last year, characterised by steady growth in its operating income (from Rs. 375.6 crore in FY2016 to Rs. 432.6 crore in FY2017) and profitability, on the back of the increase in capacities and improved utilisation of the same. There has been a regular addition in the manufacturing capacities, especially in the relatively more profitable machining division, which has given the company a healthy market position in the auto forging industry. This has translated into the addition of new clients as well as increasing business from the existing clients, which includes reputed players like Ashok Leyland Limited, VE Commercial Vehicles Limited, Mahindra & Mahindra Limited, etc. The operating margins of the company improved from 20.2% in FY2016 to 20.8% in FY2017 on account of the increase in contribution from the higher-margin machining division. The rating action also factors in the reduction in working capital intensity of operations following the reduction in both inventory and receivables. This coupled with the improvement in profitability resulted in a strong cash flow position, which enabled the company to prepay additional debt during FY2017, despite the capex. Lower reliance on working capital borrowings and prepayment of long-term debt translated into improvement in gearing levels from 2.1 times as on March 31, 2016 to 1.3 times as on March 31, 2017. The debt coverage indicators also improved as reflected by interest coverage of 4.51 times, debt/OPBDITA of 1.87 times and NCA/Debt of 37% as on March 31, 2017. The ratings continue to factor in HFL's experienced promoters, its established position in the forged and machined components industry and its long standing relations with the reputed original equipment manufacturers (OEMs) in the automobile industry.

[1] *100 lakh = 1 crore = 10 million*

The ratings are, however, constrained by the susceptibility of HFL’s revenue generation to the cyclicality in the commercial vehicles (CV) and tractor segments, as these segments contribute around 70% of the total sales of the company. Although the company has consistently made efforts to diversify its revenue streams by adding new customers, the customer concentration risks remain high as the top ten customers contribute more than 75% of its total revenues. However, some comfort is drawn from the fact that client profile is reputed and no single customer accounts for more than 20% of the sales. The ratings also take into account the fragmented nature of the domestic forging industry, which adds to the competitive pressure, however, increasing proportion of machined components in HFL’s operating income mitigates the risk to an extent. The company is undertaking a relatively large, debt-funded capex towards additional forging capacity, which is expected to result in an increase in debt levels. However, ICRA expects that HFL’s cash flow position and capital structure would remain comfortable over the medium term, despite the proposed capex.

The ‘Positive’ outlook is based on the anticipation of timely completion of planned capex and subsequent uptick in revenues, continued diversification of revenue generation and material deleveraging over the medium term.

**Key rating drivers**

**Credit strengths**
- Experienced promoters with established track record of operations in the forging industry
- Extensive relations with Tier I component manufacturers and OEMs
- Healthy market positioning on the back of consistent growth in manufacturing capacities
- Consistent improvement in operating income and profitability with increase in proportion of sales from the high value added machining segment
- Sequential improvement in capital structure (gearing of 1.33 times) and debt coverage indicators (interest coverage of 4.51 times, debt/OPBDITA of 1.87 times and NCA/Debt of 37% as on March 31, 2017)
- Decline in working capital intensity of operations with reduction in inventory and receivable levels

**Credit weaknesses**
- Exposed to the cyclicality in the commercial vehicles and tractors segment of the automotive industry
- Client concentration risk with top 10 customers contributing more than 75% of the total sales of the company; though client profile is reputed
- Fragmented nature of the domestic forging industry leading to intense competition; however, increasing proportion of machined products mitigate the risk to a large extent
- Ongoing debt-funded capex is expected to result in higher debt levels

**Description of key rating drivers:**
Happy Forgings Limited (HFL) is a Ludhiana-based manufacturer of forged and machined components which are largely supplied to commercial vehicles and tractors segment of the automotive industry. The promoters have more than 35 years of experience in the forging industry and over the years the company has established relationships with reputed Tier I automotive ancillaries and OEMs. HFL’s manufacturing capacity in the forged division stands at 46,000 TPA, while in the machining division it is 20,500 TPA.

There has been a consistent improvement in the operating income of the company with the addition of new customers and increase in the share of existing customers. Further, the proportion of higher value added machining segment has been on the rise in the total operating income, which has aided the improvement in profitability. This, coupled with a decline in working capital intensity of operations owing to reduction in inventory and receivables period has resulted in improvement in the liquidity profile of the company. This has enabled the company to prepay additional debt during FY2017, thus easing HFL's repayment burden for FY2018. Prepayment of debt along with scheduled repayment has resulted in a decline in debt levels leading to improvement in capital structure and debt coverage indicators.

Moreover, the company is undertaking a capex of around Rs. 65 crore for capacity expansion in the forging division. This is proposed to be funded by a debt of Rs. 48.75 crore, Rs. 5 crore of equity and balance by internal accruals. Although, it would add to the debt levels of the company, the capital structure and debt coverage indicators are expected to remain comfortable going forward.

**Analytical approach:** For arriving at the ratings, ICRA has considered the standalone financial and operating profile of HFL along with applying the rating methodologies as mentioned below.

**Links to applicable criteria:**
Corporate Credit Ratings: A Note on Methodology
Rating Methodology for Auto Component Manufacturers

**About the company:**
Happy Forgings Limited (HFL) was incorporated in 1979 by Mr. Paritosh Kumar Garg as a private limited company which was converted into a public limited company later in 1988. HFL manufactures forged and machined transmission and engine components which are supplied mainly to the automotive sector. Its product range includes automotive crankshafts, steering knuckles, transmission gears, pinions, shafts, and forged/machined components for Indian Railways. The company has total forging capacity of 46,000 MT (both hammer and press forging) and machining capacity of 20,500 MT.

In FY2017, HFL reported a net profit after tax of Rs. 34.2 crore on an operating income of Rs. 432.6 crore, as compared to a net profit of Rs. 17.0 crore on an operating income of Rs. 375.6 crore for FY2016.

**Status of non-cooperation with previous CRA:**

Care Ratings has in its rationale published on Happy Forgings Limited, dated 10 April, 2017, stated the following:

*"CARE has been seeking information from Happy Forgings Limited (HFL), to monitor the ratings vide e-mail communications/letters dated November 08, 2016; November 09, 2016; November 15, 2016; February 28, 2017; March 02, 2017; March 07, 2017 & March 09, 2017 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on Happy Forgings Limited's bank facilities will now be denoted as CARE BB+/CARE A4+; ISSUER NOT COOPERATING."*

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

| S. No. | Instrument | Current Rating (FY2018) | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | **Type** | **Amount Rated (Rs. Crore)** | **Date & Rating** | **Date & Rating in FY2017** | **Date & Rating in FY2016** | **Date & Rating in FY2015** |
| | | | | **May 2017** | **Aug 2016** | **-** | **-** |
| 1 | Fund based limits | Long Term | 75.00 | [ICRA]BBB+ (Positive) | [ICRA]BBB (Stable) | **-** | **-** |
| 2 | Term loans | Long Term | 143.57 | [ICRA]BBB+ (Positive) | [ICRA]BBB (Stable) | **-** | **-** |
| 3 | Non fund based limits | Short Term | 31.44 | [ICRA]A2 | [ICRA]A3+ | | |
| 4 | Unallocated limits | Long Term/ Short Term | 19.99 | [ICRA]BBB+ (Positive)/ [ICRA]A2 | [ICRA]BBB (Stable)/ [ICRA]A3+ | **-** | **-** |

**Complexity level of the rated instrument:**
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1**
**Instrument Details**

| **Instrument** | **Date of Issuance / Sanction** | **Coupon Rate** | **Maturity** | **Amount Rated (Rs. crore)** | **Current Rating and Outlook** |
|---|---|---|---|---|---|
| Fund based limits | - | - | - | 75.00 | [ICRA]BBB+ (Positive) |
| Term loans | FY2015-FY2017 | - | FY2022-FY2023 | 143.57 | [ICRA]BBB+ (Positive) |
| Non fund based limits | - | - | - | 31.44 | [ICRA]A2 |
| Unallocated limits | - | - | - | 19.99 | [ICRA]BBB+ (Positive)/ [ICRA]A2 |

Source: Happy Forgings Limited

## Contact Details

**Analyst Contacts**

**byasachi Majumdar**
)124-4545 304
byasachi@icraindia.com

**nkit Jain**
1-124-4545865
kit.jain@icraindia.com

**arsh Jagnani**
1-124-4545394
rshj@icraindia.com

**Relationship Contact**

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

**Registered Office**
**ICRA Limited**
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office**
**Mr. Vivek Mathur**
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai**
**Mr. L. Shivakumar**
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata**
**Mr. Jayanta Roy**
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

**Chennai**
**Mr. Jayanta Chatterjee**
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore**
**Mr. Jayanta Chatterjee**
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad**
**Mr. L. Shivakumar**
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231

**Pune**
**Mr. L. Shivakumar**
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

**Hyderabad**
**Mr. Jayanta Chatterjee**
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500