

December 27, 2024

CHW Forge Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Term Loans	87.00	87.00	[ICRA]A (Stable); Reaffirmed
Short -term – Non Fund Based Limits	15.00	15.00	[ICRA]A1; Reaffirmed
Long term/ short term- Fund based/ Non fund based	264.95	264.95	[ICRA]A (Stable)/[ICRA]A1; Reaffirmed
Total	366.95	366.95	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings factors in the expectation of continued and steady operational performance of CHW Forge Private Limited (CHW Forge), as a manufacturer of carbon steel, alloy steel and aluminium forgings for application in various industries such as oil and gas, petrochemicals, fertilisers, aerospace, and defence. CHW Forge operates in a niche segment of industrial (non-automotive) forgings, and benefits from its strong technical and manufacturing capabilities of both closed and open die forging with the ability to manufacture parts weighing up to 30 tonnes. The company enjoys a diversified and a reputed clientele in the domestic as well as export markets. ICRA notes that the company's revenues moderated in FY2024 to ~Rs. 590 crore due to lower-than-expected exports, with the ongoing war and geopolitical tensions constraining demand in the exports markets and impacting the company's revenue growth prospects. Notwithstanding the decline in revenues, the company reported an operating profit margin of ~14.4% in FY2024 (an improvement of 220 bps compared to FY2023), aided by focus on high-margin businesses. The company recorded revenues of Rs. 262.2 crore in H1 FY2025 (provisional financials), and has orders in hand of ~Rs. 127 crore as of November 30, 2024. The company's strong relationships with various customers, its efforts to add new customers, along with its ability to manufacture products across a wide tonnage range, are expected to help it record healthy cash flows, going forward.

The ratings continue to factor in favourably the company's healthy financial risk profile, characterised by a conservative capital structure (with a gearing of 0.5 times as of March 31, 2024) and strong interest coverage indicators (7.2 times in FY2024). ICRA notes that the company is setting up a new plant with a total capex outlay of ~Rs. 200 crore for manufacturing bombshells and artillery shells. The capex is expected to be funded through a mix of debt and internal accruals. The plant is expected to commence operations during July-September 2025. The leverage metrics for the company are likely to moderate over the near term (Total Debt/OPBDITA expected to reach levels of 3.0-3.2 times in FY2026). Even as the capex plans being undertaken would lead to an increase in the leverage of the entity, the long repayment tenure (~8 years along with two-year moratorium) and steady performance of the entity are expected to help keep the debt coverage indicators strong and in line with the category benchmarks. ICRA will continue to monitor the progress of the project and the company's ability to scale up supplies post commencement of operations at the new plant. Given the nature of the business, the company would also have to go through a lengthy product approval process, which could constrain scaling up in the near term.

The company still derives 70-80% of its revenues from the oil and gas industry. Therefore, it continues to be exposed to any significant downturn in demand from the oil and gas sector despite the management's focus on diversifying its revenue profile by catering to other industries such as aerospace and defence.

The ratings remain constrained because of the company's relatively lower return indicators amid high working capital intensive nature of its business. Besides a longer receivables cycle, the working capital intensity is high because of its elevated inventory

holding as CHW Forge needs to maintain an inventory of different grades of alloy steel. The working capital requirements may further increase for the new business, which would entail supplies to Government entities. The company's profitability also remains exposed to adverse movement in raw material prices, with most of its contracts being fixed price in nature.

The Stable outlook on the long-term rating reflects ICRA's expectation that despite moderation in the leverage metrics in the near term on account of the entity's material capex plans to set up a new unit, the debt coverage metrics are likely to remain commensurate to the rating level. The leverage metrics of the company are also expected to gradually moderate as the operations from the new unit scale up.

Key rating drivers and their description

Credit strengths

Ability to manufacture complex components, strong technical capabilities, and reputed clientele – CHW Forge operates in a niche segment of industrial (non-automotive) forgings, manufacturing carbon steel, alloy steel, aluminium, and titanium forgings (components like rolled rings, flanges, blinds, bearings, nozzles, etc) for various end-user industries, including oil and gas, petrochemicals, fertilisers, aerospace, and defence. The company manufactures a wide range of forged and machined products, such as flanges, rolled rings, nozzles, blinds and tube sheets that are also customised as per its customers' requirements. The company's manufacturing capabilities span across open-die forging, ring rolling as well as hammer-based technology. The company generates 70-80% of its revenue from the oil & gas sector, followed by heavy earth-moving equipment, which contributes 20-25% of its turnover.

Aided by its strong technical capabilities, the company enjoys a diversified and a reputed clientele in the domestic as well as international markets. As opposed to an automotive business where supplies to a customer are recurring in nature and continue till the life cycle of a particular model, most of CHW Forge's orders are tender or order-based and one-time in nature. Nevertheless, it generates repeat business from its customers and has been able to develop healthy relationships over the years, which mitigates the risk to an extent.

Healthy financial risk profile characterised by conservative capital structure and strong debt coverage indicators – Healthy order inflows over the past few years has aided CHW Forge to maintain robust profit margins over the past few years with the company reporting an operating profit margin of ~14.4% in FY2024. Its financial risk profile remains healthy, with Total debt to OPBITDA improving to 1.5 times in FY2024 led by the reduction in short term and long-term debt. The company reported an Interest coverage of 7.2 times in FY2024 (PY: 5.6 times). The return indicators of the company have remained suppressed on account of the high capital-intensive nature of business, with RoCE at 13.8% (FY2024). The company's leverage metrics are likely to moderate over the near term owing to the capex requirement for the new plant being set up over FY2025 and FY2026, however, the same are likely to improve going forward, aided by healthy cash flow generation by the company. Nevertheless, over the medium term, the company is expected to maintain healthy operating profitability, with return indicators likely to gradually improve with the scale-up of operations and stabilisation of raw materials and inventory holding costs.

Credit challenges

Operates in a cyclical industry with demand susceptible to downturns – The company derives 70-80% of its revenues from the oil and gas/ petrochemicals industry, exposing its prospects to the fluctuations of the sector. The opening of the open die forging unit enabled CHW Forge to diversify its revenue profile, to an extent, by catering to other industries such as aerospace and defence. However, it continues to remain exposed to any significant downturn in demand, particularly in the end-user industries.

High working capital intensity due to elevated inventory levels; suppressed return indicators – CHW Forge's working capital intensity remains high at ~35% (in FY2024). Besides a longer receivables cycle, the company's working capital intensity has

increased over the past few years as it commenced manufacturing open-die forgings that require a wider variety of steel grades and other metals. Additionally, it always maintains a significant inventory of imported raw materials to cater to urgent orders.

Operating profit margins vulnerable to fluctuation in raw material prices as most orders are fixed price in nature – Raw material is a major cost element for the company and accounts for 50-55% of the sales price of its components. Moreover, most of its orders are fixed price in nature. Consequently, its margins are exposed to movement in input prices during the period between price quotation and final delivery. However, the company's order book is generally not long (three to four months) and, hence, the company entails raw material price risk for only a short duration. Besides, the company usually creates some contingency related to raw material price movement in the bids quoted to its customers.

Material capex outlay towards construction of new unit to keep leverage high in the medium term – The company is setting up a new plant with a total capex outlay of ~Rs. 200 crore for manufacturing bombshells and artillery shells that will be produced in mass quantity and will be supplied across the world. The company has got term loans sanctioned to the tune of ~Rs. 175 crore with 2 years of moratorium and 8 years of repayment tenure. The company's leverage metrics will moderate in the near term. However, they are expected to improve, going forward, aided by healthy cash generation from the company's existing and new businesses.

Liquidity position: Adequate

CHW Forge's liquidity position remains adequate, supported by steady fund flow from operations and average undrawn working capital limits of Rs. 43.6 crore (against the average drawing power in the 12-month period ending in October 2024). In relation to these sources of cash, CHW Forge has capex requirements of Rs. 180-200 crore and total debt repayments of ~Rs. 23.6 crore in FY2025. Overall, ICRA expects the company to be able to meet its near-term commitments through a mix of internal accruals, available lines of credit and term loans.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to steadily scale up its business, aided by healthy order inflows from end-user industries as well as new segments, leading to favourable impact on cash accruals and an improvement in return and credit metrics. Additionally, material revenue diversification by way of a sustained scale-up in supplies to sectors such as defence and aerospace as well as export markets, which help offset any weakness in domestic supplies, would be favourably considered for ratings upgrade.

Negative factors – Weakness in demand in the segments catered to, or any material debt-funded capital expenditure affecting the company's financial performance, may trigger a downward revision in ratings. Specific credit metric that could result in ratings downgrade include DSCR of lower than 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

CHW Forge Private Limited (CHW Forge), established in 1956, is a manufacturer of carbon steel, alloy steel and aluminium-based forgings, which find application in various industries such as oil & gas, petrochemicals, fertilisers, defence, aerospace and power generation etc. The company manufactures a wide range of forged and machined products such as flanges, rolled rings, nozzles, blinds, tube sheets etc. as per the requirements of its customers. The company's manufacturing capabilities span across open-die forging, ring rolling as well as hammer-based technology. The company generates nearly 70-80% of its

turnover from the oil & gas sector, followed by heavy earth-moving equipment, which contributes 20-25% of its turnover. CHW Forge has four operating units, two each in Ghaziabad and Greater Noida. The facilities are involved in forging, heat treatment and machining with an aggregate installed capacity of 40,500 tonnes per annum.

The company commenced operations in 1956 as a partnership concern and was reconstituted as a private limited company in 1970. It was converted into a public limited company named Chaudhry Hammer Works Ltd. in 2003, and again into a private limited company with its current name in FY2011. The company is held by Mr. Mukul Chaudhry and his close relatives.

Key financial indicators (audited)

CHW Forge Private Limited	FY2023	FY2024
Operating income	615.2	592.2
PAT	21.7	28.9
OPBDIT/OI	12.2%	14.4%
PAT/OI	3.5%	4.9%
Total outside liabilities/Tangible net worth (times)	1.0	0.8
Total debt/OPBDIT (times)	2.3	1.5
Interest coverage (times)	5.6	7.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA

In its rationale published on CHW Forge Private Limited, dated January 12, 2024, Crisil Ratings has stated the following:

CRISIL Ratings has been consistently following up with CHW Forge Private Limited (CFPL) for obtaining information through letters and emails dated December 12, 2023, among others, apart from telephonic communication. However, the issuer has remained non cooperative.

'The investors, lenders and all other market participants should exercise due caution with reference to the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING' as the rating is arrived at without any management interaction and is based on best available or limited or dated information on the company. Such non-co-operation by a rated entity may be a result of deterioration in its credit risk profile. These ratings with 'ISSUER NOT COOPERATING' suffix lack a forward-looking component.'

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		
			December 27, 2024	September 29, 2023	June 27, 2022	June 14, 2021	May 17, 2021	
1 Term loans	Long term	87.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2 Non Fund Based Limits	Short term	15.0	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	

3	Fund based/ Non fund based Limits	Long term and short term	264.95	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-
4	Fund Based Limits	Long term	-	-	-	-	-	[ICRA]A (Stable)
5	Commercial Paper programme	Shor term	-	-	-	[ICRA]A1; withdrawn	[ICRA]A1	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Non-Fund Based Limits	Very Simple
Fund/Non-Fund Based Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	March 2020	NA	March 2025	4.00	[ICRA]A (Stable)
NA	Term Loan-II	September 2020	NA	July 2029	16.14	[ICRA]A (Stable)
NA	Term Loan-III	February 2023	NA	February 2031	31.86	[ICRA]A (Stable)
NA	Term Loan-IV	August 2015	NA	December 2024	14.00	[ICRA]A (Stable)
NA	Term Loan-V	February 2021	NA	January 2027	7.00	[ICRA]A (Stable)
NA	Term Loan-VI	February 2022	NA	May 2028	14.00	[ICRA]A (Stable)
NA	Non Fund – Based Facilities	NA	NA	NA	15.00	[ICRA]A1
NA	Fund/Non-Fund Based Limits	NA	NA	NA	264.95	[ICRA]A (Stable)/ [ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: NA

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Branches



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