

August 13, 2020

CHW Forge Private Limited: [ICRA]A(Stable)/[ICRA]A1 assigned to enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	70.0	100.0	[ICRA]A(Stable); Assigned/Outstanding
Fund Based – Working Capital Facilities	110.0	110.0	[ICRA]A(Stable); Outstanding
Non-fund Based – Working Capital Facilities	30.0	50.0	[ICRA]A1; Assigned/Outstanding
Total	210.0	260.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in the healthy business position 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, benefitting from its strong technical and manufacturing capabilities, which encompasses both closed and open-die forging with ability to manufacture parts weighing up to 30 tonnes. The company enjoys a diversified and reputed clientele in the domestic as well as export markets. Healthy order inflows have aided the company in maintaining steady profitability margins, with minor variations primarily attributable to the change in its product mix.

The ratings favourably factor in the company's strong financial risk profile, characterised by a conservative capital structure (gearing of 0.6 times as on March 31, 2020) and strong debt protection metrics (Total Debt/OPBDITA of 1.7 times and interest coverage of 6.3 times in FY2020).

Nearly 70% of the company's revenues are derived from the oil and gas industry. Despite the management's focus on diversifying its revenue profile by catering to other industries such as aerospace and defence, it remains exposed to any significant downturn in demand from the oil and gas industry, especially in the current environment. The company has an order book of ~Rs. 130 crore (to be executed over three to four months) as on date, which provides revenue visibility.

The ratings remain constrained by the company's relatively low return indicators due to the high working capital-intensive nature of its business. In FY2020, a moderation in scale and profitability led to its RoCE declining to 10.8%. Besides a longer receivables cycle, the working capital intensity is high because of its elevated inventory holding. CHW Forge needs to maintain an inventory of different grades of alloy steel. The availability of unutilised fund-based limits (buffer of ~Rs. 35-45 crore in working capital limits from drawing power), however, supports the company's liquidity profile and provides comfort.

An expectation of a contraction in revenues in FY2021, on account of the weak demand scenario, is likely to exert some pressure on its profitability and return indicators over the near term. However, CHW Forge is anticipated to report healthy operating profitability over the medium term, with a gradual improvement in its return indicators led by scale up of operations and capacity utilisation.

The Stable outlook on the long-term rating reflects ICRA's view that despite expectations of a weak demand scenario over the near term, CHW Forge is likely to maintain a comfortable credit profile with low dependence on incremental external borrowings.

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 application in various industries including oil and gas, petrochemicals, fertilisers, aerospace and defence. The enrichment of product profile through setting up of an open-die forging unit (commenced operations in FY2018) has enabled the company to accept orders for products with higher tonnage and higher precision, thereby enhancing its revenue growth prospects.

Aided by its strong technical capabilities, the company enjoys a diversified and reputed clientele in the domestic as well as export 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 relations with them over the years, which mitigates the risk.

Healthy financial risk profile, characterised by conservative capital structure and strong debt coverage indicators – Aided by healthy order inflows over the past few years, CHW Forge has been able to maintain healthy profitability margins over the years (19-21%), with minor variations mainly attributable to the change in its product mix. Its financial risk profile remains healthy, characterised by a conservative capital structure (gearing of 0.6 times as on March 31, 2020) and strong debt protection metrics, with Total Debt/OPBDITA of 1.7 times and interest coverage of 6.3 times in FY2020. With no major capex plans going forward, the company is expected to maintain a healthy financial risk profile.

Credit challenges

Operates in a cyclical industry with demand susceptible to downturns – Nearly ~70% of the company's revenues are derived from the oil and gas industry, thereby exposing its prospects to the fortunes of the oil and gas industry. 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 from the oil and gas industry.

High working capital intensity due to elevated inventory levels; suppressed return indicators – CHW Forge’s working capital intensity remains high at around ~35-40%. Besides a longer receivables cycle, the company’s working capital intensity is high considering its elevated inventory position arising from the need to maintain an inventory of different grades of steel. Additionally, it always maintains a significant inventory of imported raw material to cater to urgent orders. The company’s inventory holding requirements has increased over the past few years as it commenced manufacturing open-die forgings, which requires a wider variety of steel grades and other metals.

The high working capital-intensive nature of business has led to suppressed return indicators for the company. In FY2020, a moderation in scale and profitability resulted in its RoCE declining to 10.8%. However, it is expected to report healthy operating profitability over the medium term, with a gradual improvement in return indicators backed by scale up of operations.

Liquidity position: Adequate

CHW Forge’s liquidity position is **adequate**, characterised by the availability of adequate unutilised lines of credit (buffer of ~Rs. 35-45 crore in working capital limits). While a downturn in demand in the industries catered on account of the Covid-19 pandemic is expected to moderate cash flows over the short-term, the company is likely to maintain adequate liquidity to meet its fixed overheads, capex requirements (annual capex plans of ~Rs. 20-25 crore) and debt repayments (~Rs. 17.7 crore in FY2021).

Rating sensitivities

Positive triggers – 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 the return and credit metrics. Further, material revenue diversification by ways of a sustained scale up in supplies to segments such as defence, aerospace as well as export market, which helps to offset any weakness in domestic supplies, would be favourably considered for a rating upgrade. Moreover, RoCE higher than 15% on a sustained basis may trigger an upward revision in ratings.

Negative triggers – Weakness in demand in the segments catered, aggravated by the prolonged impact of the Covid-19 pandemic, or any material debt-funded capital expenditure affecting the company’s financial performance may trigger a downward revision in ratings. Specific credit metrics that could result in a downgrade would include Total Debt/OPBDITA greater than 2.0 times or RoCE weaker than 12% 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, established in 1956, is a manufacturer of carbon steel, alloy steel and aluminium forgings, which find application in various industries such as oil and gas, petrochemicals, fertilisers, defence, 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 commenced operations in 1956 as a partnership concern and was reconstituted as a private limited company in 1970. It was later converted into a public limited company named Chaudhry Hammer Works Ltd in 2003, and into a private limited company with its current name in FY2011. CHW Forge has two operating units, one in Ghaziabad and the other in Greater Noida. The facilities are involved in forging, heat treatment and machining with an aggregate installed capacity of 30,000 tonnes per annum. The company is held by Mr. Mukul Chaudhary and his close relatives.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	365.5	328.8
PAT (Rs. crore)	18.7	14.7
OPBDIT/OI (%)	21.1%	20.7%
PAT/OI (%)	5.1%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.9
Total Debt/OPBDIT (times)	1.8	1.7
Interest Coverage (times)	5.2	6.3

Status of non-cooperation with previous CRA

In its rationale published on CHW Forge Private Limited, dated June 30, 2020, Crisil Ratings has stated the following:

“CRISIL has been consistently following up with CHW Forge Private Limited (CFPL) for obtaining information through letters and emails dated June 08, 2020, and June 13, 2020 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 the best available or limited or dated information on the company. Such non-cooperation 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.

Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of CFPL, which restricts CRISIL's ability to take a forward-looking view on

the entity's credit quality. CRISIL believes information available on CFPL is consistent with 'Scenario 1' outlined in the 'Framework for Assessing Consistency of Information with CRISIL BB' category or lower.

Therefore, on account of inadequate information and lack of management cooperation, CRISIL has migrated the rating on bank facilities of CFPL to 'CRISIL BB+/Stable Issuer Not Cooperating'."

Any other information: None

Rating history for past three years

S. No.	Instrument	Type	Current Rating (FY2021)		Chronology of Rating History for the past 3 years								
			Rated amount (Rs. crore)	Amount O/S (Rs. crore)	Date & Rating in FY2020			Date & Rating in FY2019			Date & Rating in FY2018		
					13-Aug-20	30-Jul-20	09-Jun-20	-	08-Feb-19	15-Jan-19	17-Sep-18	21-Jun-17	
1	Term Loan	Long Term	100.0	65.0	[ICRA]A(stable)	[ICRA]A(stable)	-	-	-	-	-	-	-
2	Fund Based – Working Capital Facilities	Long Term	110.0	-	[ICRA]A(stable)	[ICRA]A(stable)	-	-	-	-	-	-	-
3	Non-fund Based – Working Capital Facilities	Short Term	50.0	-	[ICRA]A1	[ICRA]A1	-	-	-	-	-	-	-
4	Commercial Paper	Short Term	40.00	0.0	-	-	[ICRA]A1; Withdrawn	-	[ICRA]A1 assigned	[ICRA]A2+ ISSUER NOT COOPERATING&; Ratings withdrawn	[ICRA]A2+ ISSUER NOT COOPERATING&	[ICRA]A2+	

Amount in Rs. Crore

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

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan – 1	Aug 2016	-	Aug 2023	15.0	[ICRA]A(Stable)
NA	Term Loan – 2	Mar 2020	-	Mar 2025	13.0	[ICRA]A(Stable)
NA	Term Loan – 3	Aug 2015	-	Dec 2024	37.0	[ICRA]A(Stable)
NA	Proposed Term Loan	-	-	-	35.0	[ICRA]A(Stable)
NA	Fund Based – Working Capital Facilities	NA	NA	NA	110.00	[ICRA]A(Stable)
NA	Non-fund Based – Working Capital Facilities	NA	NA	NA	50.00	[ICRA]A1

Source: CHW Forge Private Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Analyst Contacts

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Shamsher Dewan

+91 1244545328

shamsherd@icraindia.com

Rohan Kanwar Gupta

+91 1244545808

rohan.kanwar@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jyantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents