

## CHW Forge Private Limited

February 08, 2019

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper <sup>1</sup>	40.00	[ICRA]A1; Assigned
<b>Total</b>	<b>40.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating factors in the comfortable operational profile of CHW Forge Private Limited (CHW Forge), with the company being a manufacturer of carbon steel, alloy steel and aluminium forgings catering to various industries with high exposure towards oil & gas and petrochemicals. The company has recorded healthy revenue growth in H1 FY2019 (Rs.182.9 crore, PY: Rs. 227.1 crore), on the back of new business awards which coupled with a reasonable order book (~Rs. 105 crore as of December 31, 2018) provide adequate revenue visibility for the short term. Although CHW Forge's profitability indicators were subdued between FY2016 and FY2017 following a contraction in revenues, the operating margin and return metrics displayed a consistent improvement in FY2018 and H1FY2019 benefitting from change in sales mix as well as incremental order flows for its new open die forging unit. Further, the commercialisation of the new open die forging unit since FY2018 and the subsequent ramp-up has enabled the company to accept higher tonnage and high precision orders from the defence and aerospace industry as well as from heavy construction equipment manufacturers bringing in diversification in product and end user industry mix.

The rating also factors in company's moderate debt coverage indicators with an interest coverage of 5.9 times and Total Debt/ OPBITDA at 1.8 times in September 2018. Large investments aggregating to Rs. 139.1 crore over FY2015-2017 resulted in significant addition of long term debt which coupled with high working capital borrowings has constrained improvement in coverage indicators in FY2018 notwithstanding strong revenue growth. Even though the company has high working capital intensity, the availability of unutilised fund based limits (average utilisation at around 60% during the past twelve months) indicates adequate financial flexibility. Further, with likely repayments of Rs. 15-16 crore in the medium term whereas net cash accruals are likely to range between Rs. 45-55 crore, is expected to support the liquidity profile of the company.

However, the rating remains constrained by the concentrated client profile of the company towards the oil & gas sector (greater than 70% of revenues in FY2018) where capex has remained susceptible to any plans of major players for setting up new refineries in India as well as globally besides the volatility in oil prices. As the new investments in the sector were subdued in FY2015-2017, CHW Forge's revenues witnessed significant contraction. Apart from this, the high working capital intensity, arising from the need to maintain various grades of steel, aluminium and various other metals/ alloys in its inventory, has led to moderate debt coverage indicators, and would remain a key rating monitorable. Furthermore, with ~20% (as of FY2018) of revenues being derived from exports and the dependence on imports (9-10%) for raw materials also exposes the company to vagaries of foreign currency fluctuations, however, CHW Forge hedges 80-90% of its foreign currency exposure, which minimizes the risk to some extent.

<sup>1</sup> The rating of the aforementioned instrument is based on the condition that total short-term borrowings (including commercial paper, short-term debt and bank borrowings) of the company at any given point of time should not exceed the company's drawing power or the bank sanctioned fund-based limits (whichever is lower).

## Key rating drivers

### Credit strengths

**Comfortable operational profile-** The company reported revenues of Rs. 182.9 crore in H1 FY2019 (FY2018: Rs. 227.1 crore) driven by healthy orders from the oil & gas sector as well as new business gains. The company has a strong order book of more than Rs. 100 crore as of December 31, 2018, ensuring good revenue visibility in the near term. Notwithstanding a contraction in profitability indicators in FY2016 and FY2017, the company has displayed continued improvement in operating margins throughout FY2018 and H1FY2019, with operating margins and RoCE improving from 14.2% and 2.0% in FY2017 to 25.4% and 23.4% in H1 FY2019, respectively.

**Healthy financial risk profile-** The capital structure of the company remains healthy characterised by a conservative capital structure (gearing of 1.0-time as of September 30, 2018) and moderate debt protection metrics, with interest coverage of 5.9 times and DSCR of 2.7 times during H1 FY2019. Going forward, with no major debt funded capex plans, the stable cash accruals are likely to help the company to maintain a healthy financial risk profile.

**Established market position in a niche segment-** The company operates in a niche segment of non-auto forgings and manufactures flanges required in the oil & gas industry as well as other forgings required in aerospace and defence industry. The company has a track record of more than three decades with a diversified and reputed clientele.

**Enhancement of product profile aids business growth-** The enrichment of product profile through the new open die forging unit has enabled the company to accept orders with higher tonnage and higher precision, which earlier could not be addressed. Also, the open die forging process has relatively higher value accretion, which is likely to result in a gradual expansion of operating margins. Furthermore, the expanded product portfolio has enabled the company to acquire new clients in the defence and aerospace sector as well as heavy construction equipment industry, providing CHW Forge with diversification benefits.

### Credit challenges

**Operates in a cyclical industry with end-user demand susceptible to downturns-** More than 70% of revenues continue to be derived from the oil & gas industry in FY2018. Thus, the company's prospects remain largely linked to the fortunes of the oil & gas industry, with any adverse movement in this particular segment impacting revenue visibility. However, with the opening of the open-die forging unit, the company is trying to diversify its revenues with an enriched product profile.

**High working capital intensity-** The company has working capital intensity of 30-40% driven by the need of the company to maintain high inventory of various grades of steel and other metals/alloys because of the diverse product profile of the company.

**Exposed to foreign currency fluctuation risk-** With ~20% of revenues (as of FY2018) coming from exports and 9-10% of raw materials being imported, CHW Forge is vulnerable to adverse movements foreign exchange rates. However, with the company hedging 80-90% of its foreign currency exposure the risk is mitigated to some extent.

### Liquidity Position:

The company maintains a healthy liquidity position characterised by adequate cash accrual of Rs. 34.7 crore as of September 30, 2018. Apart from this, there is also buffer in the working capital utilization which stood at an average utilisation of 60% for the last twelve months, with sufficient drawing power. Further, with likely repayments of Rs. 15-16 crore in the medium term whereas net cash accruals are likely to be between Rs. 45-55 crore, is expected to support the liquidity profile of the company.

### Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable.
Consolidation / Standalone	Not applicable.

### About the company:

CHW Forge Private Limited (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 & Gas, Petrochemicals, Fertilizers, 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 in to a private limited company with its current name in 2010-11. CHW Forge has two operating units, one in Ghaziabad and the other in Greater Noida. The facilities are engaged in forging, heat treatment and machining with an aggregate installed capacity of 30,000 tonnes/annum. The company is held by Mr. Mukul Chaudhary and his close relatives.

### Key financial indicators:

	FY2017	FY2018	H1FY2019
Operating Income (Rs. crore)	157.5	227.1	182.9
PAT (Rs. crore)	5.5	3.7	17.2
OPBDIT/OI (%)	14.2	22.5	25.4
RoCE (%)	2.0	7.2	23.4
Total Debt/TNW (times)	0.8	1.0	1.0
Total Debt/OPBDIT (times)	5.3	2.8	1.8
Interest coverage (times)	5.4	5.9	5.9

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years:

S. No.	Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years								
			Rated amount (Rs. Crores)	Amount O/S (Rs. crore)	Date & Rating			Date & Rating in FY2018		Date & Rating in FY2017			Date & Rating in FY2016	
					Feb 2019	Jan 2019	Sep 2018	Jun 2017	Aug 2016	May 2016	Feb 2016	Aug 2015		
1	Commercial Paper	Short Term	40.00	0.0	[ICRA]A1 assigned	[ICRA]A2+ ISSUER NOT COOPERATING& Ratings withdrawn	[ICRA]A2+ ISSUER NOT COOPERATING&	[ICRA]A2+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+		

& on NDS non-submission

### 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](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Commercial Paper	-	-	7-365 days	40.00	[ICRA]A1

*Source: CHW Forge Private Limited*

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

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