June 27, 2022

CHW Forge Private Limited: Ratings reaffirmed; rating withdrawn for CP Programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	105.0	78.0	[ICRA]A(Stable); Reaffirmed
Non-fund-Based Facilities	27.0	17.0	[ICRA]A1; Reaffirmed
Fund/ Non-fund Based Limits	153.0	150.0	[ICRA]A(Stable)/[ICRA]A1; Reaffirmed
Total	**285.0**	**245.0**	
Commercial Paper Programme	**25.0**	**25.0**	[ICRA]A1; Reaffirmed and Withdrawn

**Instrument details are provided in Annexure-1*

Rationale

The rating action continues to factor in the 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, which encompasses both closed and open die forging with the 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 it in maintaining largely steady profitability margins, with moderation in FY2022 primarily being attributable to increase in raw material prices and export freight costs. CHW Forge reported revenues of ~Rs. 390 crore in FY2022, a significant growth of ~22% YoY, supported by increased orders from existing and new customers. The company's strong relationships with various customers as well as its efforts to add new customers, coupled with its ability to manufacture products across a wide tonnage range, is likely to aid it in recording a moderate growth in revenues, going forward. The company had an order book of Rs. 150 crore as of May 2022, which provides revenue visibility to an extent.

The ratings continue to factor in favourably the company's healthy financial risk profile, characterised by a conservative capital structure (gearing of 0.7 time as on March 31, 2022) and strong interest coverage indicators (of 6.9 times in FY2022). While debt coverage indicators (Total Debt/OPBDITA of 2.3 times) weakened in FY2022 owing to inflationary pressures and a change in product mix, we expect leverage metrics to moderate (Total Debt/OPBDITA expected to moderate down to below 2.3 times) from FY2023 in the absence of any major debt-funded capex and expectations of stable cash accruals.

CHW Forge's capex for the next two years is expected to average at Rs. 20-25 crore (funded by internal accruals) to cover maintenance and upgrade its existing facilities. The company is evaluating plans to set up an ingot manufacturing facility, as a backward integration initiative; the plans for the same are likely to be firmed up over the next few months. ICRA notes that any large debt-funded capex could exert pressure on the company's leverage indicators and will remain a key monitorable, together with any visible weakening in demand. Further, the company still derives 60-70% of its revenues 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 continues to remain exposed to any significant downturn in demand from the oil and gas sector.

The ratings remain constrained by the company's relatively low return indicators due to the high working capital intensive nature of its business. The moderation in scale and profitability over the last two fiscals has led to its RoCE declining to ~11% in FY2022. 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. Even as the company's profitability remains exposed to adverse movement in raw material prices, with most of its contracts being fixed price in nature, the company is expected to report relatively 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 availability of unutilised fund-based limits (buffer of ~Rs. 40 crore in working capital limits from drawing power) also supports the company's liquidity profile and provides comfort.

The Stable outlook on the long-term rating reflects ICRA's view that the company will continue to benefit from its technical capabilities in a niche segment and ability to gain new customers; the same is likely to help it maintain a comfortable credit profile, aided by steady cash flows from operations.

ICRA has withdrawn the ratings assigned to the Commercial Paper Programme of CHW Forge at the request of the company and in accordance with ICRA's policy on withdrawal of credit rating as there, as there are no obligations outstanding against the rated instrument.

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 enrichment of its product profile by setting up 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 relationships 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. Operating profitability declined marginally in FY2022 (~16%), as a result of raw material price hardening and increase in freight costs. While the increase in inventory levels lead to weakening of total debt to OBITDA to 2.3 in FY2022 (over 1.5 in FY2021), gearing levels remained low at 0.7 in FY2022 (over 0.5 in FY2021) and interest coverage remained healthy at 6.9 in FY2022 (over 7.1 in FY2021). Over the medium term, the company is expected to continue to maintain healthy operating profitability, with return indicators expected to gradually improve with scale up of operations and reduction in raw material prices. Additionally, the company's capital structure and debt coverage metrics are expected to benefit from steady cash flow generation and strong profitability indicators in the absence of any major debt funded growth capex over the medium term.

Credit challenges

Operates in a cyclical industry with demand susceptible to downturns – The company derives 60-70% of its revenues from the oil and gas/ petrochemicals industry, thereby exposing its prospects to the fortunes 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 in the specific industries catered.

High working capital intensity due to elevated inventory levels; suppressed return indicators – CHW Forge's working capital intensity remains high at ~50% (in FY2022). 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, which requires a wider variety of steel grades and other metals. Additionally, it always maintains a significant inventory of imported raw material to cater to urgent orders. The increase in raw material cost in FY2022 further raised the working capital intensity for the company and led to elevated working capital intensity for the company.

Operating profit margins vulnerable to fluctuation in raw material prices since most orders are fixed price in nature – Raw material is a major cost element for the company and accounts for roughly 45-50% 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. Further, the company generally, builds in some contingency related to raw material price movement in the bids quoted to its customers.

Liquidity position: Adequate

CHW Forge's liquidity position is adequate, supported by steady fund flow from operations and average undrawn working capital limits of ~Rs. 40 crore (as against the average drawing power of ~Rs. 90 crore in the 12-month period ending in March 2022). In relation to these sources of cash, CHW Forge has maintenance capex requirements of Rs. 20-25 crore and total debt repayments of ~Rs. 20 crore in FY2023. 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 the return and credit metrics. Further, material revenue diversification by way of a sustained scale up in supplies to sectors such defence and aerospace as well as export market, which helps to offset any weakness in domestic supplies, would be favourably considered for a rating upgrade.

Negative factors – Weakness in demand in the segments catered, 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 a downgrade would include Total Debt/OPBDITA greater than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings
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, and power generation. The company manufactures a wide range of forged and machined products, such as flanges, rolled rings, nozzles, blinds, and tube sheets, as per customer requirements. It has four operating units, two each at Ghaziabad and Greater Noida in Uttar Pradesh. 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 later converted into a public limited company, Chaudhry Hammer Works Ltd., in 2003, before being turned into a private limited company with its current name in FY2011. The company is held by Mr. Mukul Chaudhary and family.

Key financial indicators (audited)

CHW Forge Private Limited (Standalone)	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	328.8	319.7	388.7
PAT (Rs. crore)	13.8	14.9	16.1
OPBDIT/OI (%)	20.4%	18.4%	16.4%
PAT/OI (%)	4.2%	4.6%	4.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.7	1.0
Total Debt/OPBDIT (times)	1.7	1.5	2.3
Interest Coverage (times)	6.2	7.1	6.9

Note: Amount in Rs. Crore; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation.
*Source: Company, ICRA research; All calculations are as per ICRA research; *Provisional financials*

Status of non-cooperation with previous CRA:

In its rationale published on CHW Forge Private Limited, dated September 23, 2021, 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 February 22, 2021 and August 13, 2021 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.'

Despite repeated attempts to engage with the management, CRISIL Ratings failed to receive any information on either the financial performance or strategic intent of CFPL, which restricts CRISIL Ratings' ability to take a forward-looking view on the entity's credit quality. CRISIL Ratings believes that rating action on CFPL is consistent with 'Assessing Information Adequacy Risk'. Based on the last available information, the ratings on bank facilities of CFPL revised to 'CRISIL B/Stable/CRISIL A4 Issuer Not Cooperating' from 'CRISIL BB+/Stable/CRISIL A4+ Issuer Not Cooperating'."

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020
					June 27, 2022	Jun 14, 2021	May 17, 2021	Aug 13, 2020 Jul 30, 2020	Jun 09, 2020	-
1	Term Loans	Long-term	78.0	68.8	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
2	Fund-based Limits	Long-Term	0.0	NA	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-
3	Non-fund Based Facilities	Short-term	17.0	NA	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	-
4	Fund/ Non fund Based Limits	Long-term and short-term	150.0	NA	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	-	-	-
5	Commercial Paper	Short-term	25.0	NA	[ICRA]A1; Withdrawn	[ICRA]A1	-	-	[ICRA]A1; Withdrawn	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Non-fund Based Facilities	Very Simple
Fund/ Non-fund Based Limits	Simple
Commercial Paper Programme	Very 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan—1	Aug 2016	-	Mar 2025	14.0	[ICRA]A (Stable)
NA	Term Loan—2	Sep 2020	-	Sep 2029	19.0	[ICRA]A (Stable)
NA	Term Loan—3	Aug 2015	-	Dec 2024	21.0	[ICRA]A (Stable)
NA	Term Loan—4	Feb 2021	-	Dec 2027	9.0	[ICRA]A (Stable)
NA	Term Loan—5	Feb 2022	-	Not Available*	15.0	[ICRA]A (Stable)
NA	Non Fund-Based Facilities	NA	NA	NA	17.0	[ICRA]A1
NA	Fund/Non Fund-based Limits	NA	NA	NA	150.0	[ICRA]A (Stable)/ [ICRA]A1
NA	CP Programme*	Not Placed			25.0	[ICRA]A1; withdrawn

Source: *Company, * Not Placed #Loan is yet to be disbursed, maturity date will be 5.5 years from the date of disbursement*

Please click here to view details of lender-wise facilities rated by ICRA

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

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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.

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