September 29, 2023

CHW Forge Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Term Loans	78.00	87.00	[ICRA]A (Stable); Reaffirmed/assigned for enhanced amount
Short -term – Non Fund Based Limits	17.00	15.00	[ICRA]A1; Reaffirmed
Long term/ short term- Fund based/ Non fund based	150.00	264.95	[ICRA]A (Stable)/[ICRA]A1; Reaffirmed/assigned for enhanced amount
Total	**245.00**	**366.95**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings action 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 reputed clientele in the domestic as well as export markets. Healthy order inflows have aided the company to maintain steady profitability over the years. However, there was a moderation in profitability in FY2023, primarily owing to higher cost of raw materials, higher commission being paid to sales personnel and higher managerial remuneration paid to directors. Aided by increased orders from existing and new customers, CHW Forge reported revenues of ~Rs. 615 crore in FY2023, a significant growth of ~58% YoY. 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 expected to drive a moderate growth in revenue for CHW, going forward. The company recorded a revenue of Rs. 140 crore, as of June 30, 2022, and order in hand of Rs. 145 crore as of August 31, 2023. Going forward, the enquiry level for its products is expected to remain healthy, fuelled by the expectation of steady demand for CHW products from the oil & gas, and material handling and earth moving equipment industries.

The ratings continue to factor in favourably the company's healthy financial risk profile, characterized by a conservative capital structure (with a gearing of 0.8 times as of March 31, 2023) and strong interest coverage indicators (5.6 times in FY2023). The company's debt coverage indicators (Total Debt/OPBDITA of 2.3 times) moderated in FY2023 owing to inflationary pressures and a change in the product mix. The leverage metrics, however, are expected to improve (Total Debt/OPBDITA expected to moderate down to below 2 times) from FY2024, aided by expectations of stable cash accruals, even as the company has capex plans of Rs. 40-45 crore for setting up furnaces to enhance heat treatment capabilities.

ICRA notes that the company still derives 70-80% of its revenues from the oil and gas industry. Therefore, the company 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 by the company's relatively lower return indicators due to the 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. 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 better operating profitability over the medium term, with a gradual improvement in its return indicators led by the scale-up of operations and capacity utilization. The availability of unutilized fund-based limits (buffer of ~Rs. 56 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 assist CHW Forge to maintain a comfortable credit profile, aided by steady cash flow from operations.

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 customized 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 nearly 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 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, aided CHW Forge to maintain healthy profitability margins over the past few years (18-20%). However, margins declined to about 12.5% in FY2023 (provisional) primarily owing to higher cost of raw materials, higher commission being paid to sales personnel and higher managerial remuneration paid to directors. Its financial risk profile has marginally weakened with total debt to OPBITDA increasing to 2.3 times in FY 2023 (provisional) led by the increase in working capital requirements. The financial risk profile of the company continues to remain healthy despite the moderation in coverage indicators (interest coverage deteriorated to 5.6 times in FY2023 from 6.6 times in FY2022). The return indicators of the company have remained suppressed on account of the high capital-intensive nature of business, with RoCE at 12.5% (FY2023). Nevertheless, over the medium term, the company is expected to maintain healthy operating profitability, with return indicators expected to gradually improve with the scale-up of operations and stabilisation of raw material 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, thereby 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 ~60% (in FY2023). 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 requires 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 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. Besides, the company usually creates 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. 56 crore (as against the average drawing power of ~Rs. 141 crore in the 12-month period ending in March 2023). In relation to these sources of cash, CHW Forge has capex requirements of Rs. 40-45 crore and total debt repayments of ~Rs. 19.7 crore in FY2024. 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. Additionally,, 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
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. The company manufactures a wide range of forged and machined products, such as flanges, rolled rings, nozzles, blinds and tube sheets that are also customized 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 nearly 70-80% of its revenue from the oil & gas sector followed by heavy earth-moving equipment, which contributes to 20-25% of its turnover. CHW Forge has four operating units, two each in Ghaziabad and Greater Noida. The facilities are engaged 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 named Chaudhry Hammer Works Ltd. in 2003, and into a private limited company with its current name in FY2011. The company is held by Mr. Mukul Chaudhary and his close relatives.

Key financial indicators (audited)

CHW Forge	FY2021	FY2022	FY2023 (Prov.)
Operating income	319.7	388.7	615.2
PAT	14.9	14.1	21.6
OPBDIT/OI	18.4%	15.7%	12.3%
PAT/OI	4.6%	3.6%	3.5%
Total outside liabilities/Tangible net worth (times)	0.7	1.0	1.0
Total debt/OPBDIT (times)	1.5	2.4	2.3
Interest coverage (times)	7.1	6.6	5.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Source: Company

Status of non-cooperation with previous CRA: Not applicable

In its rationale published on CHW Forge Private Limited, dated November 30, 2022, 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 August 24, 2022, and October 15, 2022, 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 (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		
					September 29, 2023	June 27, 2022	June 14, 2021	May 17, 2021	Aug 13, 2020 Jul 30, 2020	Jun 9, 2020	
1	Term loans	Long term	87.00	67.55	[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	-	-	-	
4	Fund Based Limits	Long term	-	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	-	
5	Commercial Paper programme	Shor term	-	-	-	[ICRA]A1; withdrawn	[ICRA]A1	-	-	[ICRA]A1; withdrawn	

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 20231	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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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.

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