Shah Foils Limited

November 17, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	175.88	IVR A-/ Stable (IVR A minus with Stable outlook)	Assigned	Simple
Short Term Bank Facility	2.50	IVR A2+ (IVR A two plus)	Assigned	Simple
Total	**178.38 (INR One hundred seventy eight crore and thirty eight lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Shah Foils Limited (SFL) derives strength from experienced promoters, increase in the topline and profit in FY22, conservative capital structure and comfortable coverage indicators and cost saving from captive power arrangement. However, the ratings are constrained on account of elongated working capital cycle, susceptibility of profitability to volatility in raw material prices, high exposure to forex risk and intense competition from the highly fragmented and commoditised steel market.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement in profitability and gross cash accrual on a sustained basis
- Improvement in working capital management with improvement in liquidity

Downward Factors

- Moderation in operating income and/or profitability and cash accrual impacting the debt protection metrics on a sustained basis
- Any increase in debt levels leading to an increase in the gearing levels of more than 1x

- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables impacting the financial risk profile, particularly liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

The promoters of the company, Singhvi and Shah families have two decades of experience in the steel industry. Currently, the company is headed by Mr. Karthik Shah, who is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers.

- **Increase in the topline and profit in FY22**

In FY2022 the company witnessed a significant growth in topline, which has consequently led to an increase in profits and GCA. The company's total operating income (TOI) increased to Rs. 666.87 crore in FY2022 from Rs. 450.98 crore in FY2021 depicting an increase of ~48% on a y-o-y basis, primarily led by an increase in quantity sold and realisation price. Consequently, EBDITA and PAT also increased to Rs. 70.50 crore and Rs. 39.55 crore respectively in FY2022 from Rs. 37.65 crore and Rs. 15.78 crore, respectively in FY2021. Gross cash accruals improved to Rs. 47.19 crore in FY22, compared with Rs. 22.81 crore in FY21. In H1FY2023, the company has registered a topline and EBITDA of Rs. 448.36 crore and Rs.37.59 crore, respectively, registering an y-o-y improvement of 76% and 43%, respectively. A sustained increase in topline and profits will be a key rating factor going forward.

- **Conservative capital structure and comfortable coverage indicators**

The total debt of the company stood at Rs. 117.06 crore and networth of Rs. 158.03 crore as on March 31, 2022, compared with total debt of Rs. 112.17 crore and networth of Rs. 118.62 crore as on March 31, 2021. Total debt declined as on March 31, 2022, due to schedule repayment of term debt and increase in profit led to accretion in networth. The capital structure of the company is conservative with long term debt equity ratio was low at 0.24x, overall gearing ratio was 0.74x and TOL/TNW was 1.17x as on March 31, 2022, compared with long term debt equity ratio of 0.41x, overall gearing ratio of 0.95x and TOL/TNW was 1.16x as on March 31, 2021. The debt protection parameters were comfortable due to increase in profit in FY22 coupled with a decline in debt. In FY22, interest coverage ratio was 7.52x (4.07x in FY21), total debt to GCA was 2.48x (4.94x in FY21) and DSCR was 2.79x (2.45x in FY21).

- **Cost saving from captive power arrangement**

The company has wind mill and solar power generation set up with a combined capacity of 5.85 megawatt. Out of this 1 megawatt is sold to third party and a part of the remaining capacity that is 4.85 megawatt is used for captive purpose which meets 50% of the company's power requirements. Because of the lower generation costs of captively generated power, the same has enabled savings in cost of Rs. 4.85 crore in FY22. Going forward this captive power arrangement will cushion the company's profits during periods when steel prices remain less buoyant.

Key Rating Weaknesses

- **Elongated working capital cycle**

SFL's operations are working capital intensive in nature as reflected by Gross current asset days of ~152 days as on March 31, 2022 as against 148 days as on March 31, 2021 and 120 days as on March 31, 2020. The GCA days are driven by high inventory and debtor days. The inventory days stood at 64 days as on March 31, 2022 as against 68 days as on March 31, 2021. The debtor days, however declined to 42 days in FY22 from 54 days in FY21. Since the company mostly makes payment on advance basis for its imports and domestic purchases are made on immediate basis it gets limited credit period from its suppliers. Thus creditors period was 17 days in FY22 compared with 8 days in FY21.The company's working capital intensity was 32% in FY22 compared with 33% in FY21.

- **Susceptibility of profitability to volatility in raw material prices**

Major raw materials required for the company are stainless steel coils. The company imports raw materials and also procures from local manufactures. Since raw material is the major cost driver, the prices of which are volatile in nature, the profitability of the company is susceptible to fluctuation in raw-material prices. Further, finished steel prices are also highly volatile and prone to fluctuations based on global demand supply situations and other macro-economic factors.

- **High exposure to forex risk**

The company's imports ranged between 3-10% during the period FY2019-FY2021 which increased to 31% of total procurement in FY2022. The exports ranged between 1-6% for the same period. Thus, with limited natural hedge of exports against high imports, SFL's profitability remains susceptible to foreign exchange fluctuations risk.

- **Intense competition from the highly fragmented and commoditised steel market**

The CRC manufacturing businesses is characterised by intense competition due to low product differentiation and limited entry barriers, which limit the pricing flexibility of the players, including SFL.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)
Criteria of assigning rating outlook

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term with sufficient accruals and to meet the term debt repayment in the period FY23-FY25. The average fund based utilisation for the past twelve months ended August, 2022 remained moderate at ~52% indicating a sufficient cushion. With an overall gearing of 0.74x as on March 31, 2022, the company has some headroom, to raise additional debt for its funding requirements. Absence of any debt funded capex provides further comfort to the liquidity position.

About the company

Shah Foils Limited, based in Gujarat, was formed as a partnership firm named Shah Metal Industries in 2001 and reconstituted as a private limited company in 2004 and as a closely held public limited company in 2011. It has been promoted by the Gujarat-based Shah and Singhvi families. The company manufactures stainless steel cold-rolled coils, strips and circles and mainly caters to stainless steel tubes, auto ancillary and utensil manufacturers. The company's manufacturing facility is located in Ahmedabad and Ludhiana with annual installed capacity of 76000 MT p. a. The company has captive power arrangements which meets 50% of the company's total power requirements.

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-March-21 (Audited)	31-March-22 (Audited)
Total Operating Income	450.98	666.87
EBITDA	37.65	70.50
PAT	15.78	39.55
Total Debt	112.71	117.06
Tangible Net-worth	118.62	158.03
EBITDA Margin (%)	8.35	10.57
PAT Margin (%)	3.50	5.93
Overall Gearing Ratio (x)	0.95	0.74

*****_Classification as per Infomerics' standards_

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term loan	Long term	30.88	IVR A-/ Stable	-	-	-
2.	Cash Credit	Long Term	145.00	IVR A-/ Stable	-	-	-
3.	Bank Guarantee	Short Term	2.50	IVR A2+	-	-	-

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Press Release

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About Infomerics Ratings:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook

Term Loan I	-	-	FY27	8.52	IVR A-/ Stable
Term Loan 2	-	-	FY23	1.07	IVR A-/ Stable
Term Loan 3	-	-	FY24	2.18	IVR A-/ Stable
Term Loan 4	-	-	FY24	5.48	IVR A-/ Stable
Term Loan 5	-	-	FY25	2.63	IVR A-/ Stable
GECL 1	-	-	FY27	5.29	IVR A-/ Stable
GECL 2	-	-	FY26	5.71	IVR A-/ Stable
Cash Credit 1	-	-	-	75.00	IVR A-/ Stable
Cash Credit 2	-	-	-	70.00	IVR A-/ Stable
Bank Guarantee	-	-	-	2.50	IVR A2+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-ShahFoils-nov22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com