Press Release

Shah Foils Limited

January 19, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	157.21 (reduced from Rs. 175.88 crore)	IVR BBB+/ Stable (IVR Triple B plus with Stable outlook)	Downgraded from IVR A-/ Stable (IVR A minus with Stable outlook)	Simple
Short Term Bank Facility	2.50	IVR A2 (IVR A two)	Downgraded from IVR A2+ (IVR A two plus)	Simple
Total	**159.71 (INR One hundred fifty nine crore and seventy one lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has downgraded its ratings assigned to the bank facilities of Shah Foils Limited (SFL) due to sharp decline in the profits during FY23 and H1FY24 (provisional). However, the ratings also continue to derive comfort from experienced promoters, increase in topline in FY23 and H1FY24 (provisional) and a conservative capital structure and adequate coverage indicators. These rating strengths continues to remain partially offset by elongated working capital cycle, susceptibility of profitability to volatility in raw material prices, exposure in the form of corporate guarantee provided to one of its group company, Stellinox Stainless Private Limited, 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.
- Any liability arising out of corporate guarantee extended to the group company

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 in FY23 and H1FY24 (provisional)**

The company reported TOI of ~Rs. 835 crore in FY23 which increased ~25% y-o-y on account of increase in quantity sold. Further in H1FY24 (provisional), the company reported TOI of ~Rs. 482 crore up ~7% y-o-y, due to increase in sales. Going forward Infomerics expects an increase in topline on the back of increased demand for steel products driven by economic growth.

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

As of March 31, 2023, the company's capital structure consisted of total debt of Rs. 160.93 which increased from Rs. 117.06 crore as on March 31, 2022, primarily due to increase in bank borrowings. Total net worth as on March 31, 2023, was Rs. 178.49 crore up from Rs. 158.03 crore due to accretion of profit to reserve. The company's capital structure was conservative with overall gearing of 0.90 times as of March 31, 2023, though the same moderated from 0.74 times as of March 31, 2022, due to increase in bank borrowing.

TOL/TNW improved to 1.09 times as on March 31, 2023 compared with 1.17 times as on March 31, 2022, due to decline in sundry creditors. Debt protection metrics were adequate with DSCR of 1.92 times in FY23 compared with 2.79 times in FY22. The decline in DSCR was due to decline in GCA due to decline in profit of the company in FY23. ISCR was 5.41 times in FY23 compared with 7.52 times in FY22 due to decline in EBITDA. Total debt / GCA deteriorated to 5.7 times in FY23 compared with 2.48 times in FY22 due to decline in GCA coupled with increase in total debt. Long term debt by EBITDA was 0.61 times in FY23 compared with 0.54 times in FY22 due to decline in EBITDA.

Key Rating Weaknesses

- **Sharp decline in the profits during FY23 and H1FY24 (provisional)**

The company witnessed a sharp decline in PAT in FY23 which was down by ~46% y-o-y to Rs. 21.37 crore, due to a decline in price realisation, due to higher sale of low margin products. in FY23. Consequently, GCA declined by ~40% y-o-y to Rs. 28.22 crore in FY23. The same continued in H1FY24 (provisional), which led to a decline in PAT by ~47% to Rs. 11.34 crore. Infomerics expects the PAT and GCA will be a key rating factor going forward.

- **Exposure towards group company in the form of corporate guarantee**

The company has exposure in the form of Corporate Guarantees of Rs. 31.00 crore in favour of bank loan facilities availed by Stellinox Stainless Private Limited (NVPL), one of its group company. Any crystallisation of such liability may impact the company’s liquidity profile

- **Elongated working capital cycle**

SFL’s operations are working capital intensive in nature as reflected by GCA days of ~124 days in FY23 which improved from 152 days in FY22. The GCA days are driven by high inventory and low creditors period. The inventory days stood at 74 days in FY23 (64 days in FY22). The debtor days, however, declined to 37 days in FY23 from 42 days in FY22. 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 FY23, unchanged compared to FY22. The company’s working capital intensity was 31% in FY23 compared with 32% in FY22.

- **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 was 31% of total procurement in FY2022 and 33% in FY23. The exports ranged between 1-4% 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 FY24-FY26. The average fund-based utilisation for the past twelve months ended November, 2023 remained moderate at ~65% indicating a sufficient cushion. Absence of any debt funded capex provides further comfort to the liquidity position.

About the company

Press Release

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.

Financials (Standalone):

(Rs. Crore)

For the year ended* / As on	31-March-22 (Audited)	31-March-23 (Audited)
Total Operating Income	666.87	835.42
EBITDA	70.50	44.67
PAT	39.55	21.37
Total Debt	117.06	160.93
Tangible Net-worth	158.03	178.49
EBITDA Margin (%)	10.57	5.35
PAT Margin (%)	5.93	2.56
Overall Gearing Ratio (x)	0.74	0.90

******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 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Nov 17, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term loan	Long term	12.21	IVR BBB+/ Stable	IVR A-/ Stable	-	-
2.	Cash Credit	Long Term	145.00	IVR BBB+/ Stable	IVR A-/ Stable	-	-
3.	Bank Guarantee	Short Term	2.50	IVR A2	IVR A2+	-	-

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About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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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 1	-	-	FY27	6.45	IVR BBB+/ Stable
Term Loan 2	-	-	FY24	0.08	IVR BBB+/ Stable
Term Loan 3	-	-	FY24	0.92	IVR BBB+/ Stable
Term Loan 4	-	-	FY24	2.38	IVR BBB+/ Stable
Term Loan 5	-	-	FY25	1.24	IVR BBB+/ Stable
GECL	-	-	FY27	1.14	IVR BBB+/ Stable
Cash Credit 1	-	-	-	55.00	IVR BBB+/ Stable
Cash Credit 2	-	-	-	50.00	IVR BBB+/ Stable
Cash Credit 3			-	40.00	IVR BBB+/ 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-jan24.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