

## Press Release

Shah Foils Limited

January 18, 2022



### Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	140.70	ACUITE BBB+   Stable   Assigned	-
Bank Loan Ratings	2.50	-	ACUITE A2   Assigned
Total Outstanding Quantum (Rs. Cr)	143.20	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.143.20 crore bank facilities of Shah Foils Limited (SFL). The outlook is '**Stable**'.

### Rationale for Rating Assigned

The rating draws strength from experienced management, long track record of operations and healthy financial risk profile of SFL. These strengths are partially offset by its moderate scale of operations and working capital intensive nature of business. Going forward SFL's ability to improve its operating income while maintaining its profitability without any deterioration in its capital structure will be a key monitorable.

### About the Company

Incorporated in 2011, Shah Foils Limited is a Gujarat based closely held public limited company engaged in manufacturing of stainless steel cold-rolled coils, strips and circles. Started its operations as a partnership firm in 2001 under the name Shah Metal Industries, SFL is promoted by the Gujarat-based Shah and Singhvi families. The Company has total manufacturing capacity of 76000MTPA out of which 66000MTPA is based in Ahmedabad and 10000MTPA is based in Ludhiana. The capacity utilisation at its Ahmedabad factory ranged between 50-65 percent during the period FY2020-H1FY2022. SFL supplies its products in various states such as Maharashtra, Gujarat, Delhi, Haryana, Tamil Nadu in domestic market and Turkey, USA and Europe in international market. Overall the exports range between 3-6 percent of the total sales. SFL's main input material is stainless steel coils which is either procured from domestic steel companies or imported from China, Hongkong or South Korea.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of SFL while arriving at the rating

### Key Rating Drivers

## **Strengths**

### **> Experienced management and established track record of operations**

Started its operations in 2001 as a partnership firm, Shah Foils Limited has a long track record of operations along with experienced management. Promoted by Gujarat based Singhvi and Shah families, the Company currently has Mr. Karthik Shah at the helm of its operations, 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. Majority of the top ten customers and suppliers have been associated with Company for over a decade. The Company supplies its products in various states such as Maharashtra, Gujarat, Delhi, Haryana, Tamil Nadu in domestic market and Turkey, USA and Europe in international market. Overall the exports range between 3-6 percent of the total sales. SFL's main input material is stainless steel coils which are either procured from domestic steel companies namely Steel Authority of India, Posco Steel India Processing Center Private Limited, Jindal Stainless Limited or imported from China, Hongkong and South Korea.

SFL's operating income stood at Rs.450.67 Cr in FY2021 as against Rs.505.06 Cr in FY2020 and Rs.395.78 Cr in FY2019. The decline in FY2021 was mainly because of suspension of business operations during the Covid-19 induced national lockdown in April, 2020. Post the reopening, the Company recorded robust recovery in its operating income as it reached its pre-covid monthly sales levels from Q2FY2021 onwards. The Company's operating income in 7MFY2022 (Provisional) stood at Rs.325 Cr i.e. 72 percent of its FY2021 turnover. The operating margins of SFL stood at 8.69 percent in FY2021 as against 7.27 percent in FY2020 and 11.06 percent in FY2019. The net margins stood at 3.50 percent in FY2021 as against 2.36 percent in FY2020 and 4.51 percent in FY2019.

Acuite believes that SFL will continue to benefit from the extensive experience of its promoters and its established track record of operations.

### **> Healthy financial risk profile**

SFL's financial risk profile is healthy marked by healthy networth, healthy gearing and moderate debt protection metrics. The tangible networth stood at Rs.118.62 Cr in FY2021 as against Rs. 102.89 Cr in FY2020. The improvement is on account of accretion of profits to reserves. The total debt as on March 31, 2021 stood at Rs.112.71 Cr and comprised of long term borrowings of Rs. 48.88 Cr and short term borrowings of Rs. 63.83 Cr. The total debt as on March 31, 2020 stood at Rs. 115.11 Cr and Rs.133.87 Cr as on March 31, 2019. The overall gearing improved to 0.95 times as on March 31, 2021 as against 1.12 times as on March 31, 2020 and 1.47 times as on March 31, 2019. The debt protection metrics of SFL is moderate marked by interest coverage of 3.67 times in FY2021 as against 3.07 times in FY2020 and 4.39 times in FY2019. The DSCR stood at 2.31 times in FY2021 as against 1.55 times in FY2020 and 3.49 times in FY2019. The Debt to EBITDA stood at 2.88 times in FY2021 as against 3.11 times in FY2020 and 3.12 times in FY2019.

Acuite believes SFL's financial risk profile will remain healthy over the medium term in absence of any major debt-funded capex plan.

## **Weaknesses**

### **> Working capital intensive nature of operations**

SFL's operations are working capital intensive in nature as reflected by GCA days of 148 days as on March 31, 2021 as against 120 days as on March 31, 2020 and 194 days as on March 31, 2019. The GCA days are driven by inventory and debtor days. The inventory days stood at 66 days as on March 31, 2021 as against 61 days as on March 31, 2020 and 96 days as on March 31, 2019. The debtor days ranged between 50-65 days during the period FY19-21. The Company receives limited credit support from its suppliers as majority procurement is made on advance/immediate payment on delivery basis. The creditor days stood at 3 days as on March 31, 2021 as against 12 days as on March 31, 2020 and 55 days as on March 31, 2019.

The average bank limit utilisation stood at 82 percent for the twelve months ended October, 2021.

Acuite believes that SFL's ability to restrict further elongation in working capital cycle will be a key rating sensitivity.

#### **> Susceptibility of profitability to volatility in raw material prices and fluctuations in forex risk**

The price of key input material i.e. stainless steel coils is volatile. Any sharp upward movement in the raw material prices and inability of the Company to pass on the increased cost of raw materials may result in dip in operating margins. The Company's imports which ranged between 3-15 percent during the period FY2019-FY2021 increased to 53 percent of total procurement in H1FY2022 (Provisional). The exports ranged between 1-6 percent for the same period. Thus, with limited natural hedge of exports against high imports, SFL's profitability remains susceptible to foreign exchange fluctuations risk.

#### **Rating Sensitivities**

- > Ability to improve its scale of operations while maintaining its profitability and capital structure
- > Any further elongation in its working capital cycle

#### **Material covenants**

None

#### **Liquidity Position: Adequate**

SFL's liquidity position is adequate marked by comfortable cash accruals against debt repayment obligations. The Company's net cash accruals stood at Rs. 24.84 Cr and Rs.20.43 Cr in FY2021 and FY2020 respectively, while the debt repayment obligation for the same period stood at Rs. 4.94 Cr and 8.91 Cr respectively. The gross cash accruals are expected be in the range of Rs. 28-33 Cr for the period FY22-23 while the repayment obligation would range between Rs 11-11.50 Cr. The GCA days of the Company stood at 148 days as on March 31, 2021. The average bank limit utilisation stood at 82 percent for the twelve months ended October, 2021. The current ratio and unencumbered cash and bank balance stood at 2.00 times and at Rs. 19.96 Cr as on March 31, 2021 respectively. Acuité believes that the liquidity of the Company is likely to remain adequate over the medium term on account of comfortable cash accruals against scheduled debt repayment obligations constrained to some extent by working capital intensive nature of operations and no significant capex plan over the medium term.

#### **Outlook: Stable**

Acuité believes that SFL will maintain a 'Stable' outlook over the medium term on account of its experienced management, established track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case the Company achieves higher than expected improvement in its scale of operations while maintaining its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of slower than expected growth in scale of operations or any further elongation in its working capital cycle impacting its liquidity profile.

#### **Key Financials**

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	450.67	505.06
PAT	Rs. Cr.	15.77	11.90
PAT Margin	(%)	3.50	2.36
Total Debt/Tangible Net Worth	Times	0.95	1.12
PBDIT/Interest	Times	3.67	3.07

**Status of non-cooperation with previous CRA (if applicable)**

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

**Note on complexity levels of the rated instrument**<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History:**

Not Applicable

**Annexure - Details of instruments rated**

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A2   Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.50	ACUITE BBB+   Stable   Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE BBB+   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE BBB+   Stable   Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	9.73	ACUITE BBB+   Stable   Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	2.74	ACUITE BBB+   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	2.92	ACUITE BBB+   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	7.15	ACUITE BBB+   Stable   Assigned

HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	3.71	ACUITE BBB+   Stable   Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.95	ACUITE BBB+   Stable   Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	6.00	ACUITE BBB+   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	6.50	ACUITE BBB+   Stable   Assigned
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	5.00	ACUITE BBB+   Stable   Assigned

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### About Acuité Ratings & Research

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