

Shilchar Technologies Limited

June 06, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	5.38 (Reduced from 6.78)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	60.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)
Total Bank Facilities	65.38 (Rs. Sixty-Five Crore and Thirty-Eight Lakhs Only)		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to bank facilities of Shilchar Technologies Limited (STL) take into account significant growth in its scale of operations along with improvement in profitability in FY22.

The ratings continue to derive strength from vast experience of promoters with established track record of its operations coupled with reputed clientele base. The rating also continues to factor in its comfortable capital structure and debt coverage indicators with adequate liquidity.

The ratings, however, continue to remain constrained on account of its presence in competitive and niche industry restricting its growth prospects, moderately concentrated customer base and susceptibility of its profit margins to volatile raw material prices and foreign exchange fluctuations.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained increase in scale of operation with total operating income (TOI) of over Rs.250 crore while maintaining healthy profitability
- Improvement in operating cycle to around 60 days on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade

- Decline in scale of operation with TOI falling below Rs.150 crore and PBILDT margin below 10% on sustained basis.
- Deterioration in overall gearing to more than 1 times
- Elongation of operating cycle beyond 150 days

Detailed description of the key rating drivers

Key Rating Strengths

Significant growth in its scale of operations along with improvement in profitability

In FY22, STL's scale of operations grew significantly marked by its TOI registered healthy growth of ~53% on y-o-y basis to Rs.182.40 crore owing to increased demand from domestic and export market in renewable energy and oil & gas segment. Its order book position remained moderate at ~Rs.70 crore as on May 03, 2022.

Profitability has exhibited improving trend in last 3 years with increasing scale of operations which led to better absorption of fixed cost as well as better management in raw material prices. Furthermore, increase in exports had supported its margin expansion. PBILDT margin has expanded by 277 bps 11.86% in FY22 over FY21, and consequently, PAT margin has also increased to 7.70% in FY22. As a result, return ratios of the company also improved over the previous year and remained healthy with ROCE and RONW of over 22% and 19% respectively in FY22.

Experienced promoters

Son of founder Mr. Jitendra Shah, Mr. Alay Shah, Chairman and Managing Director of the company, holds healthy experience of around three decades in transformer industry and looks after the overall operations of the company. He has been shouldering the responsibility of Managing Director since 1991. His elder son, Mr. Aashay Shah (Director) had joined the company after completion his BE (Electrical) and MBA and is looking after manufacturing operations and his younger son Mr Aatman Shah has also joined the company during FY22. They are supported by a team of experienced and well qualified professionals who are associated with the company for over a decade which includes Mr. Prajesh Purohit, Chief Financial Officer (CFO), who is holding this responsibility since 2016.

Established track record of operations

STL has an operational track record of over two decades with an established position in the domestic market for renewable energy segment. It also exports its products to various countries like USA, Middle East and African nations such as Kenya and Nigeria. Over the years it has established its product and customer base. STL manufactures distribution transformers ranging

¹ Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE publications

from 5 KVA to 3,000 KVA and power transformers ranging from 3,000 KVA to 50,000 KVA. Domestically, STL generates a major portion of its revenue by manufacturing transformers mainly for power and energy sector (with major portion from renewable sector i.e. solar and wind forming around 50%-60% of net sales). In export market major portion of sales is to oil and gas segment (20%-25% of net sales). STL is also increasing its presence in other industries like steel and cement. STL is accredited with ISO 9001-2015 certificate from Bureau Veritas for its Design, Manufacturing and dispatch of transformers and special transformer up to size 650KV peak basic impulse level and is BIS certified. Furthermore, it has received certificate of accreditation from National Accreditation Board for Testing and Calibration Laboratories (NABL) for transformer testing laboratory located at their facility at Gavasad, Vadodara.

Comfortable capital structure and debt coverage indicators

The capital structure of STL continued to remain comfortable owing to lower reliance on debt marked by overall gearing ratio of 0.27 times as on March 31, 2022 [0.15 times as on March 31, 2021; 0.31 times as on March 31, 2020]. Marginal increase in overall gearing was on account of increase in working capital borrowings and higher LC backed acceptance as on March 31, 2022 with growth in TOI. Tangible net worth of the company augmented on the back of accretion of profits into reserves to Rs.79.67 crore as on March 31, 2022.

In line with improved profitability, the debt coverage indicators of STL improved over the previous year and remained comfortable as marked by interest coverage ratio of 20.14 times, though total debt / GCA remained stable at comfortable level of 1.26 times for the year ended as on March 31, 2022.

Key Rating Weaknesses

Presence in niche and competitive industry restricting its growth prospects

The transformer manufacturing industry is highly fragmented marked by presence of large number of medium sized players coupled with presence of large established players with reputed brand names, hence, profitability margins of the industry players come under pressure because of competitive nature of the industry. STL's caters to niche industry segments of renewable energy as well as oil & gas sector where it has established presence and has better profitability, but it faces competition from large players domestically and globally. Overall industry size of transformer requirement in renewable sector and oil & gas is limited restricting its growth prospects.

Reputed customer base albeit customer concentration

Over the years, STL has established its position in the market having served reputed private clients. STL mainly focuses on private sector clients due to lower collection period. STL has moderate customer concentration though improved marked by its top five domestic customers forms ~60% of its domestic sales in FY22as compared to ~72% in FY21. However, credit risk remains low due to its reputed clientele base.

Raw material and forex fluctuation risk

STL's major raw material includes copper, transformer oil, cold rolled grain-oriented (CRGO) steel and aluminium forming around 80- 85% of the total raw material cost whose prices have historically remained volatile. The prices of raw material are driven by international demand-supply dynamics and have exhibited a volatile trend in the past. CRGO steel is imported in India due to lack of any domestic manufacturing facility, which results in added volatility in its prices due to movement in foreign exchange (forex) rates. Also, as articulated by management company is also focusing of order back booking of major raw material like CRGO and copper to hedge against price volatility to an extent.

Also, STL's 24% of TOI is from export and in absence of active hedging policy, its profitability is exposed to foreign currency fluctuation risk to a certain extent. The company booked foreign exchange gain of Rs.0.44 crore in FY22 as against gain of Rs.0.62 crore in FY21.

Liquidity: Adequate

STL's liquidity position remained adequate marked by low debt repayment obligations against moderate cash accruals, Moderate liquidity ratios and low utilization of its fund based working capital limits as its mainly uses performance bank guarantee resulting in moderate utilization of non fund based limits.

The company is expected to generate cash accruals of Rs.17-21 crore in near term against long-term debt repayment obligations of ~Rs.2.50-3.00 crore. The current ratio of the company remained at moderate level of 1.76 times as on March 31, 2022. The company has unencumbered cash and bank balance of Rs.0.85 crore as on March 31, 2022 and had negative CFO of Rs.8 crore in FY22 with increase in debtors with growth in sales in Q4FY22. Average utilization of its fund-based working capital facilities remained low in last 12 months ended in April, 2022, while non-fund-based limits remained ~80-85% utilized during the same period. On other hand, STL's operating cycle remained moderate at 96 days in FY22 which is in line with previous year.

Analytical Approach: Standalone

Applicable Criteria:

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial Ratios - Non-Financial Sector](#)

[Criteria for short term instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

Vadodara (Gujarat) based STL was established in 1986 and is engaged in manufacturing of various categories of transformers including power, distribution and electronics & telecommunication. The company caters to the demand of domestic market as well as export market mainly including Africa, USA and Middle-East countries.

The company manufactures and supplies customized transformers of various ratings and power specifications tailor-made according to the needs and specifications of the customers, having application in renewable and non-renewable energy segment, oil rigs of oil and gas companies for crude oil extraction and steel sector. The company has capacity of 4000 MVA as on March 31, 2022 to manufacture distribution transformers ranging from 5 KVA to 3,000 KVA and power transformers ranging from 3 MVA to 15 MVA.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	FY22 (A)
Total operating income	72.87	119.14	182.40
PBILDT	4.65	10.84	21.64
PAT	1.50	5.52	14.04
Overall gearing (times)	0.31	0.15	0.27
Interest coverage (times)	3.18	5.01	20.14

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	10.00	CARE BBB; Stable / CARE A3+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	10.00	CARE BBB; Stable / CARE A3+
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	40.00	CARE BBB; Stable / CARE A3+
Fund-based - LT-Term Loan	-	-	-	March, 2024	5.38	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST *	10.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (17-Feb-22) 2)CARE BBB-; Stable / CARE A3 (28-Jan-22)	1)CARE BBB-; Stable / CARE A3 (24-Dec-20) 2)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (18-Aug-20)	1)CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* (18-Feb-20)
2	Fund-based/Non-fund-based-LT/ST	LT/ST *	10.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (17-Feb-22) 2)CARE BBB-; Stable / CARE A3 (28-Jan-22)	1)CARE BBB-; Stable / CARE A3 (24-Dec-20) 2)CARE A4+; ISSUER NOT COOPERATING* (18-Aug-20)	1)CARE A3; ISSUER NOT COOPERATING* (18-Feb-20)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST *	40.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (17-Feb-22) 2)CARE BBB-; Stable / CARE A3 (28-Jan-22)	1)CARE BBB-; Stable / CARE A3 (24-Dec-20) 2)CARE A4+; ISSUER NOT COOPERATING* (18-Aug-20)	1)CARE A3; ISSUER NOT COOPERATING* (18-Feb-20)
4	Fund-based - LT-Term Loan	LT	5.38	CARE BBB; Stable	-	1)CARE BBB-; Stable (17-Feb-22) 2)CARE BBB-; Stable (28-Jan-22)	1)CARE BBB-; Stable (24-Dec-20)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities:

Bank Facilities	Detailed explanation	
A. Financial covenants	STL to maintain followings:	
	Covenant	Threshold
	TOL/TNW	<=1.50
	Current Ratio	>=1.33 times
	Net Worth	>=Rs.66.10 crore
B. Non financial covenants	None	

Annexure-4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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