

Shilchar Technologies Limited

June 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	60.00	CARE BBB+; Stable / CARE A2	Revised from CARE BBB; Stable / CARE A3+
Long Term Bank Facilities	-	-	Withdrawn [^]

Details of facilities in Annexure -1; [^] Withdrawn based on no due certificate from the lender

Rationale and key rating drivers

The revision in the ratings assigned to bank facilities of Shilchar Technologies Limited (STL) takes into account improvement in financial profile with growth in scale of operations and significant improvement in profitability supported by increase in exports by the company during FY23 (FY refers to the period from April 1 to March 31). Furthermore, ratings factors in increase in its order book position.

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, debt coverage indicators and 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.

Key Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Sustained increase in scale of operation with total operating income (TOI) of over Rs.400 crore while maintaining healthy profitability above 15%
- Improvement in operating cycle to around 60 days on sustained basis.

Negative Factors

- Decline in scale of operation with TOI falling below Rs.250 crore and PBILDT margin below 13% on sustained basis.
- Deterioration in overall gearing to more than 0.40 times
- Elongation of operating cycle beyond 120 days

Analytical Approach: Standalone

Outlook: Stable

The outlook on the long-term rating of STL is "Stable" considering the benefits derived from established track record of the company coupled with improvement in order book position that would enable the company to sustain its operational performance over the medium term.

Key Rating Strengths

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

In FY23, STL's TOI grew significantly by ~57% on y-o-y basis to Rs.286.49 crore owing to increased order inflow from export customers. STL's exports grew from Rs.45.70 crore during FY22 to Rs.144.83 crore during FY23 while domestic sales remained relatively stable over the previous year.

PBILDT margin of the company has increased significantly by 890 bps Y-o-Y to 20.76% in FY23 with better absorption of fixed cost, better management of raw material costs and significantly increased export sales having better margins, consequently, PAT margin has also increased significant by 735 bps Y-o-Y to 15.05% in FY23 with improved PBILDT margin. As a result, return ratios of the company also improved over the previous year and remained healthy with ROCE and RONW of over 52% and 42% respectively in FY23.

Improvement in order book position

As on May 23, 2023, STL's order book position (with order execution cycle ranging from 3-12 months) had increased including export orders as compared to corresponding previous year. The growth was driven by penetration into export market.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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 0.04 times as on March 31, 2023 [0.27 times as on March 31, 2022; 0.15 times as on March 31, 2021]. The debt coverage indicators of STL improved significantly over the previous year on the back of improved profitability and decreased interest cost [with reduction in total debt] and continued to remain comfortable with interest coverage ratio of 99.21 times [PY: 20.14 times] and total debt / GCA of 0.10 times [PY: 1.26 times] for the year ended as on March 31, 2023.

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, Canada 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 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 domestic renewable sector i.e. solar and wind forming around 50%-60% of net sales). STL is gradually 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.

Experienced promoters

Son of founder Mr. Jitendra Shah, Mr. Alay Shah, Chairman and Managing Director of the company, holds experience of around three decades in transformer industry and looks after the overall operations of the company. He is assisted by his sons, Mr. Aashay Shah (Director) and Mr Aatman Shah. 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.

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 viz renewable energy, cement, steel and other sectors 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 niche segments 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 as marked by its top five domestic customers forms ~54% of its domestic sales in FY23 [FY22: ~44%; FY21: ~72%]. 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 52% of TOI in FY23 [PY: 25%] was from export sales 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.2.81 crore in FY23 as against gain of Rs.0.44 crore in FY22.

Liquidity: Adequate

STL's liquidity position remain adequate marked by healthy cash flow from operations (CFO), nil debt repayment obligations, moderate liquidity ratios and low utilization of its fund based working capital limits. It mainly uses performance bank guarantee resulting in moderate utilization of non fund based limits.

CARE ratings expects company to generate healthy cash accruals in near term as against nil long-term debt repayment obligations. The current ratio remained at moderate level of 2.60 times as on March 31, 2023. CFO of the company improved over the previous year on the back of increased operating profit as well as decreased inventory level for the year ended on March 31, 2023 which led to CFO of Rs.38.04 crore in FY23 which subsequently resulted in to increase in unencumbered cash and bank balance to Rs.9.25 crore as on March 31, 2023. Average utilization of its fund-based working capital facilities remained negligible in last 12 months ended in March, 2023, while non-fund-based limits remained ~86% p.a. [PY: ~85% p.a.] utilized during the same period. STL's operating cycle remained at 90 days in FY23 which is in line with FY22 levels.

Applicable Criteria:

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

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, Canada 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 niche industry segments. The company has capacity of 4000 MVA as on March 31, 2023 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)	FY21 (A)	FY22 (A)	FY23 (A)
Total operating income	119.14	182.40	286.49
PBILDT	10.84	21.64	59.49
PAT	5.52	14.04	43.12
Overall gearing (times)	0.15	0.27	0.04
Interest coverage (times)	5.01	20.14	99.21

A: Audited; Note: 'the above results are latest financial results available'

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

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31/03/2024	0.00	Withdrawn
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	10.00	CARE BBB+; Stable / CARE A2
Fund-based/Non-fund-based-LT/ST	-	-	-	-	10.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ST-Bank Guarantee	-	-	-	-	40.00	CARE BBB+; Stable / CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ST-CC/Packing Credit	LT/ST*	10.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (06-Jun-22)	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)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	10.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (06-Jun-22)	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)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	40.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (06-Jun-22)	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)
4	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Stable (06-Jun-22)	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 instruments/facilities: Not applicable
Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings Limited 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.

Contact us

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About us:

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