Shilchar Technologies Limited

June 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	60.00	CARE A-; Stable / CARE A2+	Revised from CARE BBB+; Stable / CARE A2

Details of facilities in Annexure -1

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Shilchar Technologies Limited (STL) considers significant improvement in its scale of operations as well as profitability supported by increase in both export as well as domestic sales in FY24 (FY refers to the period from April 1 to March 31) leading to strengthening of debt coverage indicators, augmentation of net worth base, and adequate liquidity. Ratings also factor in significant increase in its order book position.

Ratings continue to derive strength from promoters' vast experience, its established track record of operations, along with reputed clientele base.

The ratings, however, continue to remain constrained on account of its presence in a competitive and niche industry, reputed albeit moderately concentrated customer base, and its profit margin susceptible to volatile raw material prices and foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained volume-driven growth in scale of operations with total operating income (TOI) of over ₹700 crore while maintaining healthy profitability and capital structure.
- Diversifying customer profile and end-use segments.

Negative factors

- Declining scale of operation with TOI falling below ₹350 crore and profit before interest, lease rentals, depreciation and taxation (PBILDT) margin below 15% on a sustained basis.
- Deteriorating capital structure with overall gearing more than 0.30x.
- Elongating operating cycle beyond 100 days.

Analytical approach: Standalone

Outlook: Stable

A 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings) expectation that the entity will continue to benefit from its established track record, customised offering and strong demand from renewable segment resulting in improvement in order book position, which would enable the company to sustain its financial and operational risk profile over the medium term.

Detailed description of the key rating drivers

Key strengths

Significant growth in scale of operations along with improvement in profitability

STL's scale of operations expanded significantly in FY24 with TOI of ₹405 crore (P.Y.: ₹286 crore), registering healthy growth of 41% Y-o-Y on the back of increase in order inflow from export as well as domestic market. STL's export revenue increased by 37% Y-o-Y to ₹199 crore in FY24.

The company's operational profitability also witnessed a remarkable improvement, with PBILDT margin soaring by 919 bps year-over-year to 29.96%. This was attributed to enhanced plant efficiency and improved sales realisation amid rising demand and customised offering. Consequently, the profit after tax (PAT) margin also increased by 765 basis points year-over-year to 22.70%. These factors contributed to a notable enhancement in the company's return ratios, with the return on capital employed (ROCE) and return on net worth (RONW) registering over 73% and 55%, respectively, in FY24.

Improvement in order book position

STL's order book increased significantly owing to increased demand from end user industries. STL receives repeat orders from its existing customers and strives to add new customers on a continuous basis with order execution cycle ranging from 3-9 months, reflecting reasonable revenue visibility.

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

Strong capital structure and debt coverage indicators

STL had a strong capital structure with no outstanding debt as on March 31, 2024. Total outside liabilities to tangible net worth (TOL/TNW) was also comfortable at 0.38x on the same date, showing an improvement from 0.45x as on March 31, 2023. Furthermore, the company's TNW witnessed a significant increase to ₹210 crore by March 31, 2024, with healthy addition of profits to reserves, up from the previous year's net worth of ₹121 crore.

STL's debt coverage indicators improved significantly in tandem with substantial improvement in profitability and remained strong marked by interest coverage ratio of 578x [PY: 99x] and nil total debt to gross cash accruals (TDGCA) ratio [PY: 0.10x] in FY24.

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 destinations such as USA, Canada, Middle East, and African nations including Kenya and Nigeria. Over the years, STL 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. STL's major revenue comes from the power and energy sector, accounting for approximately 60% of its net sales, while the company is also expanding its footprint in the steel and cement industries. 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. Additionally, STL's transformer testing laboratory in Gavasad, Vadodara, has been accredited by the National Accreditation Board for Testing and Calibration Laboratories (NABL).

Experienced promoters

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, Aashay Shah (Director) and Aatman Shah. They are supported by a team of experienced and well-qualified key professionals, associated with the company for over a decade.

Key weaknesses

Presence in a niche and competitive industry

The transformer manufacturing industry is highly fragmented with presence of large number of medium-sized players and various large established players having reputed brand names. Hence, players' profitability margin remains under pressure due to the competitive industry. However, STL caters to niche industry segments such as renewable energy where it has established presence and hence fetches better profitability.

Reputed customer base though moderate customer concentration

Over the years, STL has established its position having reputed private clients across various sectors. STL mainly focuses on private sector clients due to lower collection period as well as credit risk. STL has moderate customer concentration as marked by its top five domestic customers forming 62% of its domestic sales in FY24 [PY: around 45%].

Raw material volatility 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 raw materials prices 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, resulting in added volatility in its prices due to movement in foreign exchange (forex) rates. However, as articulated by the management, the company purchases raw material back-to-back upon receipt of orders, hence, raw material fluctuation risk is largely mitigated.

Also, 50% of STL's TOI in FY24 [PY: 52%] was from export sales as against negligible direct import of raw material and in absence of active hedging policy, its profitability is exposed to foreign currency fluctuation risk. The company reported foreign exchange gain of ₹2.64 crore in FY24 as against gain of ₹2.81 crore in FY23.

Liquidity: Adequate

STL's liquidity position strengthened marked by healthy cash accruals, positive cash flow from operations (CFO) and liquid funds as against nil scheduled debt repayment obligations along with negligible utilisation of its fund-based working capital limits, though non-fund-based limits remained moderately utilised.

The company reported a healthy net cash accruals (NCA) of ₹91 crore in FY24 and is expected to generate NCA of ₹90-135 crore in FY25-FY27 period as against nil long-term debt repayment obligations in the same period. STL's CFO improved significantly in tandem with enhanced operating profitability to ₹72 crore in FY24. Consequently, liquid funds with the company grew substantially from ₹19 crore as on March 31, 2023, to ₹82 crore as on March 31, 2024. Average utilisation of its fund-based working capital facilities remained negligible in last 12 months ended April 2024, while non-fund-based limits remained around 88% p.a. [PY:

around 86% p.a.] utilised in the same period. STL's operating cycle improved on the back of better realisation from the receivables and remained moderate at 79 days in FY24 [PY: 90 days].

Applicable criteria:

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

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-based (Gujarat) STL was established in 1986 and is engaged in manufacturing various categories of transformers including power, distribution, and electronics & telecommunication. The company manufactures and supplies customised transformers of various ratings and power specifications tailor-made according to the needs and specifications of the customers, having application in niche industry segments. It caters to the demand of domestic market and export market mainly including Africa, USA, Canada, and Middle-East countries.

The company has capacity of 4000 MVA as on March 31, 2024, to manufacture distribution transformers ranging from 5 KVA to 3,000 KVA and power transformers ranging from 3 MVA to 15 MVA.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)
Total operating income	286.49	404.81
PBILDT	59.49	121.26
PAT	43.12	91.89
Overall gearing (times)	0.04	0.00
Interest coverage (times)	99.21	577.99

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 for 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: 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/ ST-CC/Packing credit	-	-	-	-	10.00	CARE A-; Stable / CARE A2+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	10.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	40.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT/ ST-CC/Packing credit	LT/ST	10.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (22-Jun-23)	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)
2	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (22-Jun-23)	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)
3	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	40.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (22-Jun-23)	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)
4	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (22-Jun-23)	1)CARE BBB; Stable (06-Jun-22)	1)CARE BBB-; Stable (17-Feb-22) 2)CARE BBB-; Stable (28-Jan-22)

LT / ST: Long term / Short term.

Annexure-3: Detailed explanation of the 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/ ST-CC/Packing credit	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	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 the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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