Shilchar Technologies Limited (Revised)

December 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	103.00 (Enhanced from 60.00)	CARE A-; Stable / CARE A2+	Reaffirmed
Short-term bank facilities	5.00	CARE A2+	Assigned

Details of facilities in Annexure -1

Rationale and key rating drivers

The ratings assigned to bank facilities of Shilchar Technologies Limited (STL) continue to derive strength from its promoters' vast experience, established track record of operations, and a reputed client base. The ratings also continue to factor in STL's growing scale of operations and healthy profitability supported by increase in both export as well as domestic sales, healthy order book, strong capital structure as well as debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained on account of STL's presence in a competitive and niche industry, reputed albeit moderately concentrated customer base, and susceptibility of its profitability 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 key rating drivers

Key strengths

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 ~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 650 KV 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).

Growing scale of operations along with healthy profitability

STL's scale of operations expanded significantly in FY24 with TOI of ₹405 crore (PY: ₹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. In H1FY25, STL's TOI further grew by 36% Y-o-Y to ₹244.72 crore [H1FY24: ₹179.69 crore].

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

The company's operating profitability also witnessed a significant improvement, with PBILDT margin soaring by 919 bps Y-o-Y 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 Y-o-Y 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. In H1FY25, STL's profitability continued to remain healthy and relatively stable as marked by PBILDT margin and PAT margin of 31.71% and 23.17%, respectively [HFY24: 31.05% and 22.69%, respectively].

Healthy order book position

STL's order book remained healthy 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 to 9 months, reflecting reasonable revenue visibility.

Strong capital structure and debt coverage indicators

STL had a strong capital structure with no outstanding debt as on March 31, 2024 as well as on September 30, 2024. Total outside liabilities to tangible net worth (TOL/TNW) was also comfortable at 0.38x as on March 31, 2024 [0.40x as on September 30, 2024]. Furthermore, the company's net worth witnessed a significant increase to ₹210 crore as on 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; H1FY25: 408x] and nil total debt to gross cash accruals (TDGCA) ratio [PY: 0.10x; H1FY25: nil] in FY24.

Experienced promoters

Alay Shah, Chairman and Managing Director of the company, holds experience of around three decades in transformer industry and looks after the company's overall operations. 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: ~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 ~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 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 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 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 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 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 (₹129 crore as on September 30, 2024). Average utilisation of its fund-based working capital facilities remained negligible in the last 12 months ended April 2024, while non-fund-based limits remained ~88% p.a. [PY: ~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].

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks:

Environmental	1. There are adequate systems and processes in the company to monitor and ensure compliance with following acts: • The Water (prevention and control of pollution) Act, 1974 & Rules • Air (Prevention & Control of Pollution) Act, 1981 & Rules • Environment Protection Act, 1986 & Rules • Water Cess Act, 1997 & Rules The Company has generally complied with the provisions of the Act, Rules, Regulations, Guidelines, and Standards etc. 2. The Company has implemented a mechanism of Zero Liquid Discharge in both manufacturing units and office. 3. STL is actively reducing its Green House Gas emission by installing solar and windmills. These projects have reduced its greenhouse gas intensity by 57%.
Social	1. STL has established a robust Health, Safety, and Environment (HSE) management system in line with the ISO 14001 and 45001 standards.
Governance	1. **Board Composition:** STL's board of directors has six directors which include four independent directors out of which one is a woman director. 2. Chairman of audit and nomination and remuneration committees are independent directors. 3. The Board of Directors, through its committees, oversee the ESG initiatives and performance.

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

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, the US, 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)	H1FY25 (UA)
Total operating income	286.49	404.81	244.72
PBILDT	59.49	121.26	77.59
PAT	43.12	91.89	56.71
Overall gearing (times)	0.04	0.00	0.00
Interest coverage (times)	99.21	577.99	408.37

A: Audited; UA: Unaudited. Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT/ ST-CC/Packing credit	-	-	-	-	10.00	CARE A-; Stable / CARE A2+
Fund-based - ST-Bank overdraft	-	-	-	-	1.00	CARE A2+
Fund-based - ST-Working capital demand loan	-	-	-	-	4.00	CARE A2+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	10.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	83.00	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 A-; Stable / CARE A2+ (11-Jun-24)	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 A-; Stable / CARE A2+ (11-Jun-24)	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)

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
3	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	83.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (11-Jun-24)	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)
5	Fund-based - ST-Bank overdraft	ST	1.00	CARE A2+				
6	Fund-based - ST-Working capital demand loan	ST	4.00	CARE A2+				

LT / ST: Long term / Short term; ST: Short term; LT: Long term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities:

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-CC/Packing credit	Simple
2	Fund-based - ST-Bank overdraft	Simple
3	Fund-based - ST-Working capital demand loan	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of 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 clarifications.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in	Name: Kalpesh Patel Director **CARE Ratings Limited** Phone: +91-79-4026 5611 E-mail: Kalpesh.patel@careedge.in Name: Anuja Parikh Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5616 E-mail: anuja.parikh@careedge.in Name: Harsh Desai Assistant Director **CARE Ratings Limited** E-mail: harsh.desai@careedge.in

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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