Shilchar Technologies Limited

January 28, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	6.78 (Reduced from 10.48)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	60.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed
Total Bank Facilities	**66.78 (Rs. Sixty-Six Crore and Seventy-Eight Lakhs Only)**		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Shilchar Technologies Limited (STL) continue to derive strength from vast experience of its promoters with established track record of its operations along with comfortable capital structure and debt coverage indicators along-with adequate liquidity.

The ratings, however, continue to remain constrained to remain constrained on account of its modest scale of operations, though improved in FY21 (refers to period from April 01 to March 31, 2021), fluctuating profitability, 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:

- Significant increase in scale of operation with TOI of over Rs.175 crore while maintaining earning PBILDT margin of more than 10% on sustained basis.
- 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.100 crore and PBILDT margin below 7% on sustained basis.
- Deterioration in overall gearing to more than 1 times and significant stretch in its operating cycle
- Any major debt funded capex project

Detailed description of the key rating drivers

Key Rating Strengths

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. He is supported by a team of experienced and well qualified professionals who are associated with the company for over a decade. He is also assisted by 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 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 for mainly for power and energy sector (with major portion from renewable sector). In export market major portion of sales is from for oil and gas segment. 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 Jambusar Highway, Vadodara.

Comfortable capital structure and debt coverage indicators

The capital structure of STL remained comfortable owing to lower reliance on debt marked by its overall gearing ratio of 0.15 times as on March 31, 2021. Tangible net worth of the company augmented on the back of accretion of profits into reserves, though it continued to remain moderate at Rs.66.21 crore as on March 31, 2021. Overall gearing of the company continued to remain comfortable at 0.28 times as on September 30, 2021 (UA), and further, it is expected to remain comfortable as on March 31, 2022 in absence of any planned major debt funded capex.

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

The debt coverage indicators of STL improved over the previous year owing to improved PBILDT and subsequently GCA on the back of increased TOI and stood at comfortable level. Debt coverage indicators of the company continued to remain comfortable in half year ended on September 30, 2021 (UA).

Key Rating Weaknesses

Modest scale of operations, though improved in FY21 with fluctuating profitability

In FY21, STL's scale of operations marked by its TOI continued to remain moderate at Rs.120.07 crore, though it registered a healthy 62% Y-o-Y growth over FY20 due to increase in order inflow from domestic as well as export renewable energy segment (solar and wind) with normalization in operations post-disruption due to Covid-19 with gradual opening up of economies. TOI of STL further grew by 36% Y-o-Y and remained at Rs.70.01 crore in H1FY22 (UA).

STL's profitability had exhibited a fluctuating trend in last five years ended FY21 owing to volatility of raw materials prices. In FY21, PBILDT margin of the company improved by 200 bps Y-o-Y and remained at 9.80% with better absorption of fixed cost with increased in TOI coupled with marginal decrease in other cost. Consequently, PAT margin has also increased by 258 bps to 4.60% on the back of improved PBILDT margin. However, during H1FY22 (UA), PBILDT margin and PAT margin reduced by 514 bps and 265 bps Y-o-Y to 6.15% and 2.86% respectively owing to higher input cost on the back of higher metal prices coupled with significant increase in freight cost towards export sales. As articulated by the management, operating margin of the company is expected to improve in H2FY22 as new orders factor in the impact of high metal prices. Further, around 90% of its current orders are ex-work basis as against largely CIF based orders executed in H1FY22 (UA).

Reputed customer base albeit concentrated customer base

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 better profitability and lower collection period. STL is exposed to customer concentration risk with top five customers contributing around 65-75% of its TOI and large part of sales being on clean credit. However, credit risk remains low due to its reputed clientele.

As on November 18, 2021, the moderate domestic order book position remained at around Rs.70.04 crore and the export orders remained at around Rs.30 crore, a total of around Rs.100.00 crore.

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, 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.0.62 crore in FY21 as against loss of Rs.0.34 crore in FY20.

Liquidity: Adequate

STL's liquidity position remained adequate marked by low debt repayment obligations against moderate cash accruals, its negligible utilization of fund based working capital limits, moderate utilization of non fund based limits and moderate liquidity ratios.

The company is expected to generate cash accruals of Rs.8-10 crore in near term as against long-term debt principle repayment of Rs.2-3 crore. The current and quick ratios of the company remained at moderate level of 2.02 times and 1.23 times respectively as on March 31, 2021. The company has unencumbered cash and bank balance of Rs.1.94 crore as on March 31, 2021 while CFO of the company improved over the previous year on the back of improved operating profit and remained at Rs.10.74 crore in FY21. Average utilization of its fund-based working capital facilities remained negligible in last 12 months ended in December, 2021, while non-fund-based limits remained around 80% utilized during the same period. STL's operating cycle shortened to 95 days in FY21 [PY:160 days] with increase in scale of operations.

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-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 & 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, 2021 to manufacture distribution transformers ranging from 5 KVA to 3,000 KVA and power transformers ranging from 3,000 KVA to 50,000 KVA.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	74.00	120.07	70.01
PBILDT	5.77	11.76	4.56
PAT	1.50	5.52	2.00
Overall gearing (times)	0.31	0.15	0.28
Interest coverage (times)	3.95	5.44	9.70

A: Audited; UA: Unaudited

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	6.78	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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	10.00	CARE BBB-; Stable / CARE A3	-	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)	1)CARE BBB+; Stable / CARE A3+ (21-Jan-19) 2)CARE BBB+; Stable / CARE A3+; ISSUER NOT COOPERATING* (25-Sep-18)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	10.00	CARE BBB-; Stable / CARE A3	-	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)	1)CARE A3+ (21-Jan-19) 2)CARE A3+; ISSUER NOT COOPERATING* (25-Sep-18)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	40.00	CARE BBB-; Stable / CARE A3	-	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)	1)CARE A3+ (21-Jan-19) 2)CARE A3+; ISSUER NOT COOPERATING* (25-Sep-18)
4	Fund-based - LT-Term Loan	LT	6.78	CARE BBB-; Stable	-	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 Company

To 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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