Shilchar Technologies Limited

January 21, 2019

Ratings

Facilities	**Amount (Rs. Crore)**	**Ratings**[1]	**Rating Action**
Long-Term/ Short-Term Bank Facilities	5.00	**CARE BBB+; Stable / CARE A3+; (Triple B Plus; Outlook: Stable / A Three Plus)**	Reaffirmed and removed from ISSUER NOT COOPERATING*
Short-term Bank Facilities	25.00	**CARE A3+ (A Three Plus)**	Reaffirmed and removed from ISSUER NOT COOPERATING*
Total facilities	**30.00 (Rupees Thirty Crore Only)**		

Details of instruments / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shilchar Technologies Limited (STL) continue to derive strength from its established operations in the transformers industry, experienced promoters, reputed clientele and comfortable overall gearing. The ratings also take into account marginal improvement in the income and profitability in Q2FY19 (refers to the period June 1 to September 30) post a dip in FY18 and Q1FY19; however with overall moderation in revenue visibility, debt coverage indicators and liquidity.

The ratings of STL factor in commencement of production from the company's recently undertaken debt-funded capacity expansion project.

The ratings, however, continue to remain constrained on account of susceptibility of its profitability to volatile prices of raw materials, foreign exchange rate fluctuations and moderate debt coverage indicators and liquidity.

The ability of STL to scale up its operations through optimum utilization of the enhanced capacities and improve profitability, while efficiently managing its working capital requirements, shall be the key rating sensitivities. This apart, any major debt-funded capex adversely affecting its capital structure or debt coverage indicators shall also be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: The promoters of STL have long standing experience of more than five decades in the transformer industry and are supported by a team of experienced and well qualified professionals.

Established operations in transformer industry and reputed customer base: STL has an operational track record of over two decades with an established position in the domestic market for renewable energy segment and growing presence in exports mainly for power transformers. Over the years, the company has shifted its focus to export customers and renewable energy companies in domestic market to reduce its dependence on State Electricity Boards (SEBs). Product portfolio is diversified including distribution and power (D&P) transformers, electronics & telecommunication (ET) transformers and dry transformers.

Commencement of operations from recently concluded debt-funded capacity expansion: STL recently undertook an expansion project in order to increase its manufacturing capacity by 3.50 times to around 4000 MVA annually. STL has incurred a total cost of Rs.31.25 crore towards the project, funded from a term loan of Rs.13.01 crore (as against a sanction limit of Rs.15 crore) and balance through internal accruals / unencumbered liquid investments.

Comfortable overall gearing: Overall gearing of the company remained comfortable at 0.49x as on September 30, 2018, though increased from at 0.28x as on March 31, 2018 (0.43x as on June 30, 2018) due to disbursement of term loan for the recently concluded capacity expansion, alongwith increase in working capital borrowings to fund the increase in inventory levels (mainly raw material inventory) and receivables.

Key Rating Weaknesses

Dip in income and profitability alongwith moderation in revenue visibility; albeit with marginal revival in Q2FY19: STL registered a 21% y-o-y dip in its total operating income (TOI) during FY18 and further 29% dip y-o-y in Q1FY19 due to slowdown in order inflow from both domestic renewable energy segment (solar and wind) and export markets. Lower TOI, coupled with increase in cost of production due to higher tax rates under the GST regime and increase in raw

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

**Issuer did not cooperate; Based on best available information*

material costs, resulted into a 677 bps y-o-y dip in PBILDT to 11.87% during FY18 with around 51% reduction in the gross cash accruals to Rs.6.61 crore in FY18.
The performance improved marginally in Q2FY19 which was supported by marginal revival in both domestic and export orders. This resulted in 29% y-o-y growth in its TOI in H1FY19; however profitability remained moderated with a PBILDT margin of around 12% and GCA of around Rs.4.64 crore registered in H1FY19.
Revenue visibility of the company remains moderate with orders of around Rs.29 crore on hand and only a gradual revival expected in the order inflow. The company is also focusing to increase its customer base to other industries such as steel, apart from its regular orders from power and energy sector.

Moderation in debt coverage indicators and liquidity: Debt coverage indicators of the company moderated during FY18 and H1FY19 with a PBILDT interest coverage of over 5x and TD/GCA of over 3x during H1FY19; as against 30x and 0.56x respectively in FY17. This was due to moderation in profitability; coupled with disbursement of debt for capex and incremental working capital requirements.
Liquidity also moderated with increase in operating cycle during FY18 to fund higher inventory and receivables; which resulted in reduction in the company's cash flow from operations from around Rs.11 crore in FY17 to below Rs.4 crore in FY18; along with reduction in its unencumbered liquid investments from Rs.11.58 crore at FY17 end to below Rs.1 crore at end of H1FY19.
Average utilization of its working capital limits remained moderate at around 51%; however the limits remained fully utilised during select days due to increase in working capital intensity of operations.

Susceptibility of profitability to foreign exchange and raw material fluctuation risk: STL does not resort to any hedging mechanism for its exports receivables; hence its profitability remains exposed to foreign exchange fluctuations risk. Furthermore, STL's major raw material includes copper, transformer oil, Cold Rolled Grain-Oriented (CRGO) steel and aluminum, prices of which are highly volatile in nature and thus results in vulnerability of its profitability to any adverse variation in the raw material prices.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Rating Methodology-Manufacturing Companies]
[Financial ratios - Non- Financial Sector]

About the Company
Vadodara-based STL was established 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.
STL is accredited with ISO 9001-2008 certificate from UL DQS Inc. for its Quality Management systems and procedures, with Bureau of Energy Efficiency (BEE) for Star Rating of transformers and also has a CSA certificate from USA and Canada. 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. The company has recently expanded its production capacity from 1000 MVA to 4000 MVA at its new facility at Gavasad, Vadodra. The company has a capacity 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 of STL

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	111.36	88.53
PBILDT	19.87	10.29
PAT	12.29	5.87
Overall gearing (times)	0.15	0.28
Interest coverage (times)	30.19	8.17

A: Audited
The company has registered an income of Rs.55.37 crore in H1FY19.

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:
Not Applicable

Rating History for last three years: Please refer Annexure-2

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.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	-	-	-	5.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A3+
Non-fund-based - ST-Bank Guarantees	-	-	-	15.00	CARE A3+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	5.00	CARE BBB+; Stable / CARE A3+	1)CARE BBB+; Stable / CARE A3+; ISSUER NOT COOPERATING* (25-Sep-18)	1)CARE A-; Stable / CARE A2+ (04-Oct-17)	1)CARE BBB+ / CARE A2 (15-Jul-16)	-
2.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A3+	1)CARE A3+; ISSUER NOT COOPERATING* (25-Sep-18)	1)CARE A2+ (04-Oct-17)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	15.00	CARE A3+	1)CARE A3+; ISSUER NOT COOPERATING* (25-Sep-18)	1)CARE A2+ (04-Oct-17)	-	-

**Issuer did not cooperate; Based on best available information*

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