

Shilchar Technologies Limited

February 18, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-Term Bank Facilities	5.00	CARE BBB-; Stable; ISSUER NOT COOPERATING* (Triple B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable) on the basis of best available information
Short-Term Bank Facilities	25.00	CARE A3; ISSUER NOT COOPERATING* (A Three; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE A3+ (A Three Plus) on the basis of best available information
Total Facilities	30.00 (Rupees Thirty Crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Shilchar Technologies Limited (STL) to monitor the rating(s) vide e-mail communications dated January 06, 2020, January 15, 2020, January 21, 2020 and February 05, 2020 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the best available information which, however, in CARE's opinion is not sufficient to arrive at a fair rating. Furthermore, STL has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. The rating on STL's bank facilities will now be denoted as **CARE BBB-; Stable/ CARE A3; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings of the bank facilities of STL have been revised on account of significant decline in its total operating income and profitability during 9MFY20 (refers to the period April 1 to December 31) along with moderation in its debt coverage indicators on a y-o-y basis and due to non-availability of requisite information.

The ratings, however, continue to derive strength from its established operations in the transformer industry, experienced promoters, reputed clientele and comfortable overall gearing.

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

Detailed description of the key rating drivers

At the time of last rating on January 21, 2019, the following were the rating strengths and weaknesses (updated for the information available from Stock Exchange of FY19 (Audited) and 9MFY20 (Unaudited) results)

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 transformer 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.

Comfortable leverage

Overall gearing of the company remained comfortable at 0.31 times as on September 30, 2019 and 0.26 times as on March 31, 2019 (0.28x as on March 31, 2018).

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

*Issuer did not cooperate; Based on best available information

Key Rating Weaknesses

Significant decline in revenue, profitability margins and moderation in debt coverage indicators during 9MFY20

The FY19 performance of STL had improved over FY18 which was supported by revival in both domestic and export orders, resulting in 36% y-o-y growth in its TOI in FY19 and improvement in profitability marked by PBILDT margin of ~13.24% (PY: 11.62%). However, during 9MFY20, STL registered ~38% y-o-y dip in its total operating income (TOI) on y-o-y basis with slowdown in order inflow from both domestic renewable energy segment (solar and wind) and export markets. The company is diversifying its domestic presence to other new industries for which it has hired senior marketing officials across its various offices resulting in increased employee costs by 16% y-o-y during 9MFY20. This had resulted in sharp decline in PBILDT margin by 679 bps from 14.40% to 7.62% on y-o-y basis. Consequently, PAT margin had also declined by 570 bps from 7.32% to 1.62%. Overall GCA was ~67% lower in 9MFY20 over 9MFY19.

PBILDT interest coverage though remained moderate deteriorated to 4 times in 9MFY20 as compared to 6.44 times in 9MFY19. GCA in Q3FY20 was Rs.0.84 crore against the scheduled quarterly repayment of Rs.0.70 crore. Operating cycle remained at a moderate 69 days during FY19 in line with the previous 66 days in FY18.

Susceptibility of profitability to foreign exchange and raw material price fluctuation risk

STL does not resort to any hedging mechanism for its export 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

[Policy in respect of Non-Cooperation by Issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' 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 (CIN: L29308GJ1986PLC008387) 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 has a CSA (Canadian Standards Association) 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.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total operating income	88.53	120.05
PBILDT	10.29	15.90
PAT	5.87	7.75
Overall gearing (times)	0.28	0.26
Interest coverage (times)	8.17	5.68

A: Audited

As per published results for 9MFY20, STL has reported TOI of Rs.56.19 crore (9MFY19: Rs.89.91 crore) with a PAT of Rs.0.91 crore (9MFY19: Rs.6.58 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any Other Information: Not Applicable

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

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; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB+; Stable / CARE A3+ on the basis of best available information
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+ on the basis of best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	15.00	CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+ on the basis of best available information

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	5.00	CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB+; Stable / CARE A3+ on the basis of best available information	-	1)CARE BBB+; Stable / CARE A3+ (21-Jan-19) 2)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; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+ on the basis of best available information	-	1)CARE A3+ (21-Jan-19) 2)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; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+ on the basis of best available information	-	1)CARE A3+ (21-Jan-19) 2)CARE A3+; ISSUER NOT COOPERATING* (25-Sep-18)	1)CARE A2+ (04-Oct-17)	-

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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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.

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