Shilchar Technologies Limited (Revised)

August 18, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	5.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (Double B Plus ; Outlook: Stable / A Four Plus) ISSUER NOT COOPERATING*	Issuer not cooperating; Revised from CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* (Triple B Minus ; Outlook: Stable / A Three) on the basis of best available information
Short Term Bank Facilities	25.00	CARE A4+; ISSUER NOT COOPERATING* (A Four Plus) ISSUER NOT COOPERATING*	Issuer not cooperating; Revised from CARE A3; ISSUER NOT COOPERATING* (A Three) on the basis of best available information
Total Facilities	**30.00 (Rs. Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated February 18, 2020, placed the rating assigned to bank facilities of Shilchar Technologies Limited (STL) under the 'Issuer non-cooperating' category as STL had failed to provide information for monitoring of the rating and had not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. STL continues to be non-cooperative despite repeated requests for submission of information through phone calls and emails dated June 24, 2020 and August 13, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on STL's bank facilities will now be denoted as CARE BB+; ISSUER NOT COOPERATING*/CARE A4+; 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 ratings.

The revision in the rating is pursuant to Securities and Exchange Board of India (SEBI)'s circular no. SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dated January 3, 2020, regarding 'Strengthening of the rating process in respect of Issuer Non-Cooperation (INC) ratings'. SEBI has in this circular mentioned that "If an issuer has all the outstanding ratings as non-cooperative for more than 6 months, then the CRA shall downgrade the rating assigned to the instrument of such issuer to non-investment grade with INC status."

The ratings continue to remain constrained on account of declining scale of operation and cash accruals, susceptibility of its profitability to volatile prices of raw materials and foreign exchange rate fluctuations.

The ratings of the bank facilities of STL continue to derive strength from its established operations in the transformer industry, experienced promoters, reputed clientele and comfortable overall gearing. The ratings also take cognizance of moratorium availed by the company as granted by its lenders as a Covid 19 relief measure, as permitted by the Reserve Bank of India, for the period of March-June 2020 for its debt obligations..

Detailed description of the key rating drivers

At the time of the last rating on February 18, 2020, the following were the rating strengths and weaknesses (updated based on the latest FY20 and Q1FY21 financials available from the stock exchange filings).

Key Rating Weaknesses

Significant decline in revenue, profitability margins and moderation in debt coverage indicators during FY20

In FY20, the Total operating income of STL witnessed a y-o-y decline of 38% as compared to FY19 due to slowdown in order inflow from both domestic renewable energy segment (solar and wind) and export markets. The company had plans to diversify its domestic presence to other new industries for which it had hired senior marketing officials across

[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* its various offices resulting in increased employee costs by ~18% y-o-y during FY20. This had resulted in sharp decline in PBILDT margin by 511 bps from 13.25% to 8.13% on y-o-y basis. Consequently, PAT margin had also declined by 443 bps from 6.45% to 2.02%. However, in Q1FY21, the profitability had improved as PBILDT margin increased by 342 bps and PAT margin increased by 290 bps on a y-o-y basis. Overall GCA was ~61% lower in FY20 over FY19, remaining stable in Q1FY21 on a q-o-q basis.

PBILDT interest coverage though remained moderate but deteriorated to 4.13 times in FY20 as compared to 5.67 times in FY19. However, the ratio improved from 4.50 times in Q4FY20 to 7.57 times in Q1FY21 due to lower interest expense. Operating cycle increased significantly from 68 days in FY19 to 154 days in FY20.

STL had also availed moratorium as granted by its lenders as a Covid relief measure, as permitted by the Reserve Bank of India, for the period of March-June 2020 for its debt obligations.

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.

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 0.24 times as on FY20 and 0.26 times as on FY19 (0.28x as on March 31, 2018).

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
Rating Methodology - Manufacturing Companies
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
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 of STL are tabulated below:

Brief Financials	FY19 (A)	FY20 (A)
Total operating income	120.06	74.27
PBILDT	15.91	6.04
PAT	7.75	1.50
Overall gearing (times)	0.26	0.24
PBILDT Interest coverage (times)	5.67	4.13

A: Audited
In Q1FY21, STL reported TOI of Rs.14.67 crore with PAT of Rs.0.68 crore as against TOI of Rs.18.72 crore with PAT of Rs.0.33 crore in Q1FY20.

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 BB+; Stable / CARE A4+; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A4+; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantees	-	-	-	15.00	CARE A4+; ISSUER NOT COOPERATING*

** Issuer did not co-operate; Based on 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	5.00	CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING *	-	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)	1)CARE A-; Stable / CARE A2+ (04-Oct-17)
2.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A4+; ISSUER NOT COOPERATING *	-	1)CARE A3; ISSUER NOT COOPERATING * (18-Feb-20)	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 A4+; ISSUER NOT COOPERATING *	-	1)CARE A3; ISSUER NOT COOPERATING * (18-Feb-20)	1)CARE A3+ (21-Jan-19) 2)CARE A3+; ISSUER NOT COOPERATING	1)CARE A2+ (04-Oct-17)

							* (25-Sep-18)	

* *Issuer did not co-operate; Based on best available information*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company/firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT/ ST-CC/Packing Credit	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

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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