

## Shilchar Technologies Limited

December 24, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	10.48	<b>CARE BBB-; Stable (Triple B Minus; Outlook: Stable)</b>	<b>Assigned</b>
Long Term / Short Term Bank Facilities	50.00 (Enhanced from 25.00)	<b>CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)</b>	<b>Rating removed from ISSUER NOT COOPERATING category and Revised from CARE A4+; (A Four Plus)</b>
Long Term / Short Term Bank Facilities	10.00 (Enhanced from 5.00)	<b>CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)</b>	<b>Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable / CARE A4+; (Double B Plus ; Outlook: Stable / A Four Plus)</b>
<b>Total Facilities</b>	<b>70.48 (Rs. Seventy Crore and Forty-Eight Lakhs Only)</b>		

*Details of instruments/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 its long experience of the promoters, established track record of operations and comfortable capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained to remain constrained on account of the modest scale of its operations which declined significantly in FY20 (FY refers to the period from April 1 to March 31), fluctuating profitability, concentrated customer base, susceptibility of its profit margins to volatile raw material prices and foreign exchange fluctuations. The ratings also take cognizance of company availing the moratorium granted by its lenders from for the period of March, 2020 to May, 2020 as a Covid-19 relief measure (as permitted by the Reserve Bank of India).

### Rating Sensitivities

#### Positive Factors:

- Significant increase in scale of operation with TOI of over Rs.175 crore while maintaining earning PBILDT margin of more than 12% on sustained basis.
- Improvement in operating cycle to around 60 days on sustained basis.

#### Negative Factors

- Decline in scale of operation with TOI falling below Rs.50 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*

Mr. Jitendra Shah was the Chairman and founder of STL. His son Mr. Alay Shah, Chairman and Managing Director, has an experience of over 27 years in transformer industry and looks after the overall operations of STL. Mr. Alay Shah 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, 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, 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. It caters to the various industries including Power, Oil and gas and Solar and Wind in India and export market. Domestically, STL

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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 has also started focusing on 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 NABL for Transformer testing laboratory located at their new facility at Jambusar Highway.

#### ***Comfortable capital structure and debt coverage indicators***

The capital structure of the company stood comfortable marked by a low overall gearing ratio of 0.31 times as on March 31, 2020 with lower reliance on external debt. It further improved to 0.23 times as on September 30, 2020 due to reduced working capital borrowings.

The debt coverage indicators of STL remained moderate market by interest coverage of 3.95 times and Total debt/GCA of 4.42 times for the year ended as on March 31, 2020, after deterioration in FY20 due to increase in debt and lower profitability. However, during H1FY21, profitability had improved with increased exports and remained at moderate level.

#### ***Liquidity - Adequate***

STL has adequate liquidity position marked by moderate current and quick ratio, low debt repayment obligations against moderate cash accruals and negligible utilization of working capital limits. STL has low debt repayment of around Rs.2 crore against healthy cash accruals of Rs.10-13 crore in next two years. The current ratio stood at 2.02 times and the quick ratio stood at 1.31 times as on March 31, 2020. It has cash and bank balance of Rs.1.83 crore as on March 31, 2020 and of Rs.0.73 crore as on September 30, 2020 (STL also has Rs.2.34 crore as on March 31, 2020 and Rs.2.73 crore as on September 30, 2020 in the form of lien marked FD). The company mostly utilizes the non-fund based working capital facilities.

However, it has long operating cycle which remained long which elongated significantly in FY20 to 160 days from 72 days in FY19 due to delayed collection from debtors and increase in inventory levels. As on September 30, 2020, the receivables stood high at Rs.31.81 crore out of which Rs.5.17 were outstanding for more than six months. Further, STL had availed a moratorium for the period of March, 2020 to May, 2020 from the banker under the Covid-19 relief measured announced by RBI.

#### ***Key Rating Weaknesses***

##### ***Modest scale of operations which declined significantly in FY20 and fluctuating profitability***

Despite a long track record of operations the scale of operations of the company have remained modest marked by Total Operating Income (TOI) of Rs.74.27 crore in FY20 which registered a 38% y-o-y dip over FY19 due to slowdown in order inflow from domestic renewable energy segment (solar and wind) and reduction in exports orders.

However, STL witnessed revival in its performance in H1FY21 as indicated by a 42% y-o-y increase in its TOI to Rs.51.58 crore with normalisation in operations post disrupt due to Covid-19 with gradual opening up of economy and increased order flow from export market.

Its profitability had exhibited a declining trend in last three years ended FY20 before improving in H1FY21. In FY20, PBILDT margin had declined significantly by 522 bps to 7.80%. Consequently, PAT margin had also declined by 443 bps to 2.02%. In H1FY21, PBILDT margin improved to 11.65% with higher export orders.

##### ***Impact of Covid-19 pandemic***

In the backdrop of Covid-19 induced lockdown, the operations of STL remained closed for one week starting from March 25, 2020. Same had impacted the order execution in last week of March 2020. The operations resumed from April 01, 2020 with the permission of local authority. However, the order execution had been impacted due to extended lockdown. During Q1FY21, the TOI declined by 19% on a q-o-q basis to Rs.14.67 crore. Same was improved in Q2FY21 with higher order execution and dispatches. For the quarter ending September 30, 2020, the TOI was Rs.36.91 crore. As per the banker interaction and as confirmed by client, STL had availed moratorium from HDFC Bank under the Covid-19 facility for the period of March 31 to May 31, 2020 on their term loan repayments and same was regularised thereafter.

##### ***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 60-65% 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 01, 2020, the moderate domestic order book position stood at Rs.70.74 crore and the export orders stood at Rs.9.94 crore, a total of Rs.80.68 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 23% 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 loss of Rs.0.34 crore in FY20 as against loss of Rs.0.70 crore in FY19.

**Analytical Approach:** Standalone

### Applicable Criteria:

[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 USA, Middle East, African nations such as Kenya and Nigeria. 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 NABL for Transformer testing laboratory located at their new facility at Jambusar Highway. Moreover, STL is also recognised as one star export house by DGFT, Government of India. 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)	FY19 (A)	FY20 (A)
Total operating income	119.79	74.00
PBILDT	15.59	5.77
PAT	7.75	1.50
Overall gearing (times)	0.30	0.31
Interest coverage (times)	5.56	3.95

A- Audited

During H1FY21, STL reported TOI of Rs.51.58 crore with PAT of Rs.2.83 crore as compared to TOI of Rs.36.29 crore with PAT of Rs.0.75 crore during H1FY20.

**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	-	-	-	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 Guarantees	-	-	-	40.00	CARE BBB-; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	March 31, 2024	10.48	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 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	10.00	CARE BBB-; Stable / CARE A3	1)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)	1)CARE A-; Stable / CARE A2+ (04-Oct-17)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE BBB-; Stable / CARE A3	1)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)	1)CARE A2+ (04-Oct-17)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	40.00	CARE BBB-; Stable / CARE A3	1)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)	1)CARE A2+ (04-Oct-17)
4.	Fund-based - LT-Term Loan	LT	10.48	CARE BBB-; Stable	-	-	-	-

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

## Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the 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 Guarantees	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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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