

Shilchar Technologies Limited

October 04, 2017

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|--------------------------------------|---|---|--|
| Long-Term/Short-Term Bank Facilities | 5.00 | CARE A-; Stable / CARE A2+ (A Minus; Outlook: Stable/ A Two Plus) | Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two) |
| Short-Term Bank Facilities | 25.00 | CARE A2+ (A Two Plus) | Assigned |
| Total Facilities | 30.00 (Rupees Thirty crore only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings of Shilchar Technologies Limited (STL) factors in the exports led growth in its Total operating Income during FY17 (FY refers to period from April 01 to March 31), expansion in its operating profit margin as STL earned relatively better margins on export sales, improvement in margin coupled with stable working capital requirements translated into higher cash flow from operations and strengthening of debt coverage indicators.

The ratings continue to factor in the established track record of STL in transformers manufacturing industry, experienced promoters and its association with reputed clientele in both domestic and export market. The ratings also factor in the comfortable leverage as on March 31, 2017 and liquidity indicators marked by unencumbered liquid investments. Despite capex being undertaken, the leverage indicators are expected to remain comfortable going forward.

The ratings however, are constrained on account of the modest scale of its operations, susceptibility of its operating profit margins to volatile raw material prices, forex fluctuations and implementation risk associated with expansion project.

STL's ability to increase its scale of operations along with timely completion of ongoing expansion project while sustaining its operating profit margins and capital structure with efficient management of its working capital are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Exports led growth translated in its Total Operating Income

During FY17, STL reported Y-o-Y growth of 7% in its Total Operating Income, backed by 52% Y-o-Y growth in its exports. The growth in income was led by company's focus on exports as domestic demand continued to remain weak on the back of weak domestic capex spending. The export demand remained robust as STL focused on middle-east countries, where intensity of capex increased along with improving crude oil prices and the same was translated into incremental demand for the transformers.

Improvement in operating profit margin and debt coverage coupled with comfortable capital structure

STL's shift of customer base from PSU to private companies and its expanded presence in exports market has led to better realizations along with decline in its after sales service costs. Moreover during FY17, STL has not suffered any loss on account of 'Contractual deductions & other bad debts written off', which resulted in improved operating profit margin. Owing to this, STL's operating profit margin reported growth of 309 bps and consequently its debt coverage improved. STL's leverage and liquidity position remained comfortable as on March 31, 2017, backed by STL's unencumbered liquid investments of Rs.11.58 crore.

Long standing experience of the promoters coupled with established track record of operations in the transformer industry

The key promoter and Chairman of STL, Mr. Jitendra Shah is a technocrat having long standing experience of around five decades in the transformer industry. Furthermore, Mr. Alay Shah, Managing Director of STL also has rich experience in transformer industry. STL has a long track record of operations of over two decades, having served reputed clientele in private as well as public sector. From FY13 onwards, STL shifted its focus on export customers and renewable energy companies in domestic market to reduce its dependence on PSUs, mainly State Electricity Boards (SEBs), resulting in improvement in collection period and profitability.

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

Moderately diversified product profile

STL has moderately diversified product profile which includes various products like distribution and power (D&P) transformers, electronics & telecommunication (ET) transformers, dry transformers, etc. Domestically, STL generates a major portion of its revenue by manufacturing transformers for renewable energy sector while in the export market, power transformers form major portion of sales. Moreover, STL manufactures transformers having application in on-site rigs of oil and gas companies for crude oil extraction in middle-east countries, which contribute substantial portion of exports revenue of STL.

Key Rating Weaknesses

Susceptibility of profitability to Foreign exchange and raw material fluctuation risk

Since STL does not resort to any hedging mechanism for its exports receivables, its profitability remains exposed to foreign exchange fluctuations risk. STL's major raw material includes copper, transformer oil, cold Rolled grain-oriented (CRGO) steel and aluminum, whose prices are highly volatile in nature.

Modest scale of its operations and implementation risk associated with expansion project

STL's scale of operations continued to remain modest during FY17, despite 7% Y-o-Y growth reported by STL in its total income. STL has undertaken an expansion project in order to increase its production capacity to 3.5 times (4000 MVA annually) along with widening manufacturing capability range from 25 MVA/66 KV class to 40 MVA/132KV class. Hence, STL is exposed to project implementation risk and scalability risk translating into healthy growth in its scale of operations going forward.

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 as Shilchar Electronics Private Ltd in 1986 and was later converted into a public limited company in 1995. STL, founded by Mr Jitendra Shah, is engaged in manufacturing of distribution and power transformers as well as electronics & telecommunication transformers. The company caters to the demand of domestic market as well as export market primarily to Africa, USA and middle-east countries. The company manufactures and supplies customized transformers of various rating and power specifications. Currently, shares of STL are listed on Bombay Stock Exchange (BSE) and Vadodara Stock Exchange (VSE). As on March 31, 2017, the company has capacity to manufacture distribution transformers ranging from 5 KVA to 3000 KVA and power transformers ranging from 3000 KVA to 25,000 KVA.

(Rs. Crore)

| Brief Financials (Rs. crore) | FY15 (A) | FY16 (A) | FY17 (A) |
|------------------------------|----------|----------|----------|
| Total operating income | 108.66 | 104.71 | 112.39 |
| PBILDT | 11.22 | 16.29 | 20.95 |
| PAT | 5.81 | 9.09 | 12.26 |
| Overall gearing (times)* | 0.46 | 0.18 | 0.12 |
| Interest coverage (times) | 16.54 | 21.65 | 41.48 |

(A – Audited) *Considering Net Debt

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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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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 A-; Stable / CARE A2+ |
| Non-fund-based - ST-Letter of credit | - | - | - | 10.00 | CARE A2+ |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 15.00 | CARE A2+ |

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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Fund-based - LT-Cash Credit | LT | 12.00 | Suspended | - | - | - | 1)Suspended (18-Nov-14) |
| 2. | Non-fund-based - LT/ ST-Bank Guarantees | LT/ST | 15.00 | Suspended | - | - | - | 1)Suspended (18-Nov-14) |
| 3. | Non-fund-based - ST-Letter of credit | ST | 15.00 | Suspended | - | - | - | 1)Suspended (18-Nov-14) |
| 4. | Fund-based - LT/ ST-CC/Packing Credit | LT/ST | 5.00 | CARE A-; Stable / CARE A2+ | - | 1)CARE BBB+ / CARE A2 (15-Jul-16) | - | - |
| 5. | Non-fund-based - ST-Letter of credit | ST | 10.00 | CARE A2+ | - | - | - | - |
| 6. | Non-fund-based - ST-Bank Guarantees | ST | 15.00 | CARE A2+ | - | - | - | - |

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