Shilchar Technologies Limited

Q2FY27 Result Update | **Capital Goods**

Demand Remains Strong; Profitability Recovery Underway

DALAL & BROACHA STOCK BROKING PVT. LTD.

Equity Research Desk

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Margin Recovery Underway; Export Revival Remains Key to Sustaining Profitability:

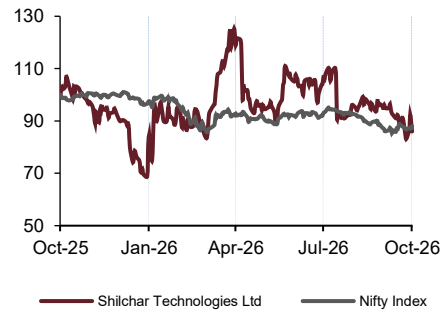
Q2 FY27 results were broadly in line with our estimates. As guided by management, the company has increased its focus on the domestic market to sustain revenue growth amid a gradual recovery in export demand. Gross margins declined by ~1,000 bps YoY, primarily due to an adverse revenue mix following a lower contribution from exports. However, the sequential improvement in EBITDA margins, from 16.4% in Q1 FY27 to 20.8% in Q2 FY27, indicates a recovery in operating performance, supported by capacity utilization of ~80%. While the improvement is encouraging, a sustained recovery in profitability remains contingent on a stronger revival in export demand and a favorable revenue mix.

Management indicated that conditions in the Middle East have improved sequentially but are yet to fully normalise. Meanwhile, exports to North America have gained momentum, partially offsetting lower dispatches to the Middle East. The company has an order book of over ₹550 crore, executable over the next six months, providing healthy revenue visibility. Strong domestic demand and an improved export outlook are expected to support growth in the coming quarters. Going forward, the pace of export recovery and the resulting improvement in revenue mix will remain key monitorables for sustained margin expansion.

Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	**4,155**	**14**
Market data		
Current price	**Rs**	**3,651**
Market Cap (Rs.Bn)	(Rs Bn)	42
Market Cap (US$ Mn)	(US$ Mn)	439
Face Value	Rs	10
52 Weeks High/Low	Rs	5399 / 2851.25
Average Daily Volume	('000)	39
BSE Code		531201
Bloomberg		SCTE.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-26	Jun-26
Promoters	62.12	62.12
Public	37.88	37.88
Total	**100.00**	**100.00**

Source: Bloomberg

Financial Summary

Y/E Mar (Rs Mn)	FY23	FY24	FY25	FY26	FY27E	FY28E
Net sales	2,802	3,969	6,231	6,519	7,670	10,895
EBIDTA	532	1,134	1,847	1,904	1,695	2,717
Margins (%)	19.0%	28.6%	29.6%	29.2%	22.1%	24.9%
Adjusted net profit	433	919	1,468	1,582	1,432	2,263
EPS (Rs)	38	80	128	138	125	198
P/E (x)	96	45	28	26	29	18
EV/EBITDA (x)	78	36.2	22.4	21.7	24.2	14.6
RoCE (%)	41.79%	52.86%	52.29%	37.98%	26.46%	31.73%
RoE (%)	35.63%	43.84%	42.34%	32.23%	23.11%	27.21%

Source: Company, Dalal & Broacha Research

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Quarterly Result Summary

Particulars (INR in mn)	2QFY27	2QFY26	YoY%	1QFY27	QoQ%
Revenue from operations	**1,926**	**1,713**	**12%**	**1,346**	**43%**
Other Income	68	91	-25%	72	-5%
Total Income	**1,994**	**1,804**	**11%**	**1,418**	**41%**
Cost of Goods Sold	1,362	1,040	31%	980	39%
Employee Benefit Expense	70	61	15%	57	23%
Other Expenses	93	75	23%	88	5%
Total Expenses	**1,525**	**1,177**	**30%**	**1,126**	**36%**
EBITDA	**401**	**536**	**-25%**	**221**	**82%**
Depreciation Expense	11	10	7%	11	2%
EBIT	**390**	**526**	**-26%**	**210**	**86%**
Finance Cost	1	1	**2%**	1	**-3%**
Profit Before Tax (PBT)	**457**	**616**	**-26%**	**281**	**63%**
Exceptional Items	-	-		-	
Tax Expense	127	156	-19%	72	76%
Net Profit (Adjusted)	**330**	**459**	**-28%**	**209**	**58%**
Net Profit (Reported)	**330**	**459**	**-28%**	**209**	**58%**
EPS	**28.8**	**40.2**	**-28%**	**18.2**	**58%**
Margins			**Changes in bps**		**Changes in bps**
Gross Margins	29.3%	39.3%	-1000	27.2%	205
EBITDA Margins	20.8%	31.3%	-1049	16.4%	442
PAT Margins	16.5%	25.5%	-893	14.7%	182
Tax Rate	27.8%	25.4%	244	25.7%	214
Other Operational Matrix			**Changes in bps**		**Changes in bps**
COGS as % of Sales	71%	61%	1000	73%	-205
EBE as % of Sales	3.7%	3.6%	7	4.3%	-61
OE as % of Sales	4.8%	4.4%	43	6.6%	-176

Source: Company, Dalal & Broacha Research

Concall KTA's

1. Strong Demand Outlook

- Strong demand across renewables, data centres, BESS, transmission and distribution, supported by rising power consumption. Management expects power demand to double over the next 3–4 years.
- Order book of >₹550 cr, executable over six months; orders for Q1 FY28 have already started coming in. Customers are keen to book manufacturing slots in advance.
- Management hinted at further capex, as upcoming capacity may fall short of demand.

2. Export Recovery

- Exports contributed ~40% of Q2 revenue; the order book has a similar mix (~40% exports, 60% domestic).
- North America is driving export recovery, with the US contributing ~40–60% of export revenue. Middle East demand has improved but is yet to normalise.
- Higher export contribution is expected to support margin improvement, given better export profitability.

3. Capacity Utilization & Margins

- Existing capacity utilisation was ~80% in Q2; management expects near 100% utilisation in Q3 and Q4 FY27, supporting operating leverage.
- Raw material prices have stabilised at elevated levels. New orders are being priced at prevailing raw material costs, reducing the risk of further margin pressure.
- EBITDA margins may remain below historical highs of 29–30% during expansion; management is prioritising absolute EBITDA growth.

4. Revenue & Earnings Guidance

- Q2 revenue included ₹30–35 cr. of delayed Q1 shipments.
- Management expects a quarterly run rate of >₹225–230 cr. going forward.
- FY27 revenue target: ₹750 cr.; aspiration: >₹800 cr.
- FY27 EBITDA target: >₹200 cr., with potential to reach ₹225–250 cr.
- FY28 revenue target: ₹1,000 cr.; FY29 target: ₹1,250–1,500 cr.

5. Capacity Expansion & New Plant

- Phase 3 expansion of 6,500 MVA is on track for commissioning in April 2027, taking total capacity to 14,000 MVA.
- Approvals for >220 kV transformers are expected 3–6 months post-commissioning; the plant will manufacture existing products until then.
- New capacity break-even at utilization levels of ~35–40%; full utilization is targeted by FY29. Revenue potential at 100% utilization is ~₹1,500 cr.

6. Product Mix & Diversification

- The company now hardly manufactures distribution transformers, with renewable transformers forming the core product portfolio.
- Exploring diversification into related businesses and potential acquisitions; details remain undisclosed due to NDAs.

Valuation and Outlook:

The ongoing capacity expansion from 7,500 MVA to 14,000 MVA and planned entry into 220 kV transformers significantly enhances company's growth runway and addressable market. While near-term margins may face pressure due to reducing contribution from exports, increasing capacity utilization should support margin expansion sequentially. We remain constructive on the company's medium-term outlook, as a resolution of the West Asia conflict and normalisation of shipping costs could trigger a meaningful recovery in export demand. However, near-term earnings are likely to remain subdued, with FY27 margins expected to stay significantly below historical levels until export demand ramps up.

While management has guided for robust revenue growth and healthy EBITDA, we remain conservative on margin assumptions. We are hopeful of on an export recovery in FY28 and expect the new capacity to contribute meaningfully to revenue growth. However, higher operating costs associated with the new plant and an uncertain recovery in export mix are likely to constrain margin expansion in the near term. A sustained revival in exports remains the key trigger for margin improvement and a potential re-rating of the stock. Given the prevailing geopolitical uncertainties, we have adopted a cautious approach to our estimates.

At the current market price of ₹3,644, the stock trades at ~18.4x FY28 EPS of ₹198. Going forward, we expect the company to sustain healthy growth, with a Revenue/EBITDA/PAT CAGR of 29%/19%/20% over FY26-FY28e. Basis this, we maintain a **BUY ON DIPS RATING with a TP of ₹4,155 valuing it at 21x FY28e EPS, with an upside of ~14%.**

FINANCIALS

P&L (Rs mn)	FY23	FY24	FY25	FY26	FY27E	FY28E
Net Sales	2,802	3,969	6,231	6,519	7,670	10,895
Total Operating Expenses	1,998	2,509	3,894	4,045	5,239	7,082
Employee Cost	116	141	204	243	276	388
Power and Fuel	-	-	-	-	-	-
Other Expenses	157	185	286	327	460	708
Operating Profit	532	1,134	1,847	1,904	1,695	2,717
Depreciation	24	26	34	40	55	78
PBIT	508	1,108	1,813	1,864	1,640	2,639
Other income	81	128	165	260	275	383
Interest	6	2	4	5	5	5
PBT (Before exceptional)	582	1,234	1,974	2,120	1,909	3,018
PBT (post exceptional)	582	1,234	1,974	2,120	1,909	3,018
Provision for tax	150	315	505	538	477	754
Reported PAT	433	919	1,468	1,582	1,432	2,263

Source: Company, Dalal & Broacha Research

Balance Sheet (Rs mn)	FY23	FY24	FY25	FY26	FY27E	FY28E
Equity capital	38	76	76	114	114	114
Reserves	1,176	2,020	3,392	4,794	6,083	8,203
Net worth	**1,214**	**2,096**	**3,468**	**4,908**	**6,197**	**8,318**
Non Current Liabilites	32	33	40	49	50	52
Current Liabilites	531	795	1,391	947	1,094	1,513
TOTAL LIABILITIES	**1,777**	**2,924**	**4,899**	**5,905**	**7,341**	**9,882**
Non Current Assets	**420**	**485**	**681**	**879**	**1,632**	**1,695**
Tangible + Intangible Assets	390	452	588	757	1,501	1,554
Non Current Investments	-	-	-	-	-	-
Income Tax Asset	-	-	-	-	-	-
Other Financial Assets	30	19	71	79	79	79
Other Non Current Assets	1	14	22	43	52	62
Current Assets	**1,357**	**2,439**	**4,217**	**5,026**	**5,709**	**8,188**
Inventories	231	596	931	922	1,068	1,560
Trade Receivables	921	936	2,287	1,536	1,767	2,580
Cash and Bank Balances	93	602	367	440	735	1,894
Short Term Loans and Advances	69	204	539	2,020	2,020	2,020
Other Current Assets	43	102	94	109	119	134
TOTAL ASSETS	**1,777**	**2,924**	**4,899**	**5,905**	**7,341**	**9,882**

Source: Company, Dalal & Broacha Research

Cash flow statement (Rs in mn)	FY23	FY24	FY25	FY26	FY27E	FY28E
Cash flow from operating activities						
Profit before tax	582	1,233	1,974	2,120	1,909	3,018
Depreciation & Amortization	24	26	34	40	55	78
Interest expenses	6	2	4	5	5	5
Operating profit before working capital change	609	1,233	1,989	2,177	1,695	2,717
Working capital adjustment	(65)	(165)	(1,160)	372	(267)	(926)
Gross cash generated from operations	544	1,068	829	2,549	1,429	1,791
Direct taxes paid	(152)	(303)	(433)	(628)	(477)	(754)
Others	-	-	-	-	26	29
Cash generated from operations	392	765	396	1,920	977	1,065
Cash flow from investing activities						
Capex	(55)	(102)	(184)	(231)	(800)	(130)
Others					266	373
Cash generated from investment activities	(121)	(226)	(478)	(1,694)	(534)	243
Cash flow from financing activities						
Proceeds from issue of share	-	-	-	-	-	-
Share premium received on issue of shares	-	-	-	-	-	-
Borrowings/ (Repayments)	(170)	-	-	-	-	-
Interest paid	(6)	(2)	(4)	(5)	(5)	(5)
Dividend paid	(15)	(38)	(95)	(143)	(143)	(143)
Others	6	(250)	145		-	-
Cash generated from financing activities	(186)	(290)	46	(310)	(148)	(148)
Net cash increase/ (decrease)	85	248	(36)	(83)	295	1,160

Source: Company, Dalal & Broacha Research

Ratios	FY23	FY24	FY25	FY26	FY27E	FY28E
OPM	19.0%	28.6%	29.6%	29.2%	22.1%	24.9%
NPM	15.0%	22.4%	23.0%	23.3%	18.0%	20.1%
Tax Rate	25.7%	25.5%	25.6%	25.4%	25.0%	25.0%
Growth Ratios (%)						
Net Sales	55.5%	41.6%	57.0%	4.6%	17.7%	42.0%
Operating Profit	174.8%	113.3%	62.9%	3.1%	-11.0%	60.3%
PBIT	202.6%	118.3%	63.7%	2.8%	-12.0%	61.0%
PAT	187.5%	112.4%	59.8%	7.7%	-9.5%	58.1%
Per Share (Rs.)						
Net Earnings (EPS)	37.8	80.3	128.4	138.3	125.2	197.8
Dividend	0.0	1.0	1.0	1.0	1.0	1.0
Book Value	1061.4	1832.0	3031.6	4290.5	5417.2	7270.5
Free Cash Flow	29.4	57.9	18.5	147.7	15.5	81.7
Valuation Ratios						
P/E(x)	96.4	45.4	28.4	26.4	29.1	18.4
P/B(x)	3.4	2.0	1.2	0.8	0.7	0.5
EV/EBIDTA(x)	78.3	36.2	22.4	21.7	24.2	14.6
Div. Yield(%)	0.0	0.0	0.0	0.0	0.0	0.0
FCFF Yield(%)	0.8	1.6	0.5	4.1	0.4	2.2
Return Ratios (%)						
ROE	35.6%	43.8%	42.3%	32.2%	23.1%	27.2%
ROCE	41.8%	52.9%	52.3%	38.0%	26.5%	31.7%
ROIC	33.6%	55.2%	43.5%	31.1%	22.5%	30.8%

Source: Company, Dalal & Broacha Research

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