



Press Release

Sharp Agricom Limited

October 13 , 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	34.08	IVR BBB-; Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Proposed Long term facility	0.92	IVR BBB-; Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Total	35.00 (Rupees Thirty Five Crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sharp Agricom Ltd. draws comfort from experienced Promoters, favourable demand for rice and rice products, location advantage with proximity to key rice growing belt of the country and moderate capital structure and debt coverage indicators. However, these strengths are partially offset by moderate scale of operations and thin profitability margins, intense competition in the industry and susceptibility to agro-climatic risks and changes in Government regulations.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.



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Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to a further deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced Promoters:** The company is promoted by Mr. Sanjay Singhal who is having three decades of experience in the rice milling business along with strong understanding of local market dynamics. He is well assisted by Ms Vidhi Goel and Mr. Mukesh Yadav who also are having two decades of industry experience. This has resulted in a strong relationship with its customers and suppliers which will continue to benefit the entity in future as well.
- **Favourable demand for rice and rice products:** Rice being a staple diet in the Asian region, its demand prospects remain favourable. India accounts for second largest rice producer and consumer in the world. Globally, given the spread of Indian Diaspora also supports the demand for paddy and its products.
- **Location advantage with proximity to key rice growing belt of the country:** The company's processing plant is in Madhya Pradesh which counts amongst the key rice growing regions of the country entailing location advantage with respect to the key raw material availability of paddy, lower freight and favourable pricing terms.
- **Moderate capital structure and debt coverage indicators:** Overall gearing stood moderate at 1.19x as on March 31, 2022; improved from 1.37 times as on March 31, 2021 due to decline in debt. The net worth of the company stood at Rs. 46.20 crs as on March 31, 2022. Further, the company's ISCR was 1.64x and DSCR was 1.58x in FY22. However, total debt to GCA stood high at 19.98 years in FY22 though the same improved from 24.04 years in FY21.



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Key Rating Weaknesses

- **Moderate scale of operations and thin profitability margins:** There is a decline in total operating income of the company from Rs. 290.02 crores in FY21 to Rs. 197.38 crores in FY22. The decline is due to nil trading income in FY22 as against Rs.95.82 crores in FY21. The profitability continued to remain thin despite improvement in FY22. EBITDA margin increased by 57 bps in EBITDA in FY22 to 3.95% as compared to 3.38% in FY21; improved due to lower freight expenses, rebate and brokerage expenses. Further, PAT margin improved by 10 bps to 0.29% in FY22. Furthermore, GCA has improved from Rs.2.60 crore in FY21 to Rs.2.75 crore in FY22 due to improvement in profitability.
- **Intense competition in the industry:** The fragmented nature of the rice processing industry results in stiff competition, which limits the pricing flexibility of the industry participants. This keeps the profitability at modest levels.
- **Susceptibility to agro-climatic risks and changes in Government regulations:** The rice milling industry is susceptible to agro-climatic risks, which can affect the availability of paddy in adverse weather conditions. Any fluctuations in supply, in turn, expose the company to price volatility risks. Moreover, changes in the Government regulations pertaining to the rice industry can impact the industry dynamics.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non- Financial Sector\)](#)

[Criteria for assigning rating outlook](#)



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Liquidity – Adequate

The company's liquidity is adequate as it has no debt repayments against which it has generated cash accruals of Rs 2.75 crore in FY22. Current ratio stood at 1.41x as on March 31, 2022 while quick ratio remained below unity at 0.57 times due to high inventory levels. The company had free cash and bank balance of Rs.0.05 crore as on March 31, 2022. However, the company has elongated operating cycle of 97 days in FY22 and utilisation of its bank limits remained high at~95% in the past 12 months ended on July 2022 with few instances of overdrawings though the same were regularised within 3 days time.

About the Company

Sharp Agricom Limited was incorporated in November, 2010 as Sharp Energy Limited. Later, management changed its name to Sharp Agricom Ltd in the year 2013. The company is engaged in rice milling and has commenced its operations in June 2015. Its plant is situated at Mandideep in Raisen district of Madhya Pradesh and registered office is situated in New Delhi. The company belongs to New Delhi based Sharp Group having operations in the natural mint products through its group company Sharp Mint Ltd. The company is promoted and managed by Mr. Sanjay Singhal who is ably assisted by Ms Vidhi Goel and Mr. Mukesh Yadav. The promoters are well experienced in the industry and are assisted by a team of qualified professionals.

Financials (Standalone):

For the year ended*	(Rs. Crore)	
	31-03-2021	31-03-2022
	Audited	Provisional
Total Operating Income	290.02	197.38
EBITDA	9.80	7.79
PAT	0.56	0.58
Total Debt	62.40	55.01
Tangible Net worth	45.59	46.20
EBITDA Margin (%)	3.38	3.95
PAT Margin (%)	0.19	0.29
Overall Gearing Ratio (x)	1.37	1.19

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None



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Any other information: Not applicable

Rating History for last three years:

Sr. No.	Type of Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Fund Based-Cash Credit	Long Term	17.00	IVR BBB -/ Stable	-	-	-
2.	Fund Based-Cash Credit	Long Term	17.08	IVR BBB -/ Stable			
3.	Proposed Facility- Cash Credit	Long Term	0.92	IVR BBB -/ Stable			

Name and Contact Details of the Rating Analyst:

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	35.00	IVR BBB -/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: <https://www.infomerics.com/admin/prfiles/Lender-SAL-13-10-22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [Complexity Level of Rated Instruments/Facilities](#).