



Press Release

Sarveshwar Foods Limited

August 31, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating	Rating Action
1.	Long Term Bank Facilities	118.67	IVR BBB-/ Credit Watch with Developing Implication (IVR Triple B Minus under credit watch with developing implication)	Assigned
2.	Short Term Bank Facilities	5.00	IVR A3 (Credit Watch with Developing Implication) (IVR A Three under credit watch with developing implication)	Assigned
	Total	123.67		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sarveshwar Foods Limited derives comfort from extensive experience of promoters and established track record of the group. The rating also factors in locational advantage, healthy scale of operations, well defined procurement policy, diversified product profile, comfortable capital structure and satisfactory debt protection metrics. However, these strengths are, partially offset by elongated operating cycle, exposure to agro-climatic risk, fragmented nature of industry leading to thin profit margins and susceptibility to changes in government regulations. Rating on credit watch with developing implication is on account of uncertainty in the operating scenario amidst Covid-19 pandemic and Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the Sarveshwar Group is clear.



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Key Rating Sensitivities:

Upward Factor:

- ✓ Significant and sustained growth in scale of business with 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

Downward factor:

- ✓ Dip in operating income and/or profitability further impacting the debt coverage indicators and/or further 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

Extensive experience of the promoters and established track record of the group

Sarveshwar Group was established by Late Sh. Isher Dass Gupta in the year 1890. Sarveshwar Group is a family owned and operated business that is involved mainly in the business of processing of basmati and non-basmati rice. Today, the fourth generation carries on the family heritage. The Group has over 100 years of experience in sourcing and processing of Rice. Mr. Rohit Gupta and Mr. Anil Sharma are the promoters who have extensive experience into the industry. The Group benefits from the extensive experience of promoters, their strong understanding of local market dynamics, healthy relations with customers and suppliers and the group's diversified product mix into the food processing industry.

Locational Advantage

The Group's operations are mainly based in Jammu and Kashmir, which has diverse physiographic features, agro-climatic variations and cold arid temperature, and inter-mediate and sub-tropical zones that are naturally conducive for cultivating basmati and non-basmati rice. Focusing the company's philosophy to the Himalayas, the products are cultivated using the fertile and mineral-rich soil, organic manure. Furthermore, the group has entered into



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arrangements with farmers for contract farming for basmati paddy which enables the company to closely monitor the quality of inputs and further optimizing procurement process.

Healthy scale of operations and procurement policy

The group has very healthy scale of operations, with revenue of Rs.514.68 Crores in FY21 as against Rs.487.44 Crores in FY20. EBITDA and PAT reported is Rs.20.19 Crores & Rs.5.25 Crores in FY21 as against Rs.24.61 Crores and Rs.5.71 Crores in FY20. As of Mar 31, 2021, Company had relationships with approximately 132 procurement agents, or pucca arhatiyas. Through this extensive network of procurement from pucca arhatiyas, company is able to procure basmati paddy at lower prices from mandis in villages in which many of company's smaller competitors are not present.

Diversified Product Profile

The Group's Product Portfolio comprises of Basmati and non- Basmati rice of various kinds including white raw rice, steam rice, broken rice, brown rice, and parboiled rice. Along with the varied variety of conventional basmati and non-basmati rice, the product portfolio also includes organic basmati and non-basmati rice including range of other organic products like cereals, pulses, spices, oil and ghee etc. The Group markets its products under the brand name of 'Sarveshwar' such as Sarveshwar Unique Basmati Rice, Sarveshwar Select Basmati Rice, Sarveshwar Ultra XL Basmati Rice, Sarveshwar Atta and organic products are sold under the brand name of 'Nimbark'.

Comfortable capital structure and satisfactory Debt Protection Metrics

The overall gearing of the group stood comfortable at 1.66x as on March 31, 2021, as against 1.40x as on March 31, 2020. The Group is having good tangible networth base of Rs.159.86 Crores in FY21. TOL/TNW stands at 2.17x in FY21 as against 1.70x in FY20. The Debt Protection Metrics stood satisfactory i.e., ICR & DSCR stood at 1.65x & 1.59x in FY21.



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Key Rating Weaknesses

Elongated Operating Cycle

The group operating cycle remains elongated at 273 days in FY21 (PY:270 days) due to higher inventory days of 168 days (PY:194 days), collection period of 145 days (PY:107 days) in FY21. The average creditors period stood at 39 days in FY21 as against 32 days in FY20. Going forward, any further deterioration in operating cycle and resultant adverse impact on the liquidity position shall remain key monitorable.

Exposure to agro-climatic risk

Cultivation of paddy, the primary raw material, depends on monsoon and availability of irrigation. Hence, the group is susceptible to any shortage or price fluctuation during unfavourable climatic conditions.

Fragmented nature of the industry leading to thin profit margins

The rice-milling industry is characterised by intense competition due to limited value addition, and consequent low entry barriers, limiting the pricing flexibility of players like Sarveshwar Group.

Susceptibility to changes in government regulations

Minimum support price of paddy and prevailing rice price are key determinants of a rice mill's profitability. Being an agricultural product, availability of paddy is seasonal and dependent on monsoon/irrigation. This exposes the company to risk of limited availability of raw material in case of unfavourable climatic conditions, leading to fluctuations in paddy and rice prices. This is compounded by limited ability to completely pass on any price hike to customers. Also, the rice industry is regulated in terms of paddy price, export/import of rice, and rice release mechanism.

Analytical Approach: Consolidated Approach

For arriving at the ratings, Infomerics has consolidated the business and financial risk profiles of Himalayan Bio Organic Foods Private Limited, Sarveshwar Overseas Limited, Sarveshwar Foods Limited, and Natural Global Foods DMCC herein after referred to as



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Sarveshwar Group. Sarveshwar Foods Limited is the parent company and holds 99.00% stake in Sarveshwar Overseas Limited. Himalayan Bio Organic Foods Private Limited is the wholly owned subsidiary of Sarveshwar Foods Limited. Natural Global Foods DMCC is the associate company of Sarveshwar Foods Limited which is an erstwhile subsidiary company but now recognized as an associate from March 03, 2021, onwards due to partial sale of its stake by the holding company. There are no operations in Natural Global Foods DMCC. The consolidation is in the view of similar line of business, holding- subsidiary and associate relationship, common management and in between strong operational and financial linkages and cash flow fungibility.

List of the entities considered for consolidation is furnished in Annexure II.

Extent of consolidation: Full

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity - Adequate

The Group has adequate liquidity as seen by Gross Cash Accruals of Rs.7.41 Crores in FY21 as against current maturities of long-term borrowings amounting to Rs.0.12 Crores. Further, the group's liquidity position is adequate marked by sufficient cushion in expected accruals vis-à-vis its repayment obligations in FY22. The overall working capital limits of the group are utilized to the extent of ~83.00% during the past 12 months ended July 2021 indicating some liquidity buffer. The current ratio reported by the group is 1.57x in FY21 and expected to be at similar levels during the projected period. Moreover, the group has adequate gearing headroom on the back of its strong capital structure.

About the Company and Group

Sarveshwar Foods Limited, incorporated in the year 2004 is a part of the Sarveshwar group. Sarveshwar Foods Limited is primarily engaged in the business of processing and marketing of branded and un-branded basmati and non-basmati rice in the domestic and region in the State of Jammu and Kashmir. Company's product portfolio comprises of basmati and non-



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basmati rice of various kinds including white raw rice, steam rice, brown rice and parboiled rice.

Sarveshwar Group was established by Late Sh. Isher Dass Gupta in the year 1890. Sarveshwar Group is a family owned and operated business that is involved mainly in the business of processing of basmati and non-basmati rice. Today, the fourth generation carries on the family heritage. The Group has over 100 years of experience in sourcing and processing of Rice. There are four companies in the Group. Sarveshwar Foods Limited (SFL), Sarveshwar Overseas Limited (SOL), Himalayan Bio Organic Foods Private Limited (HBOF) and Natural Global Foods DMCC is the associate company of SFL, collectively referred to as the Sarveshwar Group.

Financials (Consolidated):

For the year ended*/As on	(Rs. Crore)	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	487.44	514.68
EBITDA	24.61	20.19
PAT	5.71	5.25
Total Debt	221.59	265.66
Tangible Net worth	158.62	159.86
EBITDA Margin (%)	5.05	3.92
PAT Margin (%)	1.16	1.01
Overall Gearing Ratio (x) on Book TNW	1.40	1.66

*Classification as per Infomerics' standards

Financials (Standalone)

For the year ended*/As on	(Rs. Crore)	
	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	199.23	228.58
EBITDA	8.16	8.67
PAT	1.75	3.07
Total Debt	102.15	118.82
Tangible Net worth	115.95	119.10
Adjusted Tangible Networkth	72.39	77.37
EBITDA Margin (%)	4.09	3.79
PAT Margin (%)	0.87	1.33
Overall Gearing Ratio (x) on Book TNW	0.88	1.00
Overall Gearing Ratio (x) on Net Adjusted	1.41	1.54



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TNW

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL in its press release dated August 31, 2020, has migrated the rating of Sarveshwar Foods Limited to "Issuer Not Cooperating" category due to unavailability of adequate information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based Facilities- Cash Credit	Long Term	100.00	IVR BBB-/ Credit Watch with Developing Implication (IVR Triple B Minus under credit watch with developing implication)	-	-	-
2.	Fund Based Facilities- WCTL (GECL)	Long Term	18.67	IVR BBB-/ Credit Watch with Developing Implication (IVR Triple B Minus under credit watch with developing implication)	-	-	-
3.	Fund Based Facilities- PCL/PSL/PCF C (Sub limit of CC)	Short Term	(30.00)	IVR A3 (Credit Watch with Developing Implication) (IVR A Three under credit watch with developing	-	-	-



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
				implication)			
4.	Fund Based Facilities- PSL/PSFC	Short Term	5.00	IVR A3 (Credit Watch with Developing Implication) (IVR A Three under credit watch with developing implication)	-	-	-
5.	Non-Fund Based Facilities-Bank Facilities(Sub limit of PSL/PSFC)	Short Term	(1.50)	IVR A3 (Credit Watch with Developing Implication) (IVR A Three under credit watch with developing implication)	-	-	-

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually



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widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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
Long Term Fund Based Facilities-Cash Credit	-	-	-	100.00	IVR BBB-/ Credit Watch with Developing Implication (IVR Triple B Minus under credit watch with developing implication)
LongTermFund Based Facilities- WCTL (GECL)	-	-	January, 2026	18.67	IVR BBB-/ Credit Watch with Developing Implication (IVR Triple B Minus under credit watch with developing



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					implication)
ShortTerm Fund Based Facilities- PCL/PSL/PCFC (Sub limit of CC)	-	-	-	(30.00)	IVR A3 (Credit Watch with Developing Implication) (IVR A Three under credit watch with developing implication)
Short Term Fund Based Facilities- PSL/PSFC	-	-	-	5.00	IVR A3 (Credit Watch with Developing Implication) (IVR A Three under credit watch with developing implication)
Short Term NonFund Based Facilities- Bank Guarantee (Sub limit of PSL/PSFC)	-	-	-	(1.50)	IVR A3 (Credit Watch with Developing Implication) (IVR A Three under credit watch with developing implication)

Annexure 2: List of entities considered for consolidated analysis

Group Companies	Extent of Consolidation (%)
Sarveshwar Foods Limited [SFL]	100.00%
Sarveshwar Overseas Limited [SOL]	100.00%
Himalayan Bio Organic Foods Private Limited [HBOFPL]	100.00%
Natural Global Foods DMCC [NGFD]	100.00%

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Lender-SFL-31-08-21.pdf>

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



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Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Working capital (CC/PCL/PSL/PSFC)	Simple
2.	WCTL (GECL)	Simple
3.	Bank Guarantee	Simple

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 www.infomerics.com.