



Press Release

Sarveshwar Foods Limited

November 28, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	118.67	IVR BBB-/Credit Watch with Developing Implications (IVR Triple B Minus under credit watch with developing implications)	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Upgraded and Outlook Assigned; Removed from Credit Watch with Developing Implications	Simple
Short Term Bank Facilities	5.00	IVR A3/ Credit Watch with Developing Implications (IVR A Three under Credit Watch with Developing Implications)	IVR A3+ (IVR A Three Plus)	Upgraded; Removed from Credit Watch with Developing Implications	Simple
Total	123.67	Rupees One Hundred Twenty Three Crore and Sixty Seven Lakhs Only			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuations and Ratings Private Limited (IVR) has revised long-term rating IVR BBB with a Stable Outlook and short-term rating of IVR A3+ for the bank loan facilities of Sarveshwar Foods Limited (SFL).

The rating revised to the above-mentioned bank facilities of Sarveshwar Foods Limited (SFL) continues to draw 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



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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.

IVR has principally relied on the standalone audited financial results of SFL upto 31 March 2022, H1FY23 and projected financials for FY23, FY24 and FY25, and publicly available information/ clarifications provided by the company's management.

Earlier the ratings were placed under credit watch with developing implications owing to uncertainty in the operating scenario amidst Covid-19 pandemic. However, it has been removed from credit watch with improvement in its financial performance in FY22 and H1FY23.

Key Rating Sensitivities:

Upward Factors

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

Downward Factors

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



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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 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 healthy scale of operations with revenue of Rs.606.31 crore in FY22 as against Rs.515.27 crore in FY21. EBITDA and PAT reported is Rs.29.79 crore and Rs.7.64 crore in FY22 as against Rs.20.74 crore and Rs.5.24 crore in FY21. SFL is engaged in processing of basmati and non-basmati rice. TOI increased to Rs.274.29 crore in FY22 from Rs.228.74 crore in FY21. As of Mar 31, 2022; the group 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.



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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 group has a comfortable capital structure on the back of its strong tangible net worth base of Rs.163.17 crore. The overall gearing ratio of the group remains comfortable and stood at 1.63x on March 31, 2022, vis-a-vis 1.66x on March 31, 2021. Total indebtedness of the group as reflected by the TOL/TNW stood at 1.89x as on March 31, 2022, as against 2.00x as on March 31, 2021. Further, SFL has a comfortable capital structure on the back of its satisfactory tangible net worth base of Rs.122.28 crore as on March 31, 2022. The overall gearing remains comfortable at 1.06x in FY22 from 1.34x in FY21. The debt protection metrics of the group stood satisfactory marked by interest coverage ratio at 1.63x as on March 31, 2022 (1.70x as on March 31, 2021).

Key Rating Weaknesses

Elongated Operating Cycle

The group operating cycle remains elongated at 250 days in FY22 (PY:276 days) due to higher inventory days of 148 days (PY:168 days), collection period of 128 days (PY:141 days) in FY22. The average creditors period stood at 26 days in FY22 as against 32 days in FY21. SFL has stretched operating cycle as indicated by operating cycle of 262 days (FY21: 297 days) mainly due to inventory days at 151 days (FY21: 166 days) in FY22. Going forward, any



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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 herein after referred to as 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.



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Earlier Natural Global Foods DMCC was taken for consolidation purpose. Since there is no operation in this company and is presently an associate company, we have not considered this company for consolidation. The consolidation is in the view of similar line of business, holding- subsidiary 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 \(Non- Financial Sector\)](#)

[Criteria for assigning rating outlook](#)

Liquidity –Adequate

The group has adequate liquidity as seen by gross cash accruals of Rs.7.64 crore in FY22 as against repayment of long-term borrowings amounting to Rs.0.14 crore. Further, SFL has gross cash accruals of Rs. 3.84 crore against minimal repayment obligation of Rs. 0.12 crore against in FY22. The group is expected to generate cash accruals in the range of Rs.15.00- 31.00 crore as against its debt servicing obligation of ~Rs. 9.00- 14.00 crore FY23-25. The overall working capital limits of SFL are utilized to the extent of ~50.00% during the past 12 months ended July 2022 indicating sufficient liquidity buffer. The current ratio reported by SFL is 1.84x in FY22. All these factors reflect adequate liquidity position of the group and SFL.



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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-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 three companies in the Group. Sarveshwar Foods Limited (SFL), Sarveshwar Overseas Limited (SOL), Himalayan Bio Organic Foods Private Limited, collectively referred to as the Sarveshwar Group.

Financials (Consolidated):

	(Rs. Crore)	
For the year ended*	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	515.27	606.31
EBITDA	20.74	29.79
PAT	5.24	5.98
Total Debt	265.66	265.23
Adjusted Tangible Net worth	161.17	165.10
EBITDA Margin (%)	4.03	4.91
PAT Margin (%)	1.01	0.99
Overall Gearing Ratio (x)	1.64	1.59

* Classification as per Infomerics' standards



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Financials (Standalone):

(Rs. Crore)

For the year ended*	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	228.74	274.29
EBITDA	8.83	13.88
PAT	3.07	3.20
Total Debt	118.82	129.34
Adjusted Tangible Net worth	88.94	92.30
EBITDA Margin (%)	3.86	5.06
PAT Margin (%)	1.33	1.17
Overall Gearing Ratio (x)	1.34	1.40

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/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 (Aug 31, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	100.00	IVR BBB/ Stable	IVR BBB/ Credit Watch with Developing Implication	-	-
2.	GECL	Long Term	11.67	IVR BBB/ Stable	IVR BBB/ Credit Watch with Developing Implication	-	-
3.	PCL/PSL/ PCFC (Sub limit of CC)	Short Term	(45.00)	IVR A3+	IVR A3/ Credit Watch with Developing Implication	-	-



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Sr. No.	Name of Instrument/ 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 (Aug 31, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
4.	PSL/PSFC	Short Term	5.00	IVR A3+	IVR A3/ Credit Watch with Developing Implication		-
5.	Bank Guarantee (Sub limit of PSL/PSFC)	Short Term	(5.00)	IVR A3+	IVR A3/ Credit Watch with Developing Implication		-

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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.



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For more information visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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/ Stable
Long Term Fund Based Facilities – GECL	-	-	-	18.67	IVR BBB/ Stable
Short Term Fund Based Facilities- PCL/ PSL / PCFC (Sub limit of CC)	-	-	-	(45.00)	IVR A3+
Short Term Fund Based Facilities- PSL/ PSFC	-	-	-	5.00	IVR A3+
Short Term Non Fund Based Facilities- Bank Guarantee (Sub limit of PSL/ PSFC)	-	-	-	(5.00)	IVR A3+



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Annexure 2: List of companies 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%

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Sarveshwar-Foods-nov22.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](#).