Press Release

Sharp Agricom Limited

January 01, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	17.10	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Total	**17.10**	**Rupees Seventeen Crore and Ten Lakh Only**		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Sharp Agricom Limited continues to take into account experienced promoters, favourable demand for rice and rice products, location advantage with proximity to key rice growing belt of the country, moderate capital structure and debt coverage indicators.

The ratings, however remains constrained by moderate scale of operations and thin profitability margin, 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

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 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

Experienced Promoters:

The company is promoted by Mr. Sanjay Singhal who is having more than 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 more than 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 remained moderate at 1.10x as on March 31, 2023; improved from 1.19x as on March 31, 2022 mainly on account of lower utilisation of working capital bank borrowings. The total indebtedness of the company as reflected by TOL/TNW improved from 1.24x as on 31-Mar-22 to 1.15x as on 31-Mar-23. The debt protection metrics remained moderate marked by Interest Coverage Ratio of 2.14 times in FY23 (FY22: 1.65x) and DSCR at 2.07x in FY2023 as compared to 1.58x in FY22 as a result of decline in interest expenses. Debt to GCA improved to 16.02 years in FY23 as against 19.92 years in FY22 due to decline in debt on account of lower utilisation of working capital bank borrowings and increase in GCA.

Key Rating Weaknesses

Moderate scale of operations and thin profitability margins:

The total operating income of the company has marginally increased by 1.42% in FY23 to Rs.200.25 crore as against Rs. 197.44 crore in FY22. However, the total operating income (TOI) of the company declined by 31.95% from Rs 290.02 crores in FY21 to Rs 197.38 crores in FY22. The decline is due to no trading income in FY22 and FY23 as against Rs.95.82 crores in FY21. EBITDA margin declined by 73 bps and stood at 3.24% in FY23 as compared to 3.97% in FY22 on account of increase in expenses such as freight, forwarding and other direct costs and rebates, claims and discounts etc. Despite decrease in EBITDA margins, the PAT margin increased by 48 bps and stood at 0.70% in FY23 as against 0.23% in FY22 mainly on account of decrease in interest expenses.

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 of assigning rating outlook

Liquidity – Adequate

The company’s liquidity is adequate as it has no debt repayments against which it has generated cash accruals of Rs. 3.26 crore in FY23. Current ratio stands at 1.58x and quick ratio of 1.08x as on March 31, 2023. The company's unencumbered cash and bank balance as of December 21, 2023, is nil. However, the promoters are committed to infusing funds in case of difficulty or meet working capital requirement. The company has operating cycle of 83 days in FY23, and utilisation of its bank limits remained high at 75.3% in the past 12 months ended on November 2023.

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/As on*	30-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	197.44	200.25
EBITDA	7.84	6.49
PAT	0.44	1.41
Total Debt	55.01	52.22
Tangible Net Worth	46.06	47.28
Ratios		
EBITDA Margin (%)	3.97	3.24
PAT Margin (%)	0.23	0.70
Overall Gearing Ratio (x)	1.19	1.10

*Classification as per infomerics’ standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)				Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023 (October 13, 22)	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund based Facility	Long Term	17.10	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	-	-	-
2.	Proposed Fund Based and Non Fund Based Limits	Long Term	-	-	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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 Bank Facility- Cash Credit	-	-	-	17.10	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/len-Sharp-jan24.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 www.infomerics.com.