

Sharp Chucks and Machines Limited

September 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	20.39	CARE B; Stable	Upgraded from CARE D; Stable outlook assigned
Long Term / Short Term Bank Facilities	42.14	CARE B; Stable / CARE A4	Upgraded from CARE D / CARE D; Stable outlook assigned
Short Term Bank Facilities	3.00	CARE A4	Upgraded from CARE D

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating of Sharp Chucks and Machines Limited (SCML) factors in the timely servicing of debt obligations and delay free track record of debt servicing for more than 90 days (since April 2024) and is in accordance with CARE Ratings Ltd. (CARE)'s policy on curing period. The rating, further, draws comfort from its established business relationships with reputed OEMs (Original Equipment Manufacturer), operational performance marked by growing revenue. The ratings, however, are constrained by its moderate capital structure as reflected by overall gearing above unity, stretched liquidity position, susceptibility of profitability margins to raw material price fluctuations and cyclical nature of the auto industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable improvement in the liquidity position and improved debt coverage indicators of the company.
- Sustainable growth in revenue above Rs. 250 Cr along with improvement in capital structure with an overall gearing below 1.30x.

Negative factors

- Decline in PBILDT (Profit before interest, lease, depreciation and tax) margin below 8% leading to stretched liquidity.
- Deterioration in the capital structure with an overall gearing beyond 2.00x.

Analytical approach: Standalone

Outlook: Stable

The "Stable" outlook reflects CARE Ratings' expectation of steady scale of operations across varied customers, along with improvement in financial risk profile and liquidity position.

Detailed description of key rating drivers:

Key weaknesses

Moderate financial risk profile: The capital structure of the company is moderate, though improved marginally on y-o-y (year-on-year) basis as reflected in overall gearing ratio stood at 1.37x as on March 31, 2024 (PY: 1.67x). The improvement was on account of repayment of scheduled debt obligations and high PBILDT owing to increase in its scale of operations in FY24. Further, there has been higher utilization of working capital borrowings coupled with utilization of bill discounting facility for discounting the receivables from Mahindra and Mahindra. Debt coverage indicators improved in FY24 as reflected by interest coverage ratio stood at 2.55x (PY: 2.49x) and total debt to gross cash accruals stood at 6.20x (PY: 7.48x).

Susceptibility of margins to volatility in raw material prices: SCML operates in an industry where the raw material cost is one of the major cost drivers, (constituting ~55-65% of TOI) have a bearing on operating margin and major raw materials are iron & steel scraps, cast iron (CI) boring, Mild Steel (MS) iron, pig iron, Mild Steel (MS) rounds, flat iron, etc., the prices of which have been fluctuating over the past couple of years due to volatility in the global commodity markets. Company has established raw material sourcing arrangement through local suppliers. However, company passes on the change in prices to OEMs, thereby limiting the fluctuation risk.

Cyclical nature of the automotive industry: The automobile industry is cyclical in nature and automotive component suppliers' sales are directly linked to the sales of auto OEMs. Furthermore, the auto-ancillary industry is competitive with the presence of a large number of players in the organized as well as unorganized sector. While the organized segment majorly caters to the OEM segment, the unorganized segment mainly caters to the replacement market and to Tier II and Tier III suppliers.

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Key strengths

Established relationship with reputed OEMs: The company has established relationship with reputed OEMs, viz., Mahindra & Mahindra (M&M), International Tractors Limited (ITL), Swaraj Engines Limited (SEL), Escorts Limited, etc. Though the sales appear to be concentrated as these OEMs contributes majority of the total sales of the company around ~70%, though, the risk is mitigated considering these OEMs hold majority of the share in the domestic market and company has a share of business of 50% with M&M, 15-20% with SEL, and 10-15% each with ITL and Escorts.

Growing scale of operations: SCML has experienced growth at CAGR (compound annual growth rate) of ~16% over the last five years. During FY24, company witnessed growth in TOI by 14% and stood at Rs. 201.82 Cr in FY24 (PY: Rs. 176.82 Cr) due to increase in volume sales of existing products after enhancing capacity and addition of new products in the portfolio like crankcase, cylinder head etc. Increase in scale led to increase in profitability and PBILDT margin stood at 12.08% (PY: 11.99%) and PAT margin at 3.02% (PY: 2.68%).

Liquidity: Stretched

The liquidity position of the company remained stretched characterized by almost full utilization of its working capital limits for the past 12 month's period ending July 2024. The firm has reported GCA (gross cash accruals) to the tune of Rs. 13.52 Cr in FY24 and has cash and bank balance of Rs. 1.87 Cr as on March 31, 2024, and is expected to generate GCA of Rs. 19.81 Cr in FY25 against debt repayment obligations of ~Rs. 14 Cr. The stretched liquidity position of the company has constrained the ability of the company to repay its debt obligations on a timely basis in the month of December 2023 and thereafter in the month of March 2024. However, since April 2024, company has been regular in timely servicing of its term debt obligations by cautiously managing its cash flows. Further, to support the liquidity position, company has initiated fresh issue of equity shares in the form of warrants (fully paid up within 18 months), that will lead to infusion of ~Rs. 37 Cr.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Policy On Curing Period](#)

[Auto Components & Equipments](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Auto Components & Equipment

Jalandhar, Punjab based Sharp Chucks and Machines Limited (SCML) (erstwhile known as Sharp Garden Implements Private Limited) was initially incorporated in June 1994 as a private limited company. Later, in December 2022, it was converted into a public limited company and in October 2023, the company got listed (NSE SME). The current directors are namely, Mr. Ajay Sikka, Mrs. Gopika Sikka, Mr. Avinash Shripad Joshi, Mr. Rahul Sharma, Mr. Manmohan Puri and Mr. Suraj Singhal. The company is engaged in the manufacturing of casting products, forging products, lathe chucks, power chucks, drill chuck and other machine tools accessories, etc. The manufacturing process of the company is done through two units located at Jalandhar, Punjab. The company is having an installed capacity of 30,000 MTPA of casting unit, 14,400 MTPA for machining unit and 3,600 MTPA of forging unit. The products manufactured by the company finds its application in diverse industries such as tractors, automobiles, material handling & earth moving equipment's, railways, defence, machine tools, DIY power tools industry, etc. The company is having certifications like IATF 16949: 2016, ISO 9001: 2015 and BSI SA 8000: 2014.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	176.82	201.82	60.79
PBILDT	21.21	24.39	7.60
PAT	4.73	6.10	2.28
Overall gearing (times)	1.67	1.37	NA
Interest coverage (times)	2.49	2.55	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Brickwork Ratings has conducted the review and has classified Sharp Chucks and Machines Limited as "Not Cooperating" vide its press release dated September 04, 2024, on account of non-availability of requisite information from the company.

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	December, 2028	20.39	CARE B; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	42.14	CARE B; Stable / CARE A4
Non-fund-based - ST-BG/LC		-	-	-	3.00	CARE A4

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT/ST-CC/Packing Credit	LT/ST	42.14	CARE B; Stable / CARE A4	-	1)CARE D / CARE D (05-Mar-24) 2)CARE D / CARE D; ISSUER NOT COOPERATING * (11-Jan-24) 3)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING * (16-Aug-23)	1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING * (05-Aug-22)	1)CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING * (16-Jun-21)
2	Fund-based - LT-Term Loan	LT	20.39	CARE B; Stable	-	1)CARE D (05-Mar-24) 2)CARE D; ISSUER NOT COOPERATING * (11-Jan-24) 3)CARE BB; Stable; ISSUER NOT COOPERATING * (16-Aug-23)	1)CARE BB; Stable; ISSUER NOT COOPERATING * (05-Aug-22)	1)CARE BB; Stable; ISSUER NOT COOPERATING * (16-Jun-21)
3	Non-fund-based - ST-BG/LC	ST	3.00	CARE A4	-	1)CARE D (05-Mar-24) 2)CARE D; ISSUER NOT COOPERATING * (11-Jan-24) 3)CARE A4; ISSUER NOT COOPERATING * (16-Aug-23)	1)CARE A4; ISSUER NOT COOPERATING * (05-Aug-22)	1)CARE A4; ISSUER NOT COOPERATING * (16-Jun-21)

*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Contact us

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About us:

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