

Sharp Chucks and Machines Limited

February 18, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	15.53 (Reduced from 20.39)	CARE BB; Stable	Upgraded from CARE B; Stable
Long Term / Short Term Bank Facilities	62.00 (Enhanced from 42.14)	CARE BB; Stable / CARE A4+	Upgraded from CARE B; Stable / CARE A4
Short Term Bank Facilities	3.00	CARE A4+	Upgraded from CARE A4

¹Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the ratings assigned to the bank facilities of Sharp Chucks and Machines Limited (SCML) factors in the consistent improvement in the operational performance of the company driven by volume growth resulting from the addition of new products to its portfolio, steady profitability and improved cash flow from operations in FY24 (refers to the period from April 01 to March 31). The ratings also favourably factor in experienced promoters, company's long track record of operations and established business relationships with reputed OEMs.

The ratings, however, continue to remain constrained by average capital structure as reflected by overall gearing above unity and weak debt coverage indicators. The ratings also continue to remain constrained by company's working capital intensive nature of operations, 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 of the company as reflected by timely servicing of its debt obligations.
- Sustainable growth in revenue above Rs. 250 Cr along with improvement in capital structure with an overall gearing below 1.3x.

Negative factors

- Decline in Profit before interest, lease, depreciation and tax (PBILDT) margin below 9%.
- Deterioration in the capital structure with an overall gearing beyond 1.50x

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 capital structure and strained debt coverage indicators

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 stood strained, as marked by PBILDT interest coverage of 2.55x in FY24 (PY: 2.49x) and high total debt to GCA (TD/GCA) of 6.2x in FY24 (PY: 7.48x).

Working capital intensive nature of operations: Being an auto ancillary player, the operations of the company are highly working capital intensive in nature marked by an average operating cycle of around 138 days in FY24 (PY: 139 days). The company majorly supplies the auto component parts to some of the major OEMs, therefore being the Tier-1 supplier; the company has lower bargaining power in comparison to its customers, thereby leading to receivable days around 47 during FY24 (PY: 54 days). Further, the company is required to maintain adequate inventory of raw material for smooth running of its production processes. Therefore, the company has to maintain inventory of around 4 to 5 months. The creditor period stood at 56 days (PY:

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

53 days). The high working capital requirements were met largely through bank borrowings which resulted in high utilization of around ~86% of its sanctioned working capital limits for last twelve months period ended December 2024.

Susceptibility of margins to volatility in raw material prices: Raw material expense is the major cost driver (constituting ~55-65% of TOI) and any sharp volatility in raw material prices may negatively impact company's profitability. However, the company is able to pass on any change in raw material prices to its customers (OEMs) with a lag of a quarter, 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 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 III suppliers. The product portfolio of the company caters solely to automobile industry. The growth of the company is directly linked to the domestic automotive industry which, in turn, is cyclical and dependent on the growth of the economy.

Key strengths

Experienced management and long track record of operations

SCML is led by directors Mr. Ajay Sikka (Chairman & Managing Director), Mr. Gopika Sikka, Mr. Avinash Shripad Joshi and Mr. Rahul Sharma, who collectively oversee overall operations of the company. Mr. Ajay Sikka holds over 3 decades of industry experience and Directors are assisted by a team of professionals with considerable experience in their respective domains.

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 ~80%, though, the risk is mitigated considering these OEMs hold majority of the share in the domestic market and has been in long term association with the company.

Consistent growth in scale of operations with stable profitability margins

The company reported year-on-year (y-o-y) growth of 14% in total operating income (TOI) to Rs.201.82 Cr in FY24 (PY: Rs. 176.82 Cr). There has been a consistent growth in the company's topline in the last five years at a compounded annual growth rate (CAGR) of 16%. This growth was primarily driven by increased volume sales of existing products after enhancing capacity and addition of new products in the portfolio like crankcase, cylinder head etc. SCML's operating profitability exhibited a stable trend with PBILDT margin within the range of 11-12% in the past three years ended FY24. During H1FY25, Company has reported TOI of Rs. 135.83 crore with PBILDT margin of 11.13%.

Liquidity: Stretched

The liquidity position of the company remained stretched characterized by high utilization of its working capital limits at 86% for the past 12 month's period ending December 2024. Company is expected to generate Gross Cash Accruals (GCA) of ~Rs. 19 crore in FY25 against debt repayment obligations of ~Rs. 9.64 crore. 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 raised funds through fresh issue of equity shares in the form of warrants (fully paid up within 18 months), that will lead to total infusion of ~Rs. 16 Cr by FY26.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[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 & Equipments

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)	H1FY25 (UA)
Total operating income	176.82	201.82	135.83
PBILDT	21.21	24.39	15.12
PAT	4.73	6.10	4.55
Overall gearing (times)	1.67	1.37	NA
Interest coverage (times)	2.49	2.55	2.77

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	15.53	CARE BB; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	62.00	CARE BB; 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	62.00	CARE BB; Stable / CARE A4+	1)CARE B; Stable / CARE A4 (23-Sep-24)	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	15.53	CARE BB; Stable	1)CARE B; Stable (23-Sep-24)	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 A4 (23-Sep-24)	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

Annexure-5: Lender details

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

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.

Contact us

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About us:

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