March 21, 2024

Sahyadri Farmers Producer Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	12.00	12.00	[ICRA]BBB+ (Stable) reaffirmed
Working Capital Demand Loan	(12.00)	(12.00)	[ICRA]BBB+ (Stable) reaffirmed
Term Loan	8.00	8.00	[ICRA]BBB+ (Stable) reaffirmed
Overdraft	20.00	20.00	[ICRA]BBB+(Stable)/[ICRA]A2 reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

To arrive at the ratings, ICRA has taken the consolidated financials of Sahyadri Farmers Producer Company Limited (SFPCL or the Group) and its subsidiaries, Sahyadri Farms Post Harvest Care Limited (SFPHCL), Sahyadri Farms Sustainable Grassroots Initiatives Ltd., Sensartics Pvt. Ltd., as well as its step-down subsidiaries, Sahyadri Agro Retails Limited, Sahyadri Farms Supply Chain Limited, Farmsetu Technologies Private Limited and Nextgen Nurseries Pvt. Ltd. (to be collectively referred to as the Sahyadri Group), given the financial and business linkages among them.

The reaffirmation of the ratings considers the Sahyadri Group's stable operating performance in FY2023 and YTD FY2024 with expectations of continuing the same over the near to medium term, backed by product diversification, capacity and value addition in the business which is expected to support the top line and margins. ICRA notes that the Group had obtained investments in the form of equity and zero-coupon CCD amounting to ~Rs. 310 crore from multiple private equities (PEs) in SFPCL and its post-harvest care business in FY2023, which were largely deployed for product portfolio enhancement, capacity enhancements and operational efficiency. The ratings remain supported by the extensive experience of more than 25 years of the Group's promoters in the agricultural produce business across domestic and export markets. The ratings also continue to favourably factor in the Group's established relationships with its suppliers and customers, along with forward integration into the value-added, processed food segment, which supports its margins.

The ratings, however, remain constrained by the Group's working capital intensive nature of operations, given the seasonal nature of the business, and the exposure of revenue and profitability to agro-climatic risks in terms of adequate production and delivery of fresh produce to the final customer. Although the Group is actively diversifying its product portfolio, the same remains concentrated towards grapes, and revenue as well as profitability remains vulnerable to quality and produce of the same for any particular year. While ICRA notes commercialisation of multiple capital expenditure (capex) programmes in H1 FY2024 that the company had undertaken for product diversification, capacity enhancements and value addition in its business, its ability to stabilise and scale-up operations and generate commensurate returns from the same remain critical from a credit perspective.

ICRA also notes that, with the grapes export season typically falling in the fourth quarter (January–March), the earnings in the current fiscal remain vulnerable to the Red Sea crisis and the ability of the company to neutralise the impact on demand and logistics cost escalations. The same will also remain a near term monitorable. Moreover, ICRA notes that there is a buyback clause in the Shareholders Agreement, against the above-mentioned PE investment, on the company and/or the promoter group in six years from August 18, 2022, and only in case the PE investors cannot exit through an IPO or any other route. As per the Shareholders Agreement, the buyback clause is subject to regulatory restrictions given in the Companies Act and requisite approvals, including but not limited to approval from lenders of the company. Any material liability arising on SFPHCL from such a buyback option being triggered by the investors and adversely impacting its capital structure or liquidity profile after the agreed period of six years, will remain a key monitorable. The ratings also continue to remain constrained by the susceptibility of the margins towards foreign exchange (forex) fluctuations, given the large export volumes; although active hedging strategies mitigate the same to an extent.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the agricultural industry with strong presence in grape exports – The Sahyadri Group's promoter has more than 25-years of experience in the agricultural industry, primarily in grape export. The Group has been among the largest exporters of grapes from India in the last five years.

Established relationship with suppliers and customers – The Sahyadri Group has been associated with over 18,000 farmers in the Nashik region of Maharashtra, resulting in access to 29,000 acres of farmland, ensuring a regular supply. Further, the Group enjoys established relationships with its customers, primarily in export markets, with a history of repeat orders.

Large-scale of operations with steady growth over the last five fiscals – The Group's scale of operation has witnessed a steady ramp up in the last five fiscals, standing at Rs. 997.2 crore in FY2023 over Rs. 319.8 crore in FY2018, driven by increase in sales in exports as well as domestic markets (primarily because of sharp increase in FMCG sales in the domestic market). The Group has also ventured into contract manufacturing of processed foods with a reputed customer for ketchups and jams. It has also ventured into citrus processing, dehydrated and powdered products, cashew nuts and dry fruits, etc, in the current fiscal, which is expected to support the topline growth and margins, going forward.

Sizable investments from PE in its subsidiary to boost net worth and provide adequate growth capital for near term capex plans – The Group received a total inflow of Rs. 310 crore, comprising Rs. 250 crore (Rs. 166.5 crore of fresh equity and Rs. 83.50 crore of zero-coupon CCDs) in Sahyadri Farms Post Harvest Care Limited and Rs. 60 crore in Sahyadri Farmers Producer Company Ltd. from its stake dilution to PEs. The CCD of ~Rs. 83.50 crore is without any coupon rate and perpetual tenure with milestone-based conversion to equity. The fund infusion has also strengthened the net worth base, reducing its dependence on external debt for its near to medium term capex requirements.

Credit challenges

Sizeable capex undertaken recently, whose stabilisation and scale up will remain critical for improving coverage indicators – The Group's post-harvest care division recently completed its major capex plans for product portfolio enhancement, capacity enhancements and improvement of operational efficiencies in the current fiscal. Majority of the capex undertaken was funded through the investment proceeds from the PEs with limited reliance on external debt. Although the capex will benefit in terms of product diversification and revenue growth, the Group's ability to successfully stabilise and scale up operations to generate commensurate returns will remain critical from a credit perspective. The ability of the company to scale up its non-grape and less volatile FMCG and semi-processed food business, through these recently concluded capex, remain key from a credit perspective, going forward. The company is also looking for capex under the grapes cluster scheme and has aggressive expansion plans around the same. ICRA understands that the company is likely to fund any such large capex only through further equity rounds to keep the debt metrics under check. The same will also remain a monitorable from the credit perspective.

Working capital intensive nature of operations due to seasonal business cycle – The operations continue to be working capital intensive as reflected by the NWC/OI of ~31% as on March 31, 2023 because of elongated receivables of ~113 days and inventory of ~68 days. The same is largely from the seasonal nature of the business (primarily for grape exports) as reflected by around 50% of total sales in the last quarter of the financial year. The working capital utilisation also, thus, remains typically high in the second half of any year and efficient management of the same remains key for its liquidity profile.

Exposed to vagaries of the monsoons and other agro-climatic risks, along with product concentration and forex fluctuations risks – The Group's revenues and earnings remain exposed to agro-climatic risks, given the nature of the products in terms of consistency and quality supply of fresh produce during the supply season. Further, the business is exposed to product concentration risk, since grape exports generate a significant share of fresh fruit and vegetable (fresh F&V) sales. Exports continue to form a major chunk of the Group's operating revenues, exposing its margins to adverse forex fluctuations. However, the Group has been using active hedging strategies like forwards and borrowings in foreign currency to mitigate the risks to an extent, which will remain a key rating monitorable.

Weak performance of the subsidiaries/step-down subsidiaries, ability to turnaround their operations remain critical for the consolidated profile – Despite reductions in losses in the Group's subsidiaries in FY2023, such as in Sahyadri Farms Supply Chain Limited narrowing its net losses to ~Rs. 5.4 crore (compared to Rs. 19.2 crore in FY2022) and Sahyadri Agro Retail Limited reducing losses to Rs. 2.5 crore from around Rs. 11.8 crore in FY2022, these continue to be a drag on the Group's overall credit profile. The Group has ceased operations in its loss-making subsidiaries/step-subsidiaries such as Sahyadri Agro Retails Ltd. and Sahyadri Farms Sustainable Grassroots Initiatives Ltd. during the current fiscal. The operational step-down subsidiary, Sahyadri Farms Supply Chain Limited, is expected to break-even at operating level in FY2024. Going forward, the Group's ability to successfully turn around its loss-making subsidiaries/step-down subsidiaries, and materially support profitability at the Group level will remain critical from a credit perspective.

Liquidity position: Adequate

At the Group level, the overall liquidity profile is adequate, supported by expected healthy cash accruals and adequate undrawn working capital limits in the last 12 months (ending January 2024). The scheduled repayments are also expected to be adequately covered by accruals in the near to medium term. Further, at a standalone level, the average working capital utilisation remained at ~72% (for the last 12 months ending January 2024) with an undrawn buffer of Rs. 5.6 crore as of end January 2024 from its sanctioned cash credit limit of Rs. 12.00 crore. The utilisation level typically tends to be higher in the second half of a fiscal year due to the seasonal nature of the business.

Rating sensitivities

Positive factors – ICRA could upgrade SFPCL's rating if a sustained increase in scale and profitability leads to higher-than-expected cash accruals, which in turn reflects in improvement in its coverage indicators and overall liquidity profile. Specific credit metrics, which may lead to a positive rating trigger, will be interest coverage above 4.0 times on a sustained basis.

Negative factors – The ratings can be downgraded if the company is not able to scale up or there is material decline in profitability leading to lower-than-expected cash accruals, causing sustained pressure on coverage indicators and the capital structure. Any material stretch in the working capital indicators leading to higher borrowings and weakening liquidity profile, will also be a negative rating trigger. Further, interest coverage below 3.0 times on a sustained basis may lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statement of Sahyadri Farmers Producer Company Limited (SFPCL), its subsidiaries and step-down subsidiaries, who are enlisted in Annexure II.

About the company

Incorporated in 2010, Sahyadri Farmers Producer Company Limited, based in Nashik, Maharashtra, is a 100% farmer-owned and operated farmer producer company (FPC). The company and its subsidiaries are engaged in procurement, post-harvest management, processing, storage, logistics, marketing and sales of fresh fruits, vegetables and processed foods like aseptic/ frozen fruit pulps, purees, Instant quick freezing (IQF) fruits and vegetables, etc, in the domestic and overseas markets. It also provides technical support, financial assistance, farm input supply and other services to farmers. The Sahyadri Group is associated with more than 18,000 farmers engaged in the production of various fruits and vegetables across more than 29,000 acres of farmland.

The Scheme of Arrangement of Sahyadri Farmers Producer Company Limited with Sahyadri Farms Post Harvest Care Limited was approved by the Hon'ble National Company Law Tribunal, Mumbai Bench ('NCLT Mumbai'), dated February 17, 2022. As per the said scheme, all the capital-intensive businesses of Sahyadri Farmers Producer Company were transferred to Sahyadri Farms Post Harvest Care Limited with effective from March 31, 2022 under the slump exchange sales. Accordingly, the books were drawn separately for both companies with effect from FY2022.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	771.6	997.2
PAT	21.4	47.2
OPBDIT/OI	6.6%	8.2%
PAT/OI	2.8%	4.7%
Total outside liabilities/Tangible net worth (times)	3.7	1.8
Total debt/OPBDIT (times)	6.4	5.4
Interest coverage (times)	2.6	2.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 21, 2024	Jan 19, 2023	Nov 16, 2021	-
1	**Cash Credit**	Long Term	12.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	**Working Capital Demand Loan**	Long Term	(12.00)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3	**Term Loan**	Long Term	8.00	8.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-

4	**Overdraft**	Long Term/ Short Term	20.00	-	[ICRA]BBB+ (Stable)/[ICRA]A2	[ICRA]BBB+ (Stable) /[ICRA]A2	-	-
5	**PCFC**	Long Term	-	-	-	-	[ICRA]BBB+ (Stable)	-
6	**Overdraft Facility**	Long Term	-	-	-	-	[ICRA]BBB+ (Stable)	-
7	**Letter of Credit**	Long Term	-	-	-	-	[ICRA]BBB+ (Stable)	-
8	**Stand by Letter of Credit**	Short Term	-	-	-	-	[ICRA]A2	-
9	**Short Term Loan**	Short Term	-	-	-	-	[ICRA]A2	-
10	**Bill Discounting/ Export Invoice Financing/Import Invoice Financing**	Short Term	-	-	-	-	[ICRA]A2	-
11	**Unallocated Limits**	Long Term/ Short Term	-	-	-	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Working Capital Demand Loan	Simple
Term Loan	Simple
Overdraft	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	12.00	[ICRA]BBB+ (Stable)
NA	**Working Capital Demand Loan**	NA	NA	NA	(12.00)	[ICRA]BBB+ (Stable)
NA	**Term Loan**	FY2023	NA	FY2027	8.00	[ICRA]BBB+ (Stable)
NA	**Overdraft**	NA	NA	NA	20.00	[ICRA]BBB+ (Stable) /[ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Relationship	Ownership	Consolidation Approach
Sahyadri Farms Grassroots initiatives Ltd	Subsidiary	100.00%	Full Consolidation
Sahyadri Farms Post Harvest Care Limited	Subsidiary	80.59%	Full Consolidation
Sensartics Pvt Ltd	Subsidiary	99.97%	Full Consolidation
Sahyadri Agro Retails Limited	Step Subsidiary	82.56%*	Full Consolidation
Sahyadri Farms Supply Chain Limited	Step Subsidiary	100.00%*	Full Consolidation
Farmsetu Technologies Private Limited	Step Subsidiary	69.26%*	Full Consolidation
Nextgen Nurseries Pvt Ltd	Step Subsidiary	85.43%^	Full Consolidation

**Ownership of Sahyadri Farms Post Harvest Care Limited ^25% ownership of Sahyadri Farmers Producer Company Limited*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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