

March 03, 2017

## Shree Hari Industries

Instrument*	Rated Amount (in crore)	Rating Action
Cash Credit	18.00	Upgraded to [ICRA]BB+(Stable) from [ICRA]BB (Stable), suspension revoked

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has upgraded the long term rating to [ICRA]BB+ (pronounced ICRA double B plus) from [ICRA]BB (pronounced ICRA double B) to the Rs. 18.00 crore bank facilities of Shree Hari Industries; (SHI). The outlook on the rating is 'Stable'.

### Rationale

The rating revision is driven by the consistent growth in the revenues and improvement in the profitability. The operating income of the firm increased by ~5% over the last one year from Rs. 233.41 crore in FY2015 to Rs. 244.05 crore in FY2016. Further, the firm has reported healthy revenues of Rs. 224.66 crore in the first 9 months of FY2017, which has been accompanied by an expansion in its profit margins. The firm's capital structure has also improved from equity infusion by the promoters. Higher profitability, coupled with lower debt and equity infusion has resulted in significant improvement in capitalization and debt coverage indicators. Further, the rating continues to factor in the promoters' significant experience and long track record in mustard oil and related products; strong regional market presence in mustard oil segment; and favourable demand prospects for edible oil in India.

However, the rating is constrained by the high business risks associated with the edible oil (and related products) industry including high competitive intensity and fragmentation; vulnerability of profitability of domestic edible oil players to import pressures and changes in duty differential between crude and refined oil; exposure to commodity price and agro-climatic risks and risks inherent in the partnership form of business.

Going forward, sustainability of profitability notwithstanding the fluctuations in the commodity prices, efficient working capital management and capacity utilisation would be the key rating sensitivities. Further, any large debt funded capital expenditure would be a rating sensitivity.

### Key rating drivers

#### Credit Strengths

- Long track record of promoters of almost five decades in mustard oil and related products
- Strong regional market presence in Bihar, Jharkhand, Orissa region with brand "Engine"; have also diversified product portfolio recently by adding soya and sesame oil which are procured from other manufactures and are sold under the firm's brand
- Favourable demand prospects for edible oil in India
- Healthy capital structure of the firm as reflected in low gearing (1.30 times in FY2016) and strong debt coverage indicators

**Credit Weakness**

- High business risks inherent in edible oil business including high fragmentation and competition; import threat; vulnerability to fluctuations in the international prices of edible oils, changes in duty differential between crude and refined oil
- Exposure to agro-climatic risks which could affect the availability of the main raw material, mustard seeds
- Risk inherent in the partnership form of business

**Description of key rating drivers highlighted above:**

The promoters of the firm have been involved in mustard oil and related products business since almost five decades and possess extensive experience which helps the firm to maintain healthy relationships with the customers as well as the suppliers. ICRA also favourably factors in healthy financial profile as reflected by strong operating and profitability margins; low gearing and strong debt coverage indicators. Further, the rating continues to factor in the strong regional market presence of the firm in mustard oil segment and favourable demand prospects for edible oil in India.

The rating is constrained by high business risks associated with the edible oil (and related products) industry including vulnerability of profitability of domestic edible oil players to import pressures and changes in duty differential between crude and refined oil and risks inherent in the partnership form of business. Further, the fragmented nature of industry leads to high competitive intensity. The company is also exposed to vulnerability to foreign exchange fluctuation risk.

**Analytical approach:** Standalone financials

**Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

**About the Company:**

Incorporated in 1959, Shree Hari Industries (SHI) is engaged in the manufacturing of mustard oil and mustard cake and has mustard seed crushing capacity of 60,000 tonnes per annum (TPA). The operations of the firm are managed by the Aggarwal family. The firm mainly operates in the branded retail segment, primarily in the states of Bihar, Jharkhand, Orissa and the North-East, through its registered brand 'Engine'.

As per the audited financials of 2015-16, SHI reported a net profit of Rs. 5.36 crore on an operating income (OI) of Rs. 244.05 crore as against a net profit of Rs. 4.90 crore on an OI of Rs. 233.41 crore in 2014-15.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**
**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month-year & Rating in FY2014
				March 2017	July 2016	February 2015	March 2014
1	Cash Credit	Long Term	18.00	[ICRA]BB+ (Stable)	[ICRA]BB (Stable); Suspended	[ICRA]BB (Stable)	NA
2	Term Loan	Long Term	Nil (Earlier 1.70)	NA	NA	NA	[ICRA]BB- (Stable)
3	Cash Credit	Long Term	Nil (Earlier 8.00)	NA	NA	NA	[ICRA]BB- (Stable)

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	18.00	[ICRA]BB+ (Stable)

**Name and Contact Details of the Rating Analyst(s):**

**Sabyasachi Majumdar**  
+91-124-4545 304  
sabyasachi@icraindia.com

**Manish Ballabh**  
+91-124-4545 812  
manish.ballabh@icraindia.com

**Ruchi Gadia**  
+91-124-4545 833  
ruchi.gadia@icraindia.com

**Amit Arora**  
+91-124-4545 318  
amita@icraindia.com

**Name and Contact Details of Relationship Contacts:**

**Jayanta Chatterjee**  
+91 80 4332 6401  
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500