

## Shrinathji Agro Industries

January 13, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	12.73	CARE BB-; Stable	Assigned
Long Term / Short Term Bank Facilities	20.00	CARE BB-; Stable / CARE A4	Assigned
Short Term Bank Facilities	30.40	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Shrinathji Agro Industries (SAI) are constrained on account of SAI's thin profitability, leveraged capital structure with planned debt-funded capex, modest debt coverage indicators, and stretched liquidity. Ratings are also constrained by its presence in a highly competitive and fragmented edible oil industry, and the susceptibility of its profitability to volatile agro commodity prices.

However, the ratings derive their strength from its experienced promoters in the edible oil industry, moderate scale of operations, and moderately concentrated albeit reputed clientele.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Volume-backed growth in Total Operating Income (TOI) on a sustained basis, and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins above 2% on a sustained basis, resulting in improvement in cash accruals.
- Improvement in overall gearing below 1.5x along with improvement in debt coverage indicators, with PBILDT interest coverage above 3x and liquidity on a sustained basis.

#### Negative factors

- Any major moderation in TOI and PBILDT margin from the existing level on a sustained basis.
- Deterioration in overall gearing to above 2.75x, resulting in an adverse impact on liquidity/debt coverage indicators.

### Analytical approach: Standalone

#### Outlook: Stable

The Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that SAI will sustain its moderate scale of operations in the near to medium term, supported by its experienced promoters and reputed clientele.

### Detailed description of key rating drivers:

#### Key weaknesses

##### Thin Profitability

SAI's profitability remained thin due to the limited value addition and high volatility in raw material prices which is procured at market linked rates. The firm reported PBILDT margin of 1.47% in FY24 (0.93% in FY23) and a profit after tax (PAT) margin of 0.50% in FY24 (negative 0.18% in FY23). SAI's gross cash accruals (GCA) also remained modest at ₹2.21 crore (P.Y.: ₹0.57 crore).

##### Leveraged capital structure and modest debt coverage indicators

The capital structure of the firm remained leveraged marked by overall gearing of 2.02x in FY24 (3.58x in FY23) mainly on account of low networth base of the firm. The networth base of the firm stood at ₹9.07 Crore during FY24 (PY: ₹7.64 Crore). Furthermore, it is expected to remain leveraged due to planned debt-funded capex for installation of solar plant and castor oil extraction plant. Debt coverage indicators stood modest marked by Total debt to GCA of 8.28x as on March 31, 2024 (47.90x as on March 31, 2023) and PBILDT interest coverage remained moderate at 2.37x during FY24 (PY: 1.35x).

##### Presence in a highly competitive and fragmented industry with inherent risk associated with volatility in agro commodities prices

The edible oil industry in India is characterized by a high degree of competition, resulting from fragmentation due to low entry barriers and low capital intensity. As a result, profitability is inherently thin.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

SAI uses mustard seeds as key raw materials for the extraction process, while the end products include mustard oil and de-oiled cakes.

Both, raw materials and end products, are agricultural commodities, and their prices are affected by various factors, including monsoon, area under cultivation, prices of other edible oils, minimum support prices (MSP) set by the government, the demand-supply gap, and weather conditions in major crop-growing nations; thus, the same remain volatile.

## Key strengths

### Experienced Promoters

SAI is promoted and managed by the Gujarat-based Maheshwari family. The operations of the firm are managed by the partners: Arjun Maheshwari, Mukeshkumar Maheshwari, Popatkumar Maheshwari, and Pradipkumar Maheshwari. The promoters have over two decades of experience in manufacturing mustard oil through other group companies, Siddhi Vinayak Industries at Radhanpur and Sindhvai Agro Industries (CARE BB; Stable/ CARE A4) at Tharad, both in Gujarat. This experience has provided the partners with a good understanding of market dynamics and has helped them maintain relationships with both suppliers and customers.

### Moderate scale of operations

SAI started its operations from June 2022 marking FY24 as first full year of operations.

During FY24, the firm registered moderate TOI of Rs.242.82 Crore against Rs. 211.82 Crore in FY23 (refers to the period from July 01, 2022, to March 31, 2023). It improved marginally as compared to last year with increase in sales volume and stabilisation of edible oil prices to an extent.

For 8MFY25, SAI registered TOI of Rs.103 crore and is envisaged to register TOI of around Rs.225 Crore in FY25 with some sales from Castor oil envisaged in Q4FY25 post completion for its capex.

### Moderately concentrated albeit reputed clientele

SAI has a moderately concentrated customer profile, with the two major customers contributing around 30-40% of the firm's sales, as articulated by the management. High customer concentration may expose the firm to the risks of revenue loss or low profitability in case of a slowdown in off-take by these customers or the loss of customers. However, SAI's clientele is reputed, with around 30% of sales for FY24 contributed by Godrej Industries Limited (GIL) and another 5% by Adani Wilmar Limited. The remaining sales are derived from other local customers through brokers.

### Liquidity: Stretched

The firm's liquidity remains stretched, as reflected by the high utilization of working capital limits and tightly matched Gross Cash Accruals (GCA) vis-à-vis repayment obligations.

The average utilization of working capital limits remained at 89% during the past eight months, ending November 30, 2024. The firm reported cash flow from operations (CFO) of Rs.7.81 crore during FY24, compared to a negative Rs.9.35 crore during FY23. The improvement in CFO was due to a decrease in inventory and receivables, partially offset by a decrease in creditors. The firm's operating cycle remains lean at 12 days at FY24 end (8 days at FY23 end). The firm had a meagre free cash and bank balance of Rs.0.83 crore as of March 31, 2024 (Rs.3.60 crore as of March 31, 2023).

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

## About the Firm and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Edible Oil

Gujarat-based SAI was established as a partnership firm in July 2021 and commenced operations in June 2022. The firm is engaged in the extraction of crude oil and de-oiled cake (DOC) derived from processing mustard seeds and mustard oil cake, through its expeller division with a capacity of 210 tonnes per day (TPD) and a solvent plant with a capacity of 200 TPD at

Radhanpur.

During FY25, the firm undertook capital expenditure (capex) to increase the mustard extraction capacity from 210 MT to 270 MT and to install new machinery for castor oil extraction with a capacity of 405 MTPD, which is expected to become operational by January 2025.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	8MFY25 (Prov.)
Total operating income	211.82	242.82	103.00
PBILDT	1.96	3.58	NA
PAT	-0.37	1.23	NA
Overall gearing (times)	3.58	2.02	NA
Interest coverage (times)	1.35	2.37	NA

A: Audited Prov.: Provisional NA: Not available; Note: these are latest available financial results

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

**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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	20.00	CARE BB-; Stable / CARE A4
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	30.00	CARE A4
Non-fund-based - ST-Forward Contract		-	-	-	0.40	CARE A4
Term Loan-Long Term		-	-	December 2028	12.73	CARE BB-; Stable

**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-Cash Credit	LT/ST	20.00	CARE BB-; Stable / CARE A4				
2	Term Loan-Long Term	LT	12.73	CARE BB-; Stable				
3	Non-fund-based - ST-Forward Contract	ST	0.40	CARE A4				
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	30.00	CARE A4				

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/ ST-Cash Credit	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Non-fund-based - ST-Forward Contract	Simple
4	Term Loan-Long Term	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](mailto:care@careedge.in) for clarifications.

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### About us:

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