

Press Release

Confidence Petroleum India Limited

August 10, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 84.59 crore
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Upgraded from ACUITE BBB)
Short Term Rating	ACUITE A2 (Upgraded from ACUITE A3+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating from '**ACUITE BBB**' (read as **ACUITE triple B**) to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short-term rating from '**ACUITE A3+**' (read as **ACUITE A three plus**) to '**ACUITE A2**' (read as **A two**) on the Rs. 84.59 crore bank facilities of CONFIDENCE PETROLEUM INDIA LIMITED (CPIL). The outlook is '**Stable**'.

Incorporated in 1994, as Devarsa Gas-Chem Private Limited, later renamed as Confidence Petroleum India Limited (CPIL) in 2008, is part of a business group, hereinafter, called as Confidence Group, having strong presence in the LPG sector. The company is promoted by Mr. Nitin Poonamchand Khara and is listed on National Stock Exchange as well as Bombay Stock Exchange. CPIL is engaged in the manufacturing of LPG cylinders and is also a supplier of Auto LPG in India with its network of bottling plants and ALDS (Auto LPG dispensing Station) across India. The company has its packed cylinder division under the brand name 'Go Gas' in the market.

Further, the company is also engaged into LPG Bottling & Blending that caters to the industrial and commercial requirements of their own and offers job work to the oil companies such as Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited, Indian Oil Corporation Limited and Reliance group to name a few. Further, the company has around 15 cylinder manufacturing units, 196 ALDS, 58 LPG bottling plants and 4 blending plants pan India.

About the group

Confidence group was promoted by Mr. Nitin Poonamchand Khara in 1993. The group has vertically integrated operations, wherein the LPG cylinders manufacturing division provides an in-house infrastructure for its packed cylinder division, supported by LPG Bottling & Blending units. Further, the LPG Bottling & Blending units serve as a hub to store Auto LPG Dispensing Stations to provide logistical advantages. The group operates in the packed cylinder division and LPG Bottling & Blending under the brand name 'Go Gas'.

Analytical Approach

Acuite has considered the consolidated view of business and financial risk profiles of Confidence Petroleum India Limited with its subsidiaries- Confidence Go Gas Limited, Gaspoint Bottling Private Limited, Unity Cylinders Private Limited, Confidence Technologies Private Limited, Agwan Coach Private Limited, Keppy Infrastructure Developers Private Limited, Hemkunt Petroleum Limited, Nine Infra Projects Private Limited, Chattisgarh Gaspoint Bottling Private Limited, Blue flame Petroleum Private Limited, Confidence Futuristic Energetek Limited, Taraa LPG Bottling Private Limited, Kastkar Gaspoint Bottling Private Limited and PT Surya Go Gas Indonesia to arrive at this rating. The consolidation is due to the same line of business and operational synergies between them. The group is herein referred to as 'Confidence Group'. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

Incorporated in the year 1994, Confidence Petroleum India Ltd. (hereinafter referred as CPIL) is the flagship company of the group promoted by Mr. Nitin Poonamchand Khara. The operations of the company are spread all over India with a total of 15-cylinder manufacturing units, 58 bottling plants, 4 LPG blending plants and 196 ALDS stations at group level. The Directors of the company, Mr. Nitin Punamchand Khara and Mr. Elesh Punamchand Khara have over three decades of experience in manufacturing of LPG cylinders and other products. Due to the group's established track record of operations and management experience, the group has booked the revenue of Rs. 1,005.01 crore in FY2019 as compared to Rs. 608.30 crore in FY2018 and Rs. 496.90 crore in FY2017. Further, the company has booked revenue of Rs. 279.90 crore for the quarter ended as on 30 June, 2019. CPIL is expected to continue to leverage its well established relationships with reputed clients and suppliers. Acuite believes that CPIL will continue to benefit from its established track record of operations and experienced management and their long standing relationships with reputed customers and suppliers.

- **Established relationship with customers and suppliers**

The group has established presence in the industry as CPIL has been able to build healthy client profile spanning both private as well as government agencies. The company caters to various reputed customers in the energy and oil industry, namely, Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited, LPG Infrastructure Private Limited among others. CPIL also has well established relationships with various reputed raw material suppliers such as Steel Authority of India Limited, Tata Steels, Essar, Hindustan Aegis LPG limited and Reliance Industries Limited among others.

- **Healthy financial risk profile**

The group has healthy financial risk profile marked by healthy net worth and debt protection metrics. The net worth of the group stood at Rs. 413.12 crore as on March 31, 2019 as against Rs. 272.38 crore as on March 31, 2018, owing to comfortable accretion to reserves due to healthy profitability. Gearing levels (debt-to-equity) stood at 0.19 times as on March 31, 2019 as against 0.32 times as on March 31, 2018. Further, the interest coverage ratio stood at 12.24 times for FY2019 as compared to 6.16 times for FY2018. Total outside liabilities to total net worth (TOL/TNW) stood at 0.50 times as on March 31, 2019 vis-à-vis 0.75 times as on March 31, 2018. Acuite believes that financial risk profile of the group is likely to remain healthy over the medium term on account of healthy net worth and debt protection metrics.

- **Efficient working capital management**

The group has efficient working capital operations marked by gross current assets (GCA) of 63 days in FY2019 as compared to 99 days in FY2018. This is on account of debtors' collection period of 21 days in FY2019 as against 37 days in FY2018 and inventory holding period of 32 days in FY2019 as against 42 days in FY2018. The average cash credit utilization for the past six months stood at ~90 percent. Acuite believes that the working capital operations of Confidence group will continue to remain efficient on account of level of inventory to be maintained and the credit given to its customers.

Weaknesses

- **Exposure to risk inherent in tender-based business**

Confidence group manufactures LPG cylinders and does bottling of LPG for IOCL, BPCL, and HPCL, which account for almost ~45-50 per cent of its revenue. The group gets orders through tenders and operates in a highly fragmented industry, which limits its bargaining power, and may impact its profitability. However, the tenders include an escalation/ de-escalation clause on a monthly basis that restricts the risk to the extent of inventory carried by the group.

• **Competition from other gas players and sustainability of margins**

The group is exposed to regulatory risks associated with tariff rates and changes in government policies for fuel. The group faces intense competition from other gas filling companies and gas pipe line companies. With increase in usage of gas pipeline in urban area, the group faces intense competition from the same. Further, the group is exposed to sustainability of margins as the total raw material comprises of around 70 per cent of total sale. The prices of gas are volatile in nature and the group's ability to pass on the incremental prices to its customers will remain the key rating sensitivity factor.

Liquidity Position:

The group has very strong liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 96.60 crore for FY2019, while its maturing debt obligations were Rs. 1.83 crore for the same period. The cash accruals of the group are estimated to remain around Rs. 117 crore to Rs. 143 crore during FY2020-22 against repayment obligations of around Rs. 1.83 crore. The group's working capital operations are efficient marked by gross current asset (GCA) of 63 days for FY2019. The group maintains unencumbered cash and bank balances of Rs. 10.30 crore as on 31 March, 2019. The working capital limit of CPIL remains utilised at 90 per cent throughout the year. The current ratio stood healthy at 2.59 times as on 31 March, 2019. The company is likely to incur capex of Rs. 250 - 300 crore over the medium term; which is likely to be funded by issuance of warrants, preferential allotment and internal accruals. Acuite believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy cash accruals against debt repayments over the medium term.

Outlook: Stable

Acuite believes that Confidence Group will maintain a 'Stable' outlook over the medium term on the back of promoters' extensive experience in the industry and long-standing relationships with its customers. The outlook may be revised to 'Positive' in case the group registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the group registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1,005.01	608.30	496.90
EBITDA	Rs. Cr.	126.94	72.57	41.83
PAT	Rs. Cr.	66.80	26.81	5.44
EBITDA Margin	(%)	12.63	11.93	8.42
PAT Margin	(%)	6.65	4.41	1.10
ROCE	(%)	23.70	14.66	6.47
Total Debt/Tangible Net Worth	Times	0.19	0.32	0.59
PBDIT/Interest	Times	12.24	6.16	3.59
Total Debt/PBDIT	Times	0.57	1.16	2.62
Gross Current Assets (Days)	Days	63	99	110

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of instrument/ facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
March 05, 2019	Cash Credit	Long Term	9.50	ACUITE BBB/ Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB/ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	33.00	ACUITE BBB/ Stable (Reaffirmed)
	Term Loan	Long Term	0.89	ACUITE BBB/ Stable (Assigned)
	Letter of Credit	Short Term	21.20	ACUITE A3+ (Assigned)
February 18, 2019	Cash Credit	Long Term	9.50	ACUITE BBB/ Stable (Assigned)
	Cash Credit	Long Term	10.50	ACUITE BBB/ Stable (Assigned)
	Working Capital Term Loan	Long Term	10.00	ACUITE BBB/ Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.89	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB)

Letter of Credit	Not Applicable	Not Applicable	Not Applicable	21.20	ACUITE A2 (Upgraded from ACUITE A3+)
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About Acuité Ratings & Research:

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