



Press Release

Confidence Petroleum India Limited

October 29, 2020

Rating Reaffirmed, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 84.59 crore*
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Reaffirmed and Assigned)
Short Term Rating	ACUITE A2 (Reaffirmed and Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short-term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 82.69 crore bank facilities of Confidence Petroleum India Limited (CPIL). The outlook is '**Stable**'.

Further, Acuite has assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 1.90 crore bank facilities of CPIL. The outlook is '**Stable**'.

Also, Acuite has withdrawn the short-term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 21.20 crore bank facilities of CPIL.

Incorporated in 1994, as Devarsa Gas-Chem Private Limited, later renamed as Confidence Petroleum India Limited (hereinafter referred as CPIL) in 2008, is part of a business group, hereinafter, called as Confidence Group (hereinafter referred as CG), having a strong presence in the LPG sector. The company is promoted by Mr. Nitin Poonamchand Khara and is equity 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, 227 ALDS, 58 LPG bottling and blending plants pan India.

About the group

CG was promoted by Mr. Nitin Poonamchand Khara in 1993. The group has vertically integrated operations, wherein the cylinder manufacturing units assist in providing an in house infrastructure for its LPG Cylinder marketing (Go Gas), which is further supported by LPG Bottling & Blending units. Further, the LPG Bottling & Blending units also serve as a hub to store Auto LPG Dispensing Stations for logistical advantages, a rare combination amongst the industry players. 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 CPIL 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, Chhatisgarh Gaspoint Bottling Private Limited, Papusha Gaspoint Private Limited, Blueflame Petroleum Private Limited, Confidence Futuristic Energetek Limited, Taraa LPG Bottling Private Limited, PT Surya Go Gas Indonesia, Sneha Petroleum, North East Cylinders and Blue flame Industries Limited and SV Engineering Private Limited 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

• Established track record of operations and experienced management

Incorporated in the year 1994, 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 LPG bottling and blending plants and 227 ALDS stations at the 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.

Owing to its established track record of operations and management experience, the group has booked the revenue of Rs. 1,077.78 crore in FY2020 as compared to Rs. 1,005.01 crore in FY2019 and Rs. 608.30 crore in FY2018. Further, the group has booked a revenue of Rs. 92.83 crore for the quarter ended as on 30 June, 2020. CG's performance during Q1FY2021 has been affected due to prevailing COVID-19 as group's various segments like Auto LPG saw a reduction in sales caused by restricted movement of various means of public transport and LPG driven vehicles across the country. Further, packed LPG segment was hit due to a drop in commercial sales owing to closure or extremely limited operations of establishments/ industries. However, there was regular demand in domestic LPG which led to the recovery of fixed costs and generation of profits.

Acuité believes that with the Government of India announcing 'Unlock/ Mission Begin Again', performance is expected to improve in coming quarters on account of the revival of demand and CG will continue to benefit from its established track record of operations and experienced management.

• Established relationship with customers and suppliers

The group has established presence in the industry as CPIL has been able to build a 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. CG 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. CG is expected to continue to leverage its well-established relationships with reputed clients and suppliers.

• Healthy financial risk profile

The financial risk profile of the group is healthy marked by strong net worth, healthy gearing, above-average debt protection metrics and coverage indicators.

The net worth of CG is healthy, estimated at around Rs. 458.65 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy profitability.

CG has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.33 times and 0.78 times as on March 31, 2018, over the past three years. The leverage levels continue to remain healthy at 0.16

times as on March 31, 2020. The total debt of Rs. 72.33 crore as on 31 March 2020 comprised of long-term borrowings of Rs. 19.84 crores, unsecured loans of Rs. 16.40 crore and working capital borrowings of Rs. 36.09 crores.

Healthy profitability has led to above-average debt coverage indicators of the CG marked by debt-service-coverage-ratio of 8.58 times as on 31st March, 2020 as against 9.48 times as on 31st March, 2019 and interest coverage ratio of 11.39 times as on 31st March, 2020 as against 2.24 times as on 31st 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 the issuance of warrants, preferential allotment and internal accruals. Further, healthy net cash accruals have resulted in lower dependence on its working capital limits, resulting in average utilization of ~83 per cent over the last six months. Acuite believes that the financial risk profile of CG will continue to remain healthy on account of healthy profitability and net worth.

- **Efficient working capital management**

The group has efficient working capital operations marked by gross current assets (GCA) of 74 days in FY2020 as compared to 63 days in FY2019. This is on account of debtors' collection period of 26 days in FY2020 as against 21 days in FY2019 and inventory holding period of 28 days in FY2020 as against 32 days in FY2019. The average cash credit utilization for the past six months stood at ~83 per cent ended September, 2020. Acuite expects the operations of the CG to remain working capital efficient on account of the 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 ~25-30 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 pipeline companies. With an increase in usage of gas pipeline in the urban area, the group faces intense competition from the same. Further, the group is exposed to the 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.

Rating Sensitivity

- Significant deterioration in the scale of operations.
- Significant deterioration in its working capital management.
- Decline in profitability levels, thereby impacting firm's debt coverage indicators.

Material Covenants

None

Liquidity: Strong

The group has a strong liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 103.62 crore for FY2019, while its maturing debt obligations were Rs. 2.27 crore for the same period. The group's working capital operations are efficient marked by Gross Current Asset (GCA) of 74 days for FY2020. The group maintains unencumbered cash and bank balances of Rs. 10.39 crore as on 31 March, 2020. The working capital limit of CPIL remains utilised at ~83 per cent in

the last six months till September 2020. The company is likely to incur capex of Rs. 250 - 300 crore over the medium term which is likely to be funded by the 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 the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	1,077.78	1,005.01
PAT	Rs. Cr.	52.41	66.80
PAT Margin	(%)	4.86	6.65
Total Debt/Tangible Net Worth	Times	0.16	0.19
PBDIT/Interest	Times	11.39	12.24

Status of non-cooperation with other CRA

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Consolidation Criteria - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
August 10, 2019	Cash Credit	Long term	9.50	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long term	20.00	ACUITE BBB+/ Stable (Upgraded)
	Working Capital Term Loan	Long term	33.00	ACUITE BBB+/ Stable (Upgraded)

	Term Loan	Long term	0.89	ACUITE BBB+/ Stable (Upgraded)
	Letter of Credit	Short term	21.20	ACUITE A2 (Upgraded)
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 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+/ Stable (Reaffirmed)
Working capital term loan	March, 2018	9.75% p.a.	March, 2022	12.26	ACUITE BBB+/ Stable (Reaffirmed)
Term Loan*	Not Available	9.35% p.a.	Not Available	2.00	ACUITE BBB+/ Stable (Reaffirmed)
Working Capital Term Loan	June 01, 2020	7.50% p.a.	May 31, 2025	1.90	ACUITE BBB+/ Stable (Assigned)
Proposed Fund based facilities	Not Applicable	Not Applicable	Not Applicable	28.75	ACUITE BBB+/ Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	21.20	ACUITE A2 (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.18	ACUITE A2 (Reaffirmed)

* In the nature of Overdraft. No repayments due in next 12 years.

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About Acuite Ratings & Research:

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