



Press Release

Confidence Petroleum India Limited

April 19, 2021

Rating Upgraded, Assigned and Outlook revised

Total Bank Facilities Rated*	Rs. 84.59 Cr*
Long Term Rating	ACUITE A-/ Outlook: Positive (Upgraded from ACUITE BBB+/ Stable and outlook revised from Stable)
Short Term Rating	ACUITE A2+ (Upgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short-term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 73.39 Cr bank facilities of Confidence Petroleum India Limited (CPIL). The outlook is revised to '**Positive**' from '**Stable**'.

Further, Acuite has assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 11.20 Cr bank facilities of CPIL. The outlook is '**Positive**'.

Rationale for rating upgrade and revision in outlook

The rating upgrade reflects a visible recovery in operations in Q3FY2021 after subdued performance during H12021 due to Covid-19 pandemic, healthy consolidated profitability levels resulting in strong debt coverage indicators, strong capital structure of the group, comfortable liquidity profile and demonstrated support by promoters through regular infusion of funds resulting in healthy net worth.

The rating outlook for CPIL has been revised to 'Positive' primarily on account of the improved business prospects in the CNG distribution and cylinder manufacturing segments. CPIL has recently added CNG retailing as a new line of business and also has plans to enter into CNG cylinder manufacturing.

Such business plans, nevertheless, would require a capital expenditure of around Rs. 350 Cr to be spread across next three years, majority of which would be funded through internal accruals and funding from promoters. In Q4FY2021, the promoters have converted 1.02 Cr share warrants into equity shares at premium of Rs. 51/- per share, thereby resulting in an infusion of Rs. 52.92 Cr which would be used to fund the capital expenditure programme. Acuite believes that the financial risk profile of the Confidence group will remain healthy over the medium term despite the significant expansion plans.

About the company

Incorporated in 1994, CPIL is part of a Maharashtra based business group referred to as Confidence Group promoted by Mr. Nifin Poonamchand Khara. The company is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). Confidence Group is vertically integrated with four business verticals viz. LPG cylinder manufacturing, packed LPG business, LPG bottling & assistance and Auto LPG Dispensing Stations (ALDS).

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 under the brand name 'Gaspoint' catering to the industrial and commercial requirements of

their own and offers job work to the companies such as Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL), Indian Oil Corporation Limited (IOCL) and Reliance group, to name a few. At present, the company has 16 cylinder manufacturing units, 209 ALDS and 58 LPG bottling plants pan India. The group also has a cylinder manufacturing plant in Indonesia along with two LPG Bottling Plants providing bottling assistance to Indonesian Government Oil Company- 'Pertamina'.

Besides above, the group have business of DPT (Denting, Painting & Testing) wherein after every five years, each cylinder has to be tested for usability. The group has its own fleet of ~200 mini trucks and tankers of 21 MT. Moreover, the group has wide spread network of 2000+ dealers & distributors across India spreading in over 22 states.

In H2FY2021, CPIL has entered into agreements to set up CNG Mobile Refueling Units (MRUs) with Maharashtra Natural Gas Limited (MNGL), Avantika Gas Limited (AGL) and Central U.P. Gas Limited (CUGL). CPIL has also entered into an agreement with GAIL Gas Limited to set up 100 CNG stations in the city of Bengaluru. Confidence group also have plans to introduce CNG cylinder manufacturing business for which an agreement to take over a running CNG cylinder manufacturing unit at Dahej, Gujarat is under execution and is expected to be completed shortly. Moreover, the group is planning to set up a new plant for CNG cylinder manufacturing near Nagpur with a proposed capacity of 3.60 lakhs cylinders per annum in FY2022.

Analytical Approach

Acuite has considered the consolidated view of business and financial risk profiles of CPIL with its subsidiaries* to arrive at this rating. Extent of consolidation: Full.

**Refer annexure 2 for list of entities considered for consolidation.*

Key Rating Drivers

Strengths

- **Established presence in the industry with considerable experience of promoters**

CPIL is the flagship company of the group promoted by Mr. Nitin Khara along with his brothers Mr. Nalin Khara and Mr. Elesh Khara, who possess more than two decades in the aforementioned line of business. The operations of the group are spread across the country with a total of 16 cylinder manufacturing units, 58 LPG bottling and blending plants and 209 ALDS stations. The promoters have over three decades of experience in the aforementioned industries.

Confidence group has chartered substantial growth as evident from the revenue of Rs. 1,077.78 Cr in FY2020 as compared to Rs. 1,005.01 Cr in FY2019 and Rs. 608.30 Cr in FY2018, resulting in a five-year CAGR of 32.02 per cent. Confidence Group's performance in Q3FY2021 witnessed return to normalcy and has achieved its pre-covid levels after being hit severely by covid-19 pandemic during H1FY2021. This led to a revenue of Rs. 527.48 Cr during 9MFY2021. Improvement in profitability has also been recorded during the same period.

Owing to its established track record of operations and management experience, the group has been able to build reputed client profile spanning both private as well as government companies in the energy and oil industry, viz. IOCL, BPCL and HPCL among others. The group also has well-established relationships with suppliers such as Steel Authority of India (SAIL), Essar group, etc.

Acuite believes that Confidence Group will continue to leverage its healthy relationships with customers and suppliers, operational track record and management expertise to further grow its presence in the industry.

- **Improved business prospects with plans to extend operations to CNG segment**

Confidence group's business profile has burgeoned during H2FY2021 marked by its entry into CNG retailing segment. CPIL has signed agreements to set up CNG MRUs with MNGL, AGL and CUGL with an objective

to increase the reach of CNG to various parts of the country. CPIL has also entered into an agreement with GAIL Gas Limited to set up 100 CNG stations on built and operate basis in Bengaluru over the next three years. Further, the group has plans to enter into CNG cylinder manufacturing business wherein CPIL is in process of executing an agreement to take over a running CNG cylinder manufacturing unit at Dahej, Gujarat. Moreover, the group is planning to set up a new plant for CNG cylinder manufacturing near Nagpur with a proposed capacity of 3.60 lakhs cylinders per annum proposed to commence its operations in FY2022 itself.

The aforementioned developments are expected to result in substantial growth in the operations over the medium term, with agreements already in place. The expected pay-back period would be around 2-2.5 years. Setting up of infrastructure for providing services as per plan would require a capital expenditure of around Rs. 350 Cr to be spread across next three financial years to be funded through internal accruals, funding from promoters and borrowings from banks & financial institutions. With an aim to raise funds for planned capital expenditure, the promoters have converted share warrants into equity shares in Q4FY2021. Importantly, the capital expenditure is planned to be incurred in a phased manner, therefore, the group will be able to accrue benefits and generate cash accruals from the same in a phase wise manner.

Acuite believes that the timely execution of the projects and further tie-ups to expand its business activities would remain a key monitorable.

- **Strong financial risk profile**

The financial risk profile of Confidence Group is strong marked by strong net worth, healthy leverage levels and debt protection metrics.

The net worth of the group stood healthy at Rs. 458.65 Cr 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 and persistent infusion of funds by promoters.

The group 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 have improved to 0.16 times as on March 31, 2020. The gearing levels are expected to further improve as on March 31, 2021 in view of conversion of share warrants into equity shares in the month of March 2021. The total debt of Rs. 72.33 Cr as on 31 March 2020 comprised of long-term borrowings of Rs. 19.84 Crs, unsecured loans of Rs. 16.40 Cr and working capital borrowings of Rs. 36.09 Crs.

Healthy profitability has led to healthy debt coverage indicators of the group marked by debt-service-coverage-ratio and interest coverage ratio of 8.58 times and 11.39 times, respectively as on 31st March, 2020. The company is likely to incur capex of Rs. 350-400 Cr (including regular capex) over the medium term which is likely to be funded by primarily through issuance of warrants, preferential allotment and internal accruals. Though part of the proposed capex would be funded through external borrowings from banks/FIs, Acuite believes the overall financial risk profile is expected to remain strong over the medium term.

- **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 main raw material required for production of LPG Cylinders is LPG grade HR Coil that accounts for 70-80% of the total cost. The coil is procured locally on advance payment basis from reputed players such as SAIL, TATA, ESSAR Steels and JSW Steels Limited, to name a few. On the flip side, as per standard terms of tender, payment is received within 15 days of submission of bills to PSU Oil Companies, however it takes around 40 to 45 days from actual dispatch to receive funds.

Healthy cash accruals support incremental working capital operations to a significant extent, thereby resulting in lower reliance on borrowed funds. CPIL is availing limited working capital borrowings with an average utilization of ~83 per cent for the last six months through March 2021.

Acuité expects the operations of the group to remain working capital 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 is also engaged in the bottling of LPG for PSU Oil majors, which accounts 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.

• Presence in highly regulated industry 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 increased usage of gas pipeline in urban area. In addition to this, the group has to sell the cylinders only through permitted dealers with adequate/required/licensed infrastructure due to explosive/ PESCO norms. This risk is to an extent mitigated on account of established network of 2000+ dealers across the country. Further, the group is exposed to sustainability of margins as the total raw material cost forms ~70 per cent of total sale value. 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

- Adherence of the timelines proposed for capital expenditure
- Significant deterioration in its working capital management
- Decline in profitability levels, thereby impacting group's debt coverage indicators

Material Covenants

None

Liquidity: Strong

The group has strong liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 103.62 Cr during FY2020, while its maturing debt obligations were modest at Rs. 2.27 Cr for the same period. CPIL has requested foreclosure of one of its loan account by pre-paying the debt. The group's working capital operations are efficient marked by GCA of 74 days for FY2020 leading to lower dependence on working capital borrowings and the limits remained utilized at ~83 per cent during the last six months till September 2020. The group is likely to incur capex of Rs. 350 - 400 Cr over the medium term which is likely to be funded majorly by issuance of warrants, preferential allotment and internal accruals. The debt to be raised for partial funding of capex would not lead to significant moderation of financial risk profile and is not likely to impact the liquidity. Furthermore, the simultaneous revenue generation from the units commissioned (as the capex would be in a phased manner) would support the cash flows of the company. Acuité believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy cash accruals owing to healthy profitability and expected improvement in scale of operations over the medium term.

Outlook: Positive

Acuite has revised the outlook of Confidence Group from Stable to Positive. This revision is on account of expected improvement in the operational performance as a result of healthy demand in the existing segments coupled with improved business opportunities with its entry in CNG domain. The rating may be upgraded if the company registers expected or higher-than-expected growth in revenues and profitability over the medium term. Conversely, the outlook may be revised to 'Stable' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in 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
October 29, 2020	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	12.26	ACUITE BBB+/ Stable (Reaffirmed)
	Term Loan	Long term	2.00	ACUITE BBB+/ Stable (Reaffirmed)

	Working Capital Term Loan	Long term	1.90	ACUITE BBB+/ Stable (Assigned)
	Proposed fund based facilities	Long term	28.75	ACUITE BBB+/ Stable (Reaffirmed)
	Letter of Credit	Short term	21.20	ACUITE A2 (Withdrawn)
	Bank Guarantee	Short term	10.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short term	0.18	ACUITE A2 (Reaffirmed)
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 1 – 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 A-/ Positive (Upgraded & outlook revised)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-/ Positive (Upgraded & outlook revised)

Working capital term loan	March 2018	9.75% p.a.	March 2022	2.44	ACUITE A-/ Positive (Upgraded & outlook revised)
Term Loan*	Not Applicable	9.35% p.a.	Not Applicable	2.00	ACUITE A-/ Positive (Upgraded & outlook revised)
Working Capital Term Loan	June 2020	7.50% p.a.	May 2025	1.90	ACUITE A-/ Positive (Upgraded & outlook revised)
Proposed Fund based facilities	Not Applicable	Not Applicable	Not Applicable	27.37	ACUITE A-/ Positive (Upgraded & outlook revised)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	11.20	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.18	ACUITE A2+ (Upgraded)

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

***Annexure 2 – List of subsidiaries that have been considered for consolidation**

S. No.	Name of Company/ Firm	Relationship
1	Confidence Go Gas Limited	Subsidiary
2	Gaspoint Bottling Private Limited	Subsidiary
3	Unity Cylinders Private Limited	Subsidiary
4	Confidence Technologies Private Limited	Subsidiary
5	Agwan Coach Private Limited	Subsidiary
6	Keppy Infrastructure Developers Private Limited	Subsidiary
7	Hemkunt Petroleum Limited	Subsidiary
8	Nine Infra Projects Private Limited	Subsidiary
9	Chhattisgarh Gaspoint Bottling Private Limited	Subsidiary
10	Papusha Gaspoint Private Limited	Subsidiary
11	Blueflame Petroleum Private Limited	Subsidiary
12	Confidence Futuristic Energetek Limited	Subsidiary
13	Taraa LPG Bottling Private Limited	Subsidiary
14	PT Surya Go Gas Indonesia	Subsidiary
15	Sneha Petroleum (acquired in FY2019-20)	Subsidiary
16	North East Cylinders (acquired in FY2019-20)	Subsidiary
17	Blue flame Industries Limited (acquired in FY2019-20)	Subsidiary
18	SV Engineering Private Limited (acquired in FY2019-20)	Subsidiary

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Charu Mahajan Rating Analyst - Rating Operations Tel: 011-49731313 charu.mahajan@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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