

## Press Release

Sarju Impex Limited

December 01, 2021



### Rating Assigned

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
<b>Bank Loan Ratings</b>	43.00	43.00	ACUITE A-   Positive   Assigned	
<b>Total</b>	-	43.00	-	-

### Rating Rationale

Acuite has assigned a long term rating of '**ACUITE**' **A-** (read as **ACUITE A minus**) to the Rs. 43 crore of bank facilities to Sarju Impex Limited (SIL). The outlook is '**Positive**'

### Rationale for Rating Assigned

The rating assigned takes into account considerable experience of the management, established track record of operations and efficient working capital management. The rating also takes comfort from Confidence Group's (CG - defined below) foray into CNG segment thus further diversifying its revenue profile. However, the projects undertaken in the CNG segment are at a nascent stage of completion and timely conclusion of projects and stabilization of operations will continue to remain a key rating sensitivity.

### About the Company

SIL is a private company incorporated in 2008. It is a manufacturer of CNG Cylinders in India, and now, is a 75 percent subsidiary of Confidence Futuristic Energetic Limited which in turn is a subsidiary of the flagship company Confidence Petroleum India Limited (CPIL) of the Confidence Group. The company was acquired by Confidence group in Q1FY22. CPIL is a supplier of Auto LPG & LPG business in India with its network of bottling plants and ALDS Stations across India, and now aims to diversify into CNG segment through SIL. The proposed manufacturing unit would be setup in Dahej, Gujarat.

### About the Group

SIL forms a part of flagship company, Confidence Petroleum India Limited (CPIL) of the Confidence group. Maharashtra based business group referred to as Confidence Group is promoted by Mr. Nitin Poonamchand Khara. The group has two of its companies, viz; Confidence Petroleum (I) Limited (CPIL) & Confidence Futuristic Energetic Limited 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). Most of the business concentration comes under CPIL which 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 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 has 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. The company is also in the process of getting into CNG segment business, and in H2FY2021, through 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 has also planned an expansion into CNG cylinder manufacturing business and has taken over a running CNG cylinder manufacturing unit (Sarju Impex Limited) at Dahej, Gujarat. Moreover, the group is also in the process to set up a new plant through its another subsidiary entity, Confidence Enterprises Limited for high pressure CNG cylinder manufacturing near Nagpur with a proposed capacity of 5.40 lakhs cylinders per annum and plans to execute the same by end of FY2022.

### **Analytical Approach**

Acuité has considered the consolidated view of business and financial risk profiles of CPIL with its subsidiaries to arrive at this rating together referred to as Confidence Group (CG). List of subsidiaries consolidated has been added below, separately in the Annexures-2. Extent of Consolidation: Full Consolidation

### **Key Rating Drivers**

#### **Strengths**

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

Confidence group is 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. Confidence group has recorded a revenue of Rs. 863.11 Cr in FY2021 as compared to Rs. 1,077.78 Cr in FY2020 and Rs. 1005.01 Cr in FY2019, with a five-year CAGR of 15 per cent. Confidence Group's performance in Q2FY2022 witnessed return to normalcy and has crossed its pre-covid levels after being hit severely by covid-19 pandemic during FY2021. This led to a revenue of Rs. 650 Cr during Q2FY2022. The sharp rise in the revenue is on account of sell of Oxygen cylinders during second wave of Covid. The unit will now be utilised for further planned expansion of the high pressure CNG cylinder manufacturing. 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.

Acuité 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 is expected to diversify, with its entry into CNG retailing segment through its subsidiaries, viz; Sarju Impex Limited & Confidence Enterprises Limited. Further, 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 has executed an agreement & took 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 production capacity of 5.40 lacs cylinders per annum, proposed to commence its operations in

FY2022. The aforementioned developments are expected to result in substantial growth in the operations over the medium term, with agreements already in place. With an aim to raise funds for planned capital expenditure, the promoters have converted share warrants into equity shares raising an equity of around Rs 50 Cr. in Q4FY2021. Also, another listed group entity of CPIL; Confidence Futuristic is in the process of additional issue of equity which is

expected to raise around Rs100 Cr which would be used in the capital expenditure of the CNG units.

Acuité believes that the timely execution of the projects and further tie-ups to expand its business activities would remain key monitor-able

### **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. 523.72 Cr as on March 31, 2021. The net worth levels have seen significant improvement over the last three years through FY2019 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 0.45 times and 0.52 times as on March 31, 2021, over the past two years. The leverage levels have been unaffected to 0.17 times as on March 31, 2021. Healthy profitability has led to healthy debt coverage indicators of the group marked by an improved debt-service coverage-ratio and interest coverage ratio of 10.10 times and 10.92 times, respectively as on 31st March, 2021. Going forward, as the company expands its CNG segment it plans to invest money to the tune of Rs. 350 Cr. over the next two-three years. This will be largely funded by debt of ~Rs. 250 Cr. and rest through equity. This is towards its CNG projects in Confidence Enterprises Limited & Sarju Impex Limited

Acuité believes the overall financial risk profile is expected to remain strong despite substantial debt funded capex over the medium term.

### **Efficient working capital management**

The group has efficient working capital operations marked by gross current assets (GCA) of 89 days in FY2021 as compared to 74 days in FY2020. This is on account of debtors' collection period of 28 days in FY2021 as against 26 days in FY2020 and inventory holding period of 38 days in FY2021 as against 28 days in FY2020. 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 ~90 per cent for the last six months as at September 2021.

Acuité expects the operations of the group to remain working capital efficient on account of level of inventory that is 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/ PESO 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 Gases are decided by PSUs & being volatile in nature may affect group's ability to pass on the incremental prices to its customers.

### Liquidity Position: 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. 101.26 Cr during FY2021, while its maturing debt obligations were modest at Rs. 5 Cr for the same period. CPIL has exercised a foreclosure of one of its loan account by prepaying the debt. The group's working capital operations are efficient marked by GCA of 89 days for FY2021 leading to moderate dependence on working capital borrowings and the limits remained utilized at ~90 per cent during the last six months till September 2021. The group will incur a capex of Rs. 350 Cr over the medium term which is likely to be funded by issuance of warrants, preferential allotment and internal accruals. The debt to be raised for partial funding of capex would not lead to significant changes in the 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.

### Rating Sensitivities

- Completion of ongoing capex plans without significant time and cost overruns
- Significant deterioration in its working capital management

### Material covenants

None

### Outlook: Positive

Acuité expects the outlook of Confidence Group to maintain a Positive Outlook on account of its stable operating performance and its foray into the CNG business. The rating may be upgraded if the company is able to successfully complete the ongoing debt-funded expansion projects with significant time and cost overruns leading to improvement in scale of operations. Conversely, the outlook may be revised to 'Stable' in case there are any significant delays in completion of their ongoing projects and 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.

### Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	863.10	1077.78
PAT	Rs. Cr.	49.07	52.41
PAT Margin	(%)	5.69	4.86
Total Debt/Tangible Net Worth	Times	0.17	0.16
PBDIT/Interest	Times	14.61	11.39

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

Not Available

### Any other information

None

### Applicable Criteria

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

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.00	40.00	ACUITE A-   Positive   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.00	3.00	ACUITE A-   Positive   Assigned

### Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

Sr. No.	Particulars	Relationship	Listing Status
1	Confidence Petroleum India Limited	Parent Company	Listed
2	Confidence Go Gas Limited	Subsidiary	Unlisted
3	Gaspoint Bottling Private Limited	Subsidiary	Unlisted
4	Unity Cylinders Private Limited	Subsidiary	Unlisted
5	Confidence Technologies Private Limited	Subsidiary	Unlisted
6	Agwan Coach Private Limited	Subsidiary	Unlisted
7	Keppy Infrastructure Developers Private Limited	Subsidiary	Unlisted
8	Hemkunt Petroleum Limited	Subsidiary	Unlisted
9	Nine Infra Projects Private Limited	Subsidiary	Unlisted
10	Chhattisgarh Gaspoint Bottling Private Limited	Subsidiary	Unlisted
11	Papusha Gaspoint Private Limited	Subsidiary	Unlisted
12	Blueflame Petroleum Private Limited	Subsidiary	Unlisted
13	Confidence Futuristic Energetech Limited	Subsidiary	Listed
14	Taraa LPG Bottling Private Limited	Subsidiary	Unlisted
15	PT Surya Go Gas Indonesia	Subsidiary	Unlisted
16	Sneha Petroleum (acquired in FY2019-20)	Subsidiary	Unlisted

17	North East Cylinders (acquired in FY2019-20)	Subsidiary	Unlisted
18	Blue flame Industries Limited (acquired in FY2019-20)	Subsidiary	Unlisted
19	SV Engineering Private Limited (acquired in FY2019-20)	Subsidiary	Unlisted
20	Confidence Enterprise Ltd (Confidence Futuristic)	Step Down Subsidiary	Unlisted
21	Sarju Impex Ltd (Confidence Futuristic) (Acquired in FY2021-22)	Step Down Subsidiary	Unlisted

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### About Acuité Ratings & Research

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