

Press Release

Sarju Impex Limited

January 17, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	43.00	ACUITE A- Positive Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	43.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for the rating

The rating reaffirmation takes into account considerable experience of the management, established track record of operations, augmentation in scale of operations and efficient working capital management. Further, the rating considers Confidence Group's (CG - defined below) healthy net worth, strong debt protection metrics and liquidity profile. The rating also takes comfort from CG's foray into CNG segment thus further diversifying its revenue profile. The group has successfully commissioned over 11 CNG stations in Bengaluru out of 100 CNG stations to be set up over the next two years. However, the rating remains constrained on account of exposure to tender-based business and large funding requirements for the import of LPG. Also, during September 2022 the promoters have pledged around 18 percent of the total shareholding in order to avail temporary funding for LPG procurement from international markets. However, as on January 2022 only 10 percent of the total shareholding remains pledged, while the balance shares have been released. Further, 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 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 FY2022. 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 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). 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 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 during FY2021, 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 has executed the same in FY2022.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated view of business and financial risk profiles of SIL 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.

Key Rating Drivers

Strengths

Established presence in the industry with considerable experience of promoters

CG 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. CG has recorded a significant increase in revenue which stood at Rs. 1427.69 Cr in FY2022 against Rs. 863.11 Cr in FY2021 and Rs. 1,077.78 Cr in FY2020. The increase is attributable to increase in the LPG prices. 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 CG 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.

Strong financial risk profile

The financial risk profile of CG is strong marked by strong net worth, healthy leverage levels and debt protection metrics. The net worth of the group stood healthy at Rs.667.54 Cr as on March 31, 2022 as against Rs.523.72 Cr as on March 31, 2021. 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 promoters have infused equity to the tune of ~Rs.120 Cr. by a way of issue of 1,05,00,000 equity shares of Rs. 10 each at a premium of around Rs.116 per share under its group company Confidence Futuristic Energetech Limited (CFEL). Further, the group has followed a conservative financial policy in the past, which is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.14 times and 0.45 times as on March 31, 2022. 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 20.95 times and 11.46 times in FY2022 against 14.61 times and 10.10 times in FY2021. 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. CG has already received a sanction of around Rs. 100 Cr. (Rs. 50 Cr from Axis Bank & Rs. 50 Cr. from SBI) debt towards its CNG expansion project and as on Nov 2022 the group has incurred a capex of around Rs. 118 Cr. towards the CNG station set up & CNG manufacturing projects. Acuité believes the overall financial risk profile is expected to remain strong given the healthy accruals 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 72 days in FY2022 as compared to 89 days in FY2021. The improvement is attributable to efficient debtors' collection period of 17 days in FY2022 as against 28 days in FY2021. Further, the inventory holding period stood at 33 days in FY2022 as against 38 days in FY2021. The healthy cash accruals generated by the group also 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 ~65 per cent for the last seven months as at November 2022.

Acuité expects the operations of the group to remain working capital efficient on account of limited inventory levels and efficient trade collections.

Weaknesses

Exposure to risk inherent in tender-based business CG 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 with volatile 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 volatility 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. The EBITDA margins for last three years remain volatile although at healthy levels which stood at 13.03 percent in FY2022 against 14.02 percent in FY2021 & 11.75 percent in FY2020 respectively.

Rating Sensitivities

- Completion of ongoing capex plans without significant time and cost overruns.
- Sustaining margins along with improved scale of operations YoY
- Significant deterioration in its working capital management

Material Covenants

None

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. 154.60 Cr during FY2022, while its maturing debt obligations were modest at Rs. 5 Cr for the same period. Further, the group's working capital operations are efficient marked by GCA of 72 days for FY2022 leading to moderate dependence on working capital borrowings reflected by moderately utilized limits

at ~65 per cent during the last seven months ended November 2022. The group plans to incur a capex of Rs. 350 Cr over the medium term out of which around Rs. 200 Cr. will be funded by bank loans, and balance through issuance of warrants, preferential allotment and internal accruals. CG has already incurred a capex to the tune of Rs. 118 Cr towards its CNG projects as on 30th November 2022. 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 future 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.

Outlook: Positive

Acuité expects the outlook of CG to maintain a 'Positive' Outlook on account of the stable operating performance of its LPG segment 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 without significant time and cost overruns leading to further 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1427.69	863.10
PAT	Rs. Cr.	87.84	49.07
PAT Margin	(%)	6.15	5.69
Total Debt/Tangible Net Worth	Times	0.14	0.17
PBDIT/Interest	Times	20.95	14.61

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

None

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Dec 2021	Proposed Bank Facility	Long Term	3.00	ACUITE A- Positive (Assigned)
	Cash Credit	Long Term	40.00	ACUITE A- Positive (Assigned)

Annexure - Details of instruments rated

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

*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	Uma Gaspoint Bottling Private Limited	Subsidiary	Unlisted
21	Confidence Enterprise Ltd (Confidence Futuristic)	Stepdown Subsidiary	Unlisted
22	Sarju Impex Ltd (Confidence Futuristic) (Acquired in FY2021-22)	Stepdown Subsidiary	Unlisted

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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