

Sarthak Industries Limited

December 21, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable / A Four) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4 (A Four) and Withdrawn
Total Bank Facilities	0.00 (Rs. Only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers:

CARE has reviewed the rating assigned to the bank facilities of Sarthak Industries Limited (SIL) to 'CARE BB; Stable/ CARE A4' and has simultaneously withdrawn it, with immediate effect. The above action has been taken at the request of SIL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The ratings assigned to the bank facilities of SIL continues to remain constrained on account of its growing albeit modest scale of operations with thin profitability margins. The ratings are further constrained on account of customer concentration risk in LPG cylinder business and susceptibility of profitability to volatile raw material prices.

The ratings, however, continue to derive strength from SIL's established operations in LPG cylinders business, its reputed clientele, low leverage and moderate debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Weaknesses

Growing albeit modest scale of operations with thin and fluctuating profitability

During FY21, SIL's scale of operations grew albeit remained modest at Rs.135.07 crore (PY - Rs.96.84 crore). Further with better demand in LPG cylinder segment, during H1FY22, TOI continue to grow to Rs.86.55 Crores (H1FY21 - Rs.59.33 crore).

However, due to the sizeable share (~84% in FY21) of agro-commodity trading in SIL's overall revenue mix, its profitability remained thin. With better pricing profitability was improved by 129 bps on Y-o-Y basis and remained at 3.17% [PY: 1.88%] in FY21. However, with increase in input and transportation cost during H1FY22, profitability was impacted and remained at 2.28%.

Customer concentration risk

The customer profile of SIL in its LPG cylinder business has remained concentrated, as only OMCs have a large requirement of these cylinders on a sustained basis and their procurement is also tender-based. Also, as a management policy, the company has not diversified into other types of cylinders (higher capacity LPG, other gases like propane, oxygen and nitrogen). This limits the avenues available to the company to diversify its revenue base and better utilize its manufacturing capacities.

Susceptibility of profitability to volatile raw material prices

In its LPG cylinder segment, hot rolled steel forms major raw material, which SIL procures from large suppliers limiting its bargaining power. Although tenders have escalation clause, its ability to pass on any adverse price movement to its customers is limited.

SIL's profitability is exposed to adverse movement in the prices of its traded agro-commodities. The prices are inherently volatile due to their linkage to agro-climatic conditions and are also affected by various interventions by the government in the form of minimum support price (MSP), import and export duties and restrictions. While there are mechanisms available through commodity exchange to hedge the exposure to a particular commodity, SIL generally does not avail these measures, exposing its profitability to above mentioned risks.

Key Rating Strengths

Long standing track record of operations with reputed clientele in LPG cylinder manufacturing business

SIL is engaged in manufacturing of industrial and household LPG cylinders, primarily used for domestic supply of LPG. Over the years, it also has established relationship with reputed clientele consisting of oil marketing companies (OMCs) engaged in supply and distribution of LPG in the country. SIL supplies cylinders to all the three major domestic OMCs, i.e., Indian Oil Corporation, Hindustan Petroleum Corporation Ltd. and Bharat Petroleum Corporation Ltd.

Low leverage and moderate debt coverage indicators

SIL's overall gearing had remained largely in line at 0.43x as on March 31, 2021 as compared to 0.40x as on March 31, 2020. With improvement in profitability interest coverage had improved from 1.53x in FY20 to 4.65x in FY21. However, its TD/GCA moderated from 4.27x in FY20 to 5.85x in FY21 primarily on account of higher outstanding acceptances at year end.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Liquidity – Stretched

SIL's liquidity continue to remained stretched primarily on account of its thin cash accrual generation and elongated working capital cycle. Further, SIL has no sanctioned line of credit, making it dependent on its promoters and group entities to meet any fund requirement in case of exigencies. With moderation in profitability, GCA of SIL had declined from Rs.3.22 Crores in FY20 to Rs.2.75 crores in FY21. SIL's operating cycle remained at 25 days in FY21. As on March 31, 2021, current ratio of company remained at 1.55x with free cash and bank balance of Rs.0.86 crore. During FY21, SIL had reported healthy cashflow from operation of Rs.8.04 crore.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Financial Ratios - Non-Financial Sector](#)

[CARE's Rating Methodology - Wholesale Trading](#)

[Rating Methodology-Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

Promoted by Shakra family, Sarthak Industries Limited (CIN: L99999MH1982PLC136834) is engaged in manufacturing of industrial and household liquefied petroleum gas (LPG) cylinders and trading of agro-commodities like vanaspati ghee, wheat, chana, Masoor etc. As on September 30, 2020, SIL had a licensed capacity of manufacturing 6 lakh pieces of LPG cylinders per annum. The manufacturing plant is located at the industrial area of Pithampur, Indore.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22(UA)
Total operating income	96.84	135.07	86.55
PBILDT	1.82	4.28	2.41
PAT	2.71	2.09	1.14
Overall gearing (times)	0.40	0.43	0.41
Interest coverage (times)	2.49	4.64	4.04

A: Audited; UA: Un-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Letter of credit	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-Bank Guarantees	LT/ ST*	-	-	-	1)CARE BB; Stable / CARE A4 (03-Dec-20)	1)CARE BB; Stable / CARE A4 (03-Oct-19)	1)CARE BB+; Stable / CARE A4+ (21-Jan-19)
2	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A4 (03-Dec-20)	1)CARE A4 (03-Oct-19)	1)CARE A4+ (21-Jan-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr No	Name of instrument	Complexity level
1.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
2.	Non-fund-based - ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings:

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