

## Sarthak Industries Limited

December 03, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	1.00	CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable / A Four)	Reaffirmed
Short Term Bank Facilities	24.00	CARE A4 (A Four)	Reaffirmed
<b>Total Facilities</b>	<b>25.00</b> <b>(Rs. Twenty-Five Crore Only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sarthak Industries Limited (SIL) continue to remain constrained on account of modest scale of operations with thin profitability due to high proportion of volatile trading sales, customer concentration risk in liquefied petroleum gas (LPG) cylinder manufacturing business, susceptibility of profitability due to volatility in raw material prices and stretched liquidity. The ratings also factors in increase in cash accruals in FY20 (FY refers to the period from April 1 to March 31) with sale of non-core assets even though operating profitability had declined with subdued performance of its LPG cylinder manufacturing business.

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

### Rating sensitivities

#### Positive Factors

- Volume driven growth in scale of operations both from trading and manufacturing segment marked by TOI of more than Rs.150 crore
- Improvement in operating profitability (PBILDT margin) beyond 4% on a sustained basis

#### Negative Factor

- Decline in scale of operation with TOI falling below Rs.75 crore
- Any sizeable decline in profitability marked by PBILDT margin below 1.5% on sustained basis
- Deterioration in capital structure marked by overall gearing above 1 time

### Detailed description of the key rating drivers

#### Key Rating Weakness

**Modest scale of operations with thin and fluctuating profitability due to high proportion of trading sales:** SIL has exhibited a declining trend in TOI in last three years. SIL reported a 15% y-o-y dip in total operating income (TOI) from Rs.113.39 crore in FY19 to Rs. 96.84 crore in FY20 which continue to remain at modest level. The dip in TOI was primarily due to decline in revenue from LPG cylinder manufacturing segment from Rs.30.44 crore in FY19 to Rs.12.71 crore in FY20, while trading segment remained largely stable (FY20: Rs.83.34 crore, FY19: Rs.81.53 crore).

Due to the sizeable share of low margin agro-commodity trading in SIL's overall revenue mix, its profitability remained thin. SIL's PBILDT margin had declined substantially from 3.52% in FY19 to 1.88% in FY20 primarily on account of subdued performance of its LPG cylinder manufacturing business and forex loss of Rs.1.49 crore. Further, during FY20 SIL sold a part of its real estate holding (land as well as building property) at a book profit of Rs.4.53 crore and had reported extraordinary expense of Rs.1.08 crore pertaining to old sales tax demand in appeal, settled by the company under amnesty which led to increase in PAT levels despite lower PBILDT.

#### Performance in H1FY21 (UA) and impact of COVID19 on business:

SIL had shut all the manufacturing operation during last week of March 2020 and April, 2020 on account of nationwide lockdown due to COVID19. However, post resumption of operations and gradual ramp up of demand and increase in agro-commodity trading business, SIL had reported a TOI of Rs. 59.33 crore in H1FY21 as compared to Rs.51.09 crore in H1FY20. Further, PBILDT margin improved from 3.08% in H1FY20 to 4.10% in H1FY21.

SIL had not availed any moratorium option on term loan repayment as permitted by RBI as a COVID relief measure and had also not requested for any extension on LC payments due during H1FY21.

**Customer concentration risk in LPG cylinder business:** 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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

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.

**Liquidity - Stretched:** SIL's liquidity remained stretched on account of its thin cash accrual generation and elongated working capital cycle. SIL's operating cycle was elongated to 34 days in FY20 from 7 days in FY19 as collection period elongated from 57 days in FY19 to 78 days in FY20, primarily driven by averaging effect of ratio considering declined scale of operations. However, absence of any major fixed repayment obligations (except vehicle loans) provides some support to its liquidity.

#### 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:** SIL's overall gearing had improved and remained low at 0.40x as on March 31, 2020, with repayment of outstanding inter-corporate deposits (ICDs) and lower outstanding LC backed acceptances. SIL's interest coverage deteriorated to 1.53x in FY20 with decline in profitability. However, its TD/GCA improved sharply in FY20, on account of cash accruals following one time profit on sale of asset.

In FY20, SIL sold a part of its real estate holding (land as well as building property) at a book profit of Rs.4.53 crore. These properties were acquired as a part of its acquisition of Gloryshine Property Developers Pvt. Ltd. in FY12. Funds realized from monetization of properties were primarily utilized in working capital and to repay inter-corporate deposits (ICDs) availed from group entities. As a result, the outstanding balance of these ICDs reduced from Rs.13.64 crore as on March 31, 2018 to Nil as on March 31, 2020.

**Analytical Approach:** Standalone

#### Applicable Criteria:

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

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Manufacturing Companies](#)

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

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

[Liquidity Analysis of Non-financial sector entities](#)

#### About the company

Promoted by Shahra 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)	FY19 (A)	FY20 (A)
Total operating income	113.39	96.84
PBILDT	3.99	1.82
PAT	0.45	2.71
Overall gearing (times)	0.62	0.40
Interest coverage (times)	2.49	1.53

A: Audited

During H1FY21, SIL had reported TOI of Rs.59.33 crore and PAT of Rs.1.26 crore.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	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	-	-	-	1.00	CARE BB; Stable / CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	24.00	CARE A4

**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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	1.00	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (03-Oct-19)	1)CARE BB+; Stable / CARE A4+ (21-Jan-19)	1)CARE BB+; Stable / CARE A4+ (05-Feb-18)
2.	Non-fund-based - ST-Letter of credit	ST	24.00	CARE A4	-	1)CARE A4 (03-Oct-19)	1)CARE A4+ (21-Jan-19)	1)CARE A4+ (05-Feb-18)
3.	Fund-based - ST-Bank Overdraft	ST	-	-	-	-	-	1)Withdrawn (05-Feb-18)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

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

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

**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.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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