

Sarthak Industries Limited

January 21, 2019

Rating

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term/ Short-term Bank Facilities	1.00	CARE BB+; Stable/ CARE A4+ (Double B Plus ; Outlook : Stable/ A Four Plus)	Reaffirmed
Short-term Bank Facilities	24.00 (enhanced from Rs. 10.00)	CARE A4+ (A Four Plus)	Reaffirmed
Total Facilities	25.00 (Rupees Twenty Five Crore Only)		

Details of facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sarthak Industries Ltd. (SIL) continue to be constrained on account of its relatively small-sized liquefied petroleum gas (LPG) cylinder manufacturing operations with significant portion of the income comprising trading business, thin profitability with susceptibility to volatile prices of raw materials, high customer concentration and intense competition in both its cylinder manufacturing and trading business segments.

The ratings, however, continue to derive strength from its established manufacturing operations with reputed clientele, moderate capital structure and moderate liquidity. The ratings also take cognizance of expected monetization of an idle land parcel by the company.

The ability of SIL to scale up its manufacturing operations, efficiently manage its trading operations, improve profitability and maintain its capital structure while efficiently managing its working capital requirements shall be the key rating sensitivities.

This apart, any major debt-funded capex adversely affecting its capital structure or debt coverage indicators shall also be a key rating monitorable.

Detailed description of the key rating drivers**Key Rating Weakness**

Moderate and fluctuation income and thin profitability due to high proportion of trading sales: SIL earns large part of its income from trading business, while around 20% is from cylinder manufacturing business.

During FY18, SIL reported a y-o-y dip of 25% in its TOI to 124.06 with a 45% y-o-y decline in sales volume of LPG cylinders on account of lower demand alongwith lower trading activities based on the market conditions. However, in H1FY19, cylinder business registered y-o-y growth of 27%, while trading business registered y-o-y dip of 32%.

Profitability remained thin with a PBILDT margin of 3-4% albeit with marginal improvement from FY17 levels.

Susceptibility of profitability to volatile raw material prices and fluctuating agro-commodity prices: In its LPG cylinder segment, SIL's hot rolled steel forms the major raw material, which it procures from TATA Steel, SAIL, JSW Steel Ltd and Essar Steel. The bargaining power of SIL is low compared to these large suppliers and hence, it is exposed to volatility in the raw material prices. Also, the customer profile of the company is fairly concentrated, limiting its bargaining power with the customers in a tender driven business.

In the agro-commodity business, SIL is exposed to volatility in the prices in the traded commodities. It usually trades in agro commodities and from FY19 it has commenced trading of imported Vanaspati Ghee.

Customer concentration risk: The customer profile of SIL in its LPG cylinder business has remained concentrated only to Oil Marketing Companies (OMCs), whose procurement is also tender-based. The company has also not diversified into other types of cylinders (higher capacity LPG, other gases like propane, oxygen and nitrogen). This also limits the avenues available to the company to diversify its revenue base and utilize its manufacturing capacities at a higher level.

Key Rating Strengths

Moderate leverage and debt coverage indicators: The overall gearing ratio remained moderate at 0.52 times as on March 31, 2018 due to repayment of unsecured loans and scheduled debt repayments.

The debt coverage indicators of SIL also remained moderate, marked by an interest coverage ratio of 2.56 times during FY18 as against 0.98 times during FY17 and total debt to GCA of 6.92 times during FY18 as against 9.80 times during FY17. The improvement was largely on account significant growth in gross cash accruals and reduction in debt level.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Established operations in the manufacturing of LPG cylinder segment with reputed clientele: SIL is primarily engaged in the manufacturing of operations of refillable and disposable LPG cylinders for household consumption and has established relationship with reputed clientele consisting of the OMCs engaged in supply and distribution of LPG in the country.

Moderate liquidity: Liquidity is moderate with negative operating cycle. SIL benefits from the high credit period granted by suppliers and a low collection and inventory holding period; as a result of which the working capital intensity of operations remains low. During H1FY19, there has been an increase in its LC-backed creditors mainly on account of increase in creditors attributed to the trading segment due to import of Vanaspati Ghee from Sri Lanka under duty free license.

SIL plans to monetize an idle land parcel amounting to Rs.13.97 crore. The final sales agreement is yet to be concluded; however, an amount of Rs.6.99 crore has already been received as part of the sales proceeds, and been used to repay unsecured loans of Rs.5.68 crore in H1FY19. Profit from sale of this land parcel is not ascertainable at present.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

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

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

About the Company

Promoted by Shahra family of Indore, Sarthak Industries Ltd. (SIL) is engaged in opportunity-based trading of agro-commodities and manufacturing of LPG cylinders. As on September 30, 2018, SIL had an installed 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)	FY17 (A)	FY18 (A)
Total operating income	163.75	124.06
PBILDT	1.72	4.46
PAT	1.41	1.76
Overall gearing (times)	0.64	0.52
Interest Coverage (times)	0.98	2.56

A: Audited

The company has registered an income of Rs58.18 crore in H1FY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (05-Feb-18)	1)CARE BB+; Stable / CARE A4+ (13-Jan-17)	1)CARE BB+ / CARE A4+ (08-Jan-16)
2.	Non-fund-based - ST-Letter of credit	ST	24.00	CARE A4+	-	1)CARE A4+ (05-Feb-18)	1)CARE A4+ (13-Jan-17)	1)CARE A4+ (08-Jan-16)
3.	Fund-based - ST-Bank Overdraft	ST	-	-	-	1)Withdrawn (05-Feb-18)	1)CARE A4+ (13-Jan-17)	1)CARE A4+ (08-Jan-16)

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