

## Jai Chand Lal Singhi

March 02, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	0.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable )	Reaffirmed
Long-term/ Short-term Bank Facilities	9.00	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three )	Reaffirmed
<b>Total Bank Facilities</b>	<b>9.50</b> <b>(Rs. Nine Crore and Fifty Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned revision in the rating assigned to bank facilities of Jai Chand Lal Singhi (JLS) are continue to derive strength from the experience of promoters with long track record and proven project execution capability, sharp improvement in order book position ensuring revenue visibility over the medium term, improvement in financial performance in FY20, comfortable capital structure and significant investment in building own fleet of equipments.

The ratings also take note of improvement in liquidity profile marked by improved collections in 9MFY21 (refers to the period from April 01 to December 31) which has led to lower utilization of its fund based limits.

The ratings however, are constrained by the working capital intensive nature of business, 50% of the contracts being fixed price contracts, tender based operations in an intensely competitive civil construction industry, geographical concentration in revenue and ongoing investigation by Central Bureau of Investigation (CBI) against company officials. Timely execution of existing as well as newly received large sized orders remain key rating monitorable.

### Rating Sensitivities

**Positive Factors-** *Factors that could lead to positive rating action/upgrade:*

- Substantial increase in scale of operations and profitability margins (PBILDT margin above 15%) backed by new orders and timely execution
- Continued maintenance of current liquidity by way of timely release of retention money/BG, sanction of additional limits, and availability of adequate buffer in working capital limits.
- Improvement in capital structure with overall gearing ratio <0.35x on a sustained basis.
- Geographical and sectorial diversification of orders with quality counterparties.

**Negative Factors--** *Factors that could lead to negative rating action/downgrade:*

- Any adverse decision of the Hon'ble court in respect of the pending suit which may impact the company operationally and/or financially.
- Delayed release of retention money leading to blockage of Bank Guarantee and non-availability of BG limits for execution of newly received orders.
- Inability to successfully execute several large sized orders in hand within envisaged costs
- Deterioration in profitability margins from current levels and/or capital structure with overall gearing ratio >0.80x.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters with long track record:** The promoters of SGCL have more than three decades of experience in the construction industry. The long experience of the promoters in the construction industry has led to the established position of the group in north-east region of the country.

The group has a satisfactory contract completion track record. Furthermore, repetitive orders received from its existing clients corroborate group's proven project execution capability.

**Healthy order book position with geographical concentration:** The combined order book position stood comfortable at Rs.1,620 crore as on December 01, 2020 (Rs.1,608 crore as on December 01, 2019), which is 2.53x of gross billing in FY20, ensuring revenue visibility over the medium term. Further, during January-February 2021, the company received ~Rs1453 crore in SGCL and ~Rs.50 crore in JLS. However, majority (above 90%) of orders are from Assam exposing the group to

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

geographical concentration. Timely completion of slow-moving orders with cost overrun and execution pace of new orders received in Jan-Feb 2020 will be key rating sensitivities. Timely execution of existing as well as newly received large sized orders remain key rating monitorable.

**Satisfactory financial performance in FY20:** On a combined basis, income from operations witnessed a y-o-y growth of ~16% in FY20 on account of steady execution of order book. The group reported operating income of Rs.649.89 crore in FY20 vis-à-vis Rs.560.08 crore in FY19. PBILDT margin also improved from 11.53% in FY19 to 14.97% in FY20 on account of higher reliance on own equipment alone with execution of some of the projects which have relatively higher margin. Further, PAT margin also improved to 8.48% in FY20 as against 5.16% in FY19 on account of lower capital charges and higher PBILDT margin. Interest coverage ratio also improved to 10.07x in FY20 as against 6.12x in FY19 on account of sharp increase in PBILDT level along with decline in finance charges.

In 9MFY21, the group achieve turnover of Rs.386.15 against PBT of Rs.32.82 crore.

On a standalone basis, income from operations witnessed a growth of 3% y-o-y in FY20 on account of steady execution of order book. PBILDT margin improved from 10.32% in FY19 to 13.05% in FY20. Further, PAT margin also improved to 10.26% in FY20 as against 7.57% on account of higher PBILDT level. Interest coverage ratio also remain stable at 8.79x in FY20 as against 8.88x in FY19.

In 9MFY21, the JLS achieved PBT of Rs. 0.52 crore on total operating income of Rs.6.27crore.

**Comfortable capital structure:** On a combined level, the capital structure remained comfortable with debt equity ratio of 0.16x as on March 31, 2020 vis-à-vis 0.17x as on March 31, 2019 and overall gearing ratio of 0.20x as on March 31, 2020 compared to 0.63x as on March 31, 2019. The improvement in overall gearing ratio was on account of accretion of profit to reserves with reduction in overall debt level, mainly working capital borrowing. Total outside liabilities to Networth (TOL/TNW) also improved to 1.00x as on March 31, 2020 from 1.52x as on March 31, 2019. TDGCA also witnessed improvement and stood at 0.62x as on March 31, 2020 (including mobilisation advances) vis-à-vis 2.45x as on March 31, 2019. On a standalone level, the capital structure remained comfortable with overall gearing ratio of 0.62x as on March 31, 2020 compared to 0.59x as on March 31, 2019. Total outside liabilities to Networth (TOL/TNW) remained stable at 1.54x as on March 31, 2020 vis-à-vis 1.19x as on Mar 31, 2019. TDGCA also remained comfortable and stood at 2.91x as on March 31, 2020 (including mobilisation advances) vis-à-vis 3.34x as on March 31, 2019.

**Significant investment in building own fleet of equipment:** The group has been adding latest machinery required for executing projects every year commensurate with the increase in the scale of operations. On combined basis, gross block of tangible assets stood at Rs.161 crore as on March 31, 2020 as against Rs.142 crore as on March 31, 2019 with investment in equipment and machinery. Large investment in machinery and efficient deployment of resources helps group in timely execution of projects and expansion in profitability margins as it reduces its reliance on sub-contractors.

However, the company is also exposed to resources remaining idle in case adequate orders are not received.

#### Key Rating Weaknesses

**Ongoing investigation by officials of Central Bureau of Investigation (CBI) against company officials:** As per media reports, in July 2019, Central Bureau of Investigation (CBI) arrested Mr. Rakesh Mohan Kotwal, Zonal Manager of National Projects Construction Corporation Limited (NPCC) and Mr. Binod Singhi, earlier Director of SGCCCL and partner of JLS. Further, 5 more people were arrested including Mr. Anish Baid, earlier Director of SGCCCL in a case of bribing for getting construction work, especially, construction of Border Out Posts (BOPs), border fencing and all other construction works attached to it. This all began when CBI in July 2019 caught red handed Mr. Ramesh Kumar, an employee of SGCCCL and Mr. Sunil Kumar, a relative of Mr. Rakesh Mohan Kotwal with a sum of Rs.25 lakh in Delhi.

In March 2019, Silchar based zonal office of NPCC and its head, Rakesh Mohon Kotwal, appointed Jalpaiguri based Latiful Pasha, to deal for the 'commission' for all the projects awarded, not only from SGCCCL, but from all other contractors.

The court granted bail to Mr. Binod Singhi and Mr. Ramesh Kumar (employee) in August 2019 with the condition that they should not leave the country without Court's prior permission and cooperate with the investigation. Further, Mr. Anish Baid, was also granted bail.

As per the management, the charge sheet has not yet been filed and the bail has been granted till any decision is taken by the Hon'ble court.

**Impact of Covid-19 in the operation:** The financial performance of group is likely to be impacted in FY21 because of covid-19 outbreak. Due to lockdown restriction following outbreak of COVID-19 pandemic, group's operations were impacted during Q1FY21. However, the execution pace has picked up from Q2FY21. Currently all the sites of the group are operational, and company is not facing major obstacles in construction activities. The company is expecting ~Rs.620 crore to Rs.630 crore in FY21.

**Working capital intensive nature of business:** The operations are working capital intensive due to tender based and long term nature of contracts. The group needs to furnish earnest money deposits (EMD) during the bidding process which leads to funds getting blocked even before the project is awarded. A part of the sales proceeds are also withheld in the form of retention money. The collection period was high at 107 days in FY20 (113 days in FY19) with majority of the contracts being executed in the last quarter of the year. The working capital requirement is funded through creditors, mobilisation advances received from customers and bank debt. The collection period was high at 107 days in FY20 (113 days in FY19) with majority of the contracts being executed in the last quarter of the year. Moreover, around 35% of the revenue is booked in the month of February and March which are mostly realised in Q1 next year (excluding retention money).

However, Inventory period witnessed slight improvement from 21 days in FY19 to 19 days in FY20. The high working capital requirement is partly funded through high average creditor period of 79 days in FY20 vis-à-vis 69 days in FY19, mainly sub-contractors (labour contacts). Further, the clientele comprises reputed entities and as such group does not have significant default risk attached with receipt of dues from customers. This led to operating cycle remaining in the range of 47-65 days during the last 3 years ended FY20.

#### **Escalation clause in only around 50% contracts**

The raw material & labour cost forms the major chunk of the total cost of sales. The same are volatile in nature and impact profitability. However, the group mitigates this risk by way of cost escalation clause in all its road projects and few of its building projects which are longer tenure contracts (ranging from 2-5 years) constituting around 50% of the total order book as on December 31, 2020. However, in case of delay in any of the contracts due to adverse weather conditions or delay on the part of the client, the additional cost incurred can be passed on and the group also gets extension in the project timeline.

**Tender-based nature of operations in intensely competitive civil construction industry:** The group receives majority of its work orders from government departments. All these are tender-based and the revenues are dependent on the ability to bid successfully for these tenders. Profitability margins remain under pressure because of the competitive nature of the industry. There are a large number of small and mid-size players operating in the segment due to which there is intense competition.

**Stable long term prospects for the construction industry:** The construction industry contributes around 8% to India's Gross domestic product (GDP). Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and revive the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long-run. In the short to medium term (1-3 years), projects from transportation, housing and urban development sector are expected to dominate the overall business for construction companies. However, challenges with respect to recovery from debtors continue along with funds blocked in arbitration. With the banking system being cautious in lending with stricter regulatory environment due to high level of NPAs, enhancement in working capital limits to fund growth has witnessed slowdown. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

#### **Liquidity - Adequate**

The liquidity profile of the group remains adequate with the group earning a GCA of Rs.69.37 crore against a debt repayment obligation of Rs.11.50 crore in FY20. In 9MFY21, the group, generated GCA of Rs.31.84 crore and expected to generate GCA of ~Rs60 crore in FY21, which will be sufficient to repay the debt obligation of group in FY21. The average limit utilisation was low ~ 31% through the past 12 month ended Dec 31, 2020 on account of improved collection from debtors.

#### **Analytical approach:** Combined

For arriving at the ratings, CARE has combined the financials of SGCL and JLS as the entities have a common management team, similar line of business and operational linkages.

#### **Applicable Criteria**

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

[Criteria on assigning Outlook and credit watch to credit ratings](#)

[Criteria for Short Term Instruments](#)

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

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

[Rating Methodology: Consolidation](#)

[Rating Methodology – Construction Sector](#)

### About the Company

JLS was promoted as a partnership firm in 1977 by Mr. Jaichand Lal Singh, Mr. Umed Kumar Singhi, Mr. Chain Roop Baid and Mr. Manghi Lal Singhi. Since inception, JLS is engaged in civil construction business mainly roads and bridges. Generally the firm participates in bidding of small value tenders which are not participated by SGCCL. Currently, Mr. Binod Kumar Singhi, Mr. Mangilal Singhi, Mr. Umed Kumar Singhi (son of late Mr. Jaichand Lal Singh), Mr. Chain Roop Baid, Ms. Indu Devi Singh and Mr. Manish Baid are partners of the firms effective from April 2016 (after retirement of Mr. Ashok Kumar Singhi and introduction of Ms. Indu Devi Singh). JLS has presence in North-East India (majorly Assam). The day to day operations of the firm are managed by the promoters.

Brief Financials-JLS (Rs. in crore)	FY19 (A)	FY20 (A)
Total Operating Income	25.54	26.42
PBILDT	2.63	3.45
PAT	1.93	2.71
Overall Gearing	0.59	0.62
Interest Coverage	8.88	8.79

A: 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

### Annexure-1: Details of 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	-	-	-	9.00	CARE BBB-; Stable / CARE A3
Fund-based - LT-Cash Credit	-	-	-	0.50	CARE BBB-; Stable

### 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	9.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (03-Apr-20)	-	1)CARE BBB; Stable / CARE A3+ (26-Mar-19)	-
2.	Fund-based - LT-Cash Credit	LT	0.50	CARE BBB-; Stable	1)CARE BBB-; Stable (03-Apr-20)	-	1)CARE BBB; Stable (26-Mar-19)	-

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.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	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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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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