

Singhal Enterprises Private Limited

April 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	46.51 (Enhanced from 41.51)	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed
Short Term Bank Facilities	62.00 (Enhanced from 32.00)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	108.51 (Rs. One Hundred Eight Crore and Fifty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

For arriving at the ratings CARE has combined the business and financial risk profiles of Singhal Enterprises Private Limited (Enterprises), Shri Shyam Ispat (India) Private Limited (SSIPL), Singhal Energy Private Limited (Energy) and Salasar Steel and Power Limited (SSPL) collectively referred to as the 'group'.

The rating assigned to the bank facilities of Singhal Enterprises Private Limited continues to derive strength from improvement in the financial performance during FY21 (refers to the period April 1 to March 31) and H1FY22 (refers to the period April 1 to September 30) and expected improvement in FY22 as marked by increased scale of operations and profit levels. The total operating income (TOI) of the group increased by 14% y-o-y in FY21 on the back of increase in sales realisation across all products. Furthermore, the growth continued in H1FY22 on the back of sustained elevated level of sales realisation due to sector buoyancy along with enhanced forward linkages aided by operationalisation of additional TMT bar capacity and accordingly, improvement in financial risk profile of the group is expected to continue during H2FY22. The ratings also take into account the successful of acquisition of SSPL through NCLT and its consequent impact on credit risk profile of the group.

The ratings assigned to the bank facilities of the group continues to derive strength from experienced promoters with long track record of operations, semi-integrated operations with captive power plants (CPP) as a part of backward integration, strategic location of the plant, satisfactory capacity utilisation and comfortable capital structure.

The above strengths are, however, partially offset by customer as well as geographical concentration risk, profitability susceptible to volatility in input prices, moderate risks associated with on-going capex and cyclical associated with steel industry.

Outlook: Positive

The outlook has been revised from 'Stable' to 'Positive' on account of expected improvement in the financial risk profile of the group, going forward, marked by increase in the scale of operations, profitability level while maintaining capital structure and debt protection indicators at the current level. The outlook shall be revised to 'Stable' if the group will unable to achieve the envisaged scale of operations and profitability level.

Rating Sensitivities

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

- Increase in scale of operations above Rs.3,500 crore and operating margins beyond 12% on a sustained basis.
- Sustenance of capital structure below 0.20x and Total debt/GCA below 1x.
- Maintenance of operating cycle less than 30 days on sustained basis

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

- Decline in scale of operations below Rs.1100 crore and deterioration in operating margins below 7.5%.
- Any major debt funded capex also leading to deterioration in capital structure with overall gearing above 0.7x and Total Debt/GCA above 2.5x.
- Decline in cash & cash equivalents below Rs.100 crore

Detailed description of the key rating drivers

Experienced promoters with long track record of operations

Incorporated in 1997, with Singhal Enterprises Pvt Ltd, the Singhal Group started its operations with Enterprises in the year 2000. The group was incorporated by Chairman, Late Mr Parmeshwar Das Agarwal having experience of more than four decades in civil engineering and construction and his two sons Mr Sanjay Agarwal and Mr Ajay Agarwal having experience of more than two decades in the iron and steel industry.

Semi-Integrated operations with operational linkages among the group companies

The manufacturing operation of the group is semi-integrated in nature with sponge iron plants, captive power plant, billets, ferro alloy and rolled products facilities with majority of sales derived from sponge iron & billets. The sponge iron is captively consumed for manufacturing of billets and also sold externally. The group has both waste heat recovery boiler (WHRB; 30 MW)

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

and Fluidized bed combustion (FBC; 62 MW) captive power plant as on December 31, 2021. This helps reduce its dependency on external power sources and reduce power costs.

Apart from this, the group companies also sell sponge iron and silico manganese to one another. The integration of the operations coupled with captive power sources among the group companies results in strong operational linkages.

Strategic Location of the Plant

The manufacturing facility of the group is located in close proximity to the sources of main raw material (i.e. iron-ore and coal) required for manufacturing of its products. The iron ore and coal mines are located within the distance of 350 km and 50 km from group's plant which aids towards optimization of freight cost. The plants are also well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods.

Satisfactory capacity utilisation

The effective capacity utilization (CU) of the group's sponge iron plant and ingot/billet remained satisfactory amid disruption of operations in Q1FY21 on account of nation-wide lockdown due to Covid-19 pandemic and stood at 81% and 95% in FY21 as compared 94% and 94% respectively in FY20. The CU of rolled product improved and stood at 79% in FY21 from 57% in FY20. In 9MFY22, the capacity utilisation continued to remain satisfactory with CU for sponge iron, billet and rolled product facility stood at 91%, 89% and 100% respectively in 9MFY22.

Improvement in financial risk profile in FY21 and in H1FY22

The total operating income of the group increased by 14% y-o-y to Rs.1265 crore in FY21 on the back of increase in sales realization of all the products. Accordingly, PBILDT margin improved by 234 bps in FY21 over FY20. Increase in PBILDT margins along with scale of operations led to increase in PBILDT level in FY21 which resulted in improvement in interest coverage to 24.20x in FY21 from 15.28x in FY20. The group reported healthy gross cash accruals (GCA) of Rs.96.30 crore vis-à-vis debt repayment obligations in FY21.

In H1FY22, the group has reported PBILDT of Rs.94.84 crore on total income of Rs.1011 crore on the back of sustained elevated level of sales realisation due to sector buoyancy along with enhanced forward linkages aided by operationalisation of additional TMT bar capacity.

Comfortable capital structure and debt protection metrics

The capital structure of the group continued to remain comfortable, with overall gearing at 0.14x as on Mar 31, 2021 vis-à-vis 0.21x as on Mar 31, 2020. Also, the debt protection metric improved marked by TDGCA at 0.84x as on March 31, 2021 due to higher cash accruals generated in FY21. As on September 30, 2021, the overall gearing and TDGCA improved to 0.12x and 0.51x, respectively.

Key rating weakness

Customer as well as geographical concentration risk

The operation of the group is constrained in terms of its geographical reach as majority of its customers are located within the state of Chhattisgarh thereby restricting its market reach outside the state and risking its sustainability of cash flows in times of adverse market conditions. The Top 10 customer's forms about 51% of the total revenue for FY21 as against 47% of the total revenue for FY20.

Profitability susceptible to volatility in input prices

The major raw material [i.e., iron ore and coal] forms the largest component of total cost of sales of steel products. The basic raw materials such as iron ore, coal, pig iron, dolomite, manganese ore which are used for production of sponge iron, billets and silico manganese are mainly sourced from the domestic market and the prices of the same are volatile in nature. Hence the group's profitability is susceptible to fluctuation in raw material prices. However, this is partially offset by the semi-integrated nature of operations and ability to pass through the change in raw material prices to customers.

Moderate risks related to on-going capex

The group has ongoing capex for setting up of additional manufacturing facility of rolling mills in Energy at an estimated cost of Rs.21 crore which will be funded through debt of Rs.15 crore and Rs.6 crore from internal accruals. Furthermore, there is another project going on in Shyam for setting up Power plant (6MW) at a projected cost of Rs.18 crore which will be funded through debt of Rs.12 crore and Rs.6 crore from internal accruals. Nonetheless, moderate project risk further mitigates to large extent as the size of projects are small as against networth and liquidity position of the group.

This apart, the group, through Enterprises, has successfully acquired Salasar Steel and Power Limited through NCLT with effect from December 22, 2021 and also expects to undertake capex under MOU with Chhattisgarh State Government. Stabilisation of these additional capacities would be a key rating monitorable.

Cyclicality associated with steel industry

Steel is a cyclical industry, strongly correlated to economic cycles since its key users viz., construction, infrastructure, automobiles and capital goods are heavily dependent on the state of the economy as any southward movement in the economic cycle adversely impacts demand from user industries. Besides local factors, the global demand supply situation especially China is major factor impacting the steel prices and volumes. The producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

Industry Outlook

Domestic steel consumption has already grown to 66 million tonnes in April-November 2021 from 55 million tonnes in April-November 2020. It is imperative that domestic steel demand supply conditions will remain favourable for domestic players, which coupled with likely scenario of continued low exportable surplus from China will keep the steel prices firm and spreads healthy. Going forward, the domestic prices and spreads shall, inter alia, depend on movement in raw material prices especially the coking coal, CareEdge expects domestic HRC steel prices to remain in the range of Rs.55,000 to Rs.65,000 per tonne in the near term. Furthermore, operating margins despite the likely moderation from peak levels are expected to remain in healthy range of Rs.15,000 to Rs.20,000 per tonne over next few quarters with a bias towards the upper end of the range. The leverage and liquidity for majority of the industry players is likely to remain in improving trajectory and healthy for FY22 supported by healthy cash accruals generation. Resultantly, improving trend in overall credit quality of iron and steel companies is expected to sustain in short to medium term.

Liquidity: Adequate

Adequate liquidity position is marked healthy cash accruals of Rs.96.30 crore against debt repayment obligations of Rs.7.80 crore in FY21 and free cash and bank balances to the tune of Rs.70.27 crore as on Mar 31, 2021. The group avails LC and OD against 100% cash margin for interest rate arbitrage. Total cash and liquid investments (including Fixed deposits lien against LC and OD & accrued interest FDs) stood at around Rs.182 crore as on March 31, 2021. With a gearing of 0.14x times as of March 31, 2021, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Its unutilized cash credit limit (i.e. around 70%) is adequate to meet its incremental working capital needs over the next one year. The group has availed a term loan of Rs.100 crore to finance the acquisition of Salasar Steel and Power Limited.

Going forward, liquidity position of the group is expected to remain adequate in near term on the back of healthy gross cash accruals vis-à-vis scheduled debt repayment obligations and on-going capex requirement.

Analytical approach: Combined.

For arriving at the ratings, CARE had combined the business and financial risk profiles of Singhal Enterprises Pvt. Ltd (Enterprises), Shri Shyam Ispat (India) Pvt. Ltd (SSIPL) and Singhal Energy Pvt Ltd (Energy) at the time of last rating. Furthermore, consequent to acquisition of Salasar Steel & Power Limited (SSPL) through NCLT, CARE has, combined SSPL along with existing three entities as SSPL is also engaged in the same line of business, have a common management and exhibit cash flow fungibility.

Applicable criteria:

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

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

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Steel](#)

About the Group

The Singhal Group comprises Singhal Enterprises Pvt. Ltd (Enterprises), Shri Shyam Ispat (India) Pvt. Ltd (SSIPL), Singhal Energy Pvt Ltd (Energy) Salasar Steel & Power Limited (SSPL). Promoted by the Agarwal family of Raipur, the group is engaged into the manufacture of sponge iron (523,500 mtpa), billets (433,000 mtpa), TMT (270,000 mtpa) and silico manganese (39,300 mtpa) in Raigarh, Chhattisgarh. The group also has captive power plants of combined capacity of 92 MW.

Brief Financials (Rs. crore) - combined	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (U/A)
Total operating income	1,108.71	1,265.46	1011.74
PBILDT	79.09	119.89	94.84
PAT	47.78	66.84	59.87
Overall gearing (times)	0.21	0.17	0.12
Interest coverage (times)	15.28	24.20	43.11

A: Audited; U/A: Unaudited

About the Company:

Singhal Enterprises Private Limited was incorporated in 1997 and commenced its commercial operations in 2000. The company is engaged into manufacturing of sponge iron (253,500 mtpa), billets (186,000 mtpa), silico manganese (10,800 mtpa) and TMT bar (180,000). The company also has 14 MW WHRB Captive Power Plant (CPP) and 33 MW FBC CPP.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (U/A)
Total operating income	585.97	646.70	503.64
PBILDT	25.31	46.09	44.21
PAT	13.97	23.62	30.49
Overall gearing (times)	0.21	0.27	0.09
Interest coverage (times)	12.29	18.72	20.99

A: Audited; U/A: Unaudited

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
Fund-based - LT-Cash Credit	-	-	-	-	30.00	CARE A; Positive
Non-fund-based - ST-Letter of credit	-	-	-	-	52.00	CARE A1
Non-fund-based - ST-Bank Guarantee	-	-	-	-	10.00	CARE A1
Term Loan-Long Term	-	-	-	November, 2023	16.51	CARE A; Positive

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	Fund-based - LT-Cash Credit	LT	30.00	CARE A; Positive	1)CARE A; Positive (11-Mar-22)	1)CARE A; Stable (02-Mar-21)	1)CARE A; Stable (03-Mar-20) 2)CARE A; Stable (04-Apr-19)	1)CARE A; Stable (01-Nov-18)
2	Non-fund-based - ST-Letter of credit	ST	52.00	CARE A1	1)CARE A1 (11-Mar-22)	1)CARE A1 (02-Mar-21)	1)CARE A1 (03-Mar-20) 2)CARE A1 (04-Apr-19)	1)CARE A1 (01-Nov-18)
3	Non-fund-based - ST-Bank Guarantee	ST	10.00	CARE A1	1)CARE A1 (11-Mar-22)	1)CARE A1 (02-Mar-21)	1)CARE A1 (03-Mar-20) 2)CARE A1 (04-Apr-19)	1)CARE A1 (01-Nov-18)
4	Term Loan-Long Term	LT	16.51	CARE A; Positive	1)CARE A; Positive (11-Mar-22)	1)CARE A; Stable (02-Mar-21)	1)CARE A; Stable (03-Mar-20) 2)CARE A; Stable (04-Apr-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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple
4	Term Loan-Long Term	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 Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:

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