

Press Release

Narsingh Ispat Limited

June 24, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs 57.50 Cr.
Long Term Rating	ACUITÉ BBB-/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (**read as ACUITE Triple B minus**) on the Rs 57.50 crore bank facilities of Narsingh Ispat Limited (NIL). The outlook is '**Stable**'.

The ratings reflect the group's long operational track record along with improvement in their scale of operation driven by rise in average realization of pig iron. The rating also factors the group's improving financial risk profile marked by its moderate capital structure and strong coverage ratios. These rating strengths are partially offset by the cyclical nature of the steel industry.

NIL was incorporated in 2004 by Kolkata based Mr Hemant Goyal and his family members. The company is engaged in manufacturing of pig iron with an installed capacity of 92000 MTPA. The manufacturing unit is located at Jharkhand.

Narsingh Ispat Udyog Private Limited (NIUPL) is an associate concern of NIL which is engaged in trading pig iron, coal and coke.

Analytical Approach

Acuité has taken a consolidated view of Narsingh Ispat Limited and Narsingh Ispat Udyog Private Limited as both the entities have common management and have significant operational linkages between them. NIL holds around 43 percent stake in NIUPL. In addition, NIL has extended corporate guarantee to NIUPL. The group herein is referred to as Narsingh Group. Extent of Consolidation: Full

Key Rating Drivers

Strengths

Experienced Management

The group is managed by Mr. Hemant Goyal who has more than two decades of experience in steel industry through concerns such as Narsingh Ispat Udyog Private Limited. The group has a strong customer base which includes medium size steel companies such as Maithan Steel and Power Limited, Shyam Steel Industries Limited, Balmukund Sponge & Iron Private Limited (rated at Acuité BBB+/Stable/A2). The scale of operation of the group has improved as revenue stood at Rs 426.19 Cr in FY21 (Provisional) as against Rs 372.23 Cr in FY20. The improvement is driven by rise in average realization of pig iron. Acuité believes that the group will benefit from the experienced management and long term relationships with customers.

Comfortable financial risk profile

The comfortable financial risk profile of the group is marked by its moderate net worth, modest gearing ratio and strong debt protection metrics. The net worth stood at Rs.55.96 Cr as on 31st March 2021 (Provisional) as compared to Rs 42.80 Cr in the previous year. The gearing of the group stood at 1.44 times as on 31st March 2021 (Provisional) as against 1.89 times as on 31st March, 2020. The total debt of Rs. 80.37 Cr in FY2021 consists of Long term borrowing of Rs 52.78 Cr, Short term borrowing of 17.95 Cr and Unsecured loan of Rs 9.64 Cr. TOL/TWN stood at 2.02 times in FY21 (Provisional) as against 2.57 times in FY20. The interest coverage ratio stood strong at 3.39 times as on 31st March, 2021 (Provisional) as against 2.76 times as on 31st March, 2020. DSCR of the group stood at 2.29 times in FY21 (Provisional) in comparison to 1.53 times in FY20. The improvement in coverage ratios is on account of rise in absolute EBITDA backed by increase in turnover level. The Net Cash accruals to Total Debt (NCA/TD) stood at 0.26 times in FY2021 (Provisional) as compared to 0.18 times in the previous year. Acuité believes the financial risk profile to remain comfortable over the medium term backed

by steady accruals and absence of any large debt funded capex plan.

Moderate profitability margins

The group has witnessed an improvement in profitability margins as EBITDA margin stood at 7.37 percent in FY21(Provisional) as compared to 6.19 percent in FY20. RoCE of the group stood at 18.39 percent in FY21(Provisional) as against 13.12 percent in FY20. The improvement is driven by decline in raw material cost. Acuité believes that the profitability of the group will remain at a moderate level due to lack of raw material linkage.

Weaknesses

Cyclical nature of the industry

The group performance remains vulnerable to cyclical in the steel sector as demand for steel depends on performance of end user segments such as construction and real estate. Indian steel sector is highly competitive due to presence of large number of players. The operating margin of the group is exposed to fluctuations in the prices of raw materials (coal and iron ore) as well as realization from finished goods.

Rating Sensitivity

- Substantial improvement in the profitability margin
- Deterioration in capital structure

Material Covenant

None

Liquidity Profile: Adequate

The group has an adequate liquidity profile as the working capital utilization stood comfortable at 75 percent during last 6 months ended April 2021. The net cash accrual stood at Rs 21.26 Cr in FY21(Provisional) as against current maturity of Rs. 4.27 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 22-23 Cr as against loan repayments of around Rs.8 Cr from FY22-FY24. Current ratio stood at 1.46 times in FY 21(Provisional). In addition, the group has comfortable working capital requirement as GCA days stood at 81 days in FY21(Provisional) as against 70 days in FY20. Acuité believes liquidity profile will remain adequate in medium term backed by absence of large debt led capex plan and healthy net cash accrual.

Outlook: Stable

Acuité believes the outlook on group will remain 'Stable' over the medium term backed by its long operational track record and strong customer base. The outlook may be revised to 'Positive' if the group is able to scale up its operations along with sustenance in the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of decline in the scale of operation or profitability margin.

About the Rated Entity - Key Financials

Consolidated Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	372.33	265.33
PAT	Rs. Cr.	6.40	0.75
PAT Margin	(%)	1.72	0.28
Total Debt/Tangible Net Worth	Times	1.89	2.65
PBDIT/Interest	Times	2.76	2.05

Standalone

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	329.98	235.54
PAT	Rs. Cr.	5.40	1.06
PAT Margin	(%)	1.64	0.45

Total Debt/Tangible Net Worth	Times	1.64	2.25
PBDIT/Interest	Times	3.08	2.34

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

NA

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidated - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

NA

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12	ACUITE BBB-/Stable (Assigned)
Term Loan	April 2018	Not Available	June 2027	32.72	ACUITE BBB-/Stable (Assigned)
Term Loan	June 2020	Not Available	June 2022	0.99	ACUITE BBB-/Stable (Assigned)
Term Loan	December 2020	Not Available	December 2025	11.78	ACUITE BBB-/Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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