

## Press Release

### S M Enterprises

December 03, 2019

### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs. 11.20 Crore
<b>Long Term Rating</b>	ACUITE BB-/ Outlook: Stable (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned the long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** to the Rs.11.20 Crore bank facilities of S M Enterprises. The outlook is **'Stable'**.

Established in 1991, S M Enterprises (SM) is a Partnership Firm engaged in construction and leasing of commercial building in Indore (Madhya Pradesh). The firm is promoted by Mr. Sunil Maloo and Mrs. Shibani Maloo. The firm has developed a commercial building 'Maloo-01' with a saleable area of 1,20,000 square feet. The construction of the project started in 2013 and was completed in 2015.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of S M Enterprises to arrive at its rating.

### Key Rating Drivers

#### Strengths

#### • Experienced Management; Completed project status

SM is promoted by Mr. Sunil Maloo and Mrs. Shibani Maloo, both of them have over a decades experience in the real estate sector. The firm has developed a single project named 'Maloo 01', which is a commercial building providing office spaces to leading corporate brands for showrooms and offices. The total cost of the project was Rs. 37.32 Crore, funded through a mix of loans from banks and infusion by promoters, and land contributed by the promoters. Since the project is completed, the firm doesn't face the need to raise further capital.

The commercial space has housed renowned names such as Nayara Energy Ltd (Previously Know Essar Oil), Star India Pvt Ltd, Hero Moto Corp, Blue Star, Nexa showroom of Maruti Suzuki India amongst others. The promoters have adopted a selective approach for sale of units to renowned clients, which is likely to attract customers for further sales. The firm has sold ~43 per cent units in the project and the unsold units are leased out, to prospective future buyers, this also enables them to generate revenues for day to day operations.

Acuité believes that the S M Enterprises's business profile will continue to benefit from the promoters experience in the real estate sector.

#### Weaknesses

#### • Offtake risk in the project and limited visibility of future cash flows:

The project Maloo 01, was completed in 2015, with a total saleable area of 120,000 sq ft (i.e. 59 units) off which 50,700 sq ft (i.e. 25 units) were sold as on September 30, 2019. The company plans to lease out its unsold inventory and at present, has leased out a single unit. The prolonged vacancy of unsold/unleased inventory, coupled with the tepid real estate environment, may impact the revenues and overall financial performance of the firm. The firm has entered into an agreement with two clients for sale of two additional units, from whom they have received advances. The balance consideration value is expected to receive in tranches by June 2020. However, as there are no other agreements as of September 2019, there is a limited visibility on the firm's future cash flows.

Acuite believes that SM may witness challenges with respect to the slower pace of sale/lease of unsold/unleased inventory in the near to medium term

#### Rating Sensitivity

- Slower pace in sale/lease of inventory.

#### Material Covenants

- DSRA equivalent to at least three months interest

#### Liquidity Position: Adequate

Firm's overdraft facility limit is Rs 11.11 Crore, whereas the outstanding as on September 2019 is Rs 7.72 Crore (~54 per cent utilisation). Therefore, the firm has available liquidity of Rs 3.39 Crore. The project is completed and there is no requirement of additional funds to be raised. The firm generates cash flows from leasing and sale of units. The firm has cash and bank balances of Rs. 0.48 lakhs as on March 31, 2019.

Acuite believes that the liquidity is susceptible to additional inventory off take and continuous stream of leasing income.

#### Outlook: Stable

Acuite believes S M Enterprises will continue to maintain a stable outlook over medium term, owing to its experienced and resourceful partners. The outlook may be revised to 'Positive' in case the firm achieves higher than expected offtake in inventory with healthy realisation. Conversely, the outlook may be revised to 'Negative' in case of slow pace in sale/lease of inventory and significant decline in revenues due to delay in sale/lease of unsold inventory and/or deterioration in profitability.

#### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	3.38	3.65	4.79
EBITDA	Rs. Cr.	2.07	1.75	2.23
PAT	Rs. Cr.	0.36	0.34	0.29
EBITDA Margin	(%)	61.28	47.98	46.68
PAT Margin	(%)	10.69	9.32	6.01
ROCE	(%)	10.59	9.67	24.83
Total Debt/Tangible Net Worth (Gearing)	Times	1.67	2.57	2.59
PBDIT/Interest	Times	1.29	1.30	1.15
Gross Current Assets (Days)	Days	1,937	1,838	1,455

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

Not Applicable

#### Any other information

Not Applicable

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure entities - <http://acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

#### Rating History (Upto last three years)

Not Applicable

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	11.20	ACUITE BB- / Stable (Assigned)

**Contacts**

Analytical	Rating Desk
Vinayak Nayak Vice President – Rating Operations Tel: 022-49294071 <a href="mailto:vinayak.nayak@acuite.in">vinayak.nayak@acuite.in</a>  Pravin Mule Analyst - Rating Operations Tel: 022-49294063 <a href="mailto:pravin.mule@acuite.in">pravin.mule@acuite.in</a>	Varsha Bist Manager - Rating Desk Tel: 022-49294021 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

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