

Press Release

Sri Mahabaleshwara Enterprises

September 13, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB-)
Short Term Rating	ACUITE A4 (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating of '**ACUITE B+** (**read as ACUITE B plus**) from **ACUITE BB-** (**read as ACUITE double B minus**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) from **ACUITE A4+** (**read as ACUITE A four**) on the Rs. 8.00 crore bank facilities of SRI MAHABALESHWARA ENTERPRISES. The outlook is '**Stable**'.

The downgrade is driven by stress in operating measures reflected in flattish turnover that stood at Rs.40.07 crore in FY2019 (Provisional) as against Rs. 40.99 crore in FY2018 and Rs. 40.26 crore in FY2017, and stretch in liquidity marked by low cushion between maturing debt obligation and net cash accruals.

Sri Mahabaleshwara Enterprises (SME) was incorporated in 1998 by Mr. Mahabaleshwara Bhat. Another group concern, Sri Mahabaleshwara Human Resources Services Private Limited (SMPL), was incorporated in 2017 to take over the running business of SME. The takeover process is still in process and is expected to be completed in FY2020. SMPL and SME, together referred to as the group, provides manpower recruitment services to government authorities and private companies. Based out of Bangalore, the group employees around 2300 people.

Analytical Approach

Acuité has considered the consolidated business and financial risk profile of SMPL and SME to arrive at the rating on account of takeover of SME by SMPL. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management, long track record of operations**

The group has been in the business of manpower recruitment services, since 1998. The promoter, Mr. Mahabaleshwara Bhat, possesses experience of two decades in the industry. The same has helped the group develop long term relations with reputable customers over the years. The group has been catering to clients such as Karnataka Government, Bharat Electronics Limited, Toyota group, Yuken group, Shahi Exports to name a few. Acuité believes that on account of incorporation of SMPL, the group will be eligible for more tenders and this is likely to facilitate growth in its scale of operations in the near to medium term.

Weaknesses

- **Below average financial risk profile**

The group has followed an aggressive financial policy in the past, the same is reflected through its peak gearing levels of 4.26 times as on March 31, 2019 (Provisional). However, majority of the borrowings consists of unsecured loans from promoters of Rs. 2.14 crore. The group generated cash accruals in the range of Rs.0.72 crore - Rs. 1.03 crore over FY2017-19. Lower accruals and accretions to reserves led to higher debt levels as on March 31, 2019. The gearing is expected to improve to 2.9 times as on March 31, 2020 due to repayment of term loans and unsecured loans; however, the accretion to reserves during the same period is likely to remain modest. The revenues of the group remained stagnant at Rs. 40.07 crore during 2018-19 as compared to Rs.40.99 crore for FY2018, while its

operating margins remained stable in the range of 6.20 per cent. Stagnancy in revenue coupled with high gearing level has led to below average debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were modest at 0.05 per cent and 1.52 times, respectively.

• Competitive and fragmented industry

The group operates in a competitive industry, as there are many organised and un-organised players in the staffing services industry. However, as the management is in the same line of business for the past two decades this risk is moderated to some extent.

Liquidity position

The group has stretched liquidity marked by decline in net cash accruals to maturing debt obligations. The group generated cash accruals of Rs. Rs.0.72 crore- Rs. 1.03 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs. 0.75 crore per annum for the same period. The cash accruals of the group are estimated to remain around Rs.0.9 crore to Rs.1.5 crore during 2019-21, while its repayment obligations are estimated to be around Rs.0.8 crore to Rs.0.9 crore. The group's operations are moderately working capital intensive which has led to higher reliance on working capital borrowings, the cash credit limit in the group remains utilized at 90 per cent during the last 6 months' period ended July 2019. The group maintained unencumbered cash and bank balances of Rs. 1.53 crore as on March 31, 2019 (Provisional). The group is not likely to incur any major capex to be funded by external borrowing. Acuité believes that the liquidity of the group is likely to improve over the medium term on account of expectations of inflow of higher tender orders over the medium term.

Outlook: Stable

Acuité believes that the group will continue to benefit over the medium term due to its established relations with its customers. The outlook may be revised to 'Positive', if the group demonstrates substantial and sustained growth in its revenues and operating margins from the current levels, while improving its capital structure through equity infusion. Conversely, the outlook may be revised to 'Negative', if the group generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins impacting its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	40.07	40.99	29.89
EBITDA	Rs. Cr.	2.48	2.53	1.32
PAT	Rs. Cr.	0.72	1.01	0.34
EBITDA Margin	(%)	6.20	6.17	4.41
PAT Margin	(%)	1.79	2.46	1.12
ROCE	(%)	16.33	21.14	23.64
Total Debt/Tangible Net Worth	Times	4.26	2.98	3.79
PBDIT/Interest	Times	1.52	1.78	1.37
Total Debt/PBDIT	Times	5.49	3.97	6.59
Gross Current Assets (Days)	Days	190	187	163

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

Not applicable.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
15-Oct-2018	Proposed Secured Overdraft	Long Term	1.5	ACUITE BB- (Indicative)
	Proposed Bank Guarantee	Short Term	1.5	ACUITE A4+ (Indicative)
	Bank Guarantee	Short Term	1.5	ACUITE A4+ (Indicative)
	Secured Overdraft	Long Term	3.5	ACUITE BB- (Indicative)
10-Aug-2017	Secured Overdraft	Long Term	3.5	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	1.5	ACUITE A4+ (Assigned)
	Proposed Secured Overdraft	Long Term	1.5	ACUITE BB- / Stable (Assigned)
	Proposed Bank Guarantee	Short Term	1.5	ACUITE A4+ (Assigned)

*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	3.50	ACUITE B+ / Stable (Downgraded from ACUITE BB-)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4 (Downgraded from ACUITE A4+)
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B+ / Stable (Downgraded from ACUITE BB-)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4 (Downgraded from ACUITE A4+)

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About Acuité Ratings & Research:

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