

March 30, 2021

Hero Mindmine Institute Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term: Fund Based-Facilities	5.00	5.00	[ICRA]BBB (Stable); Reaffirmed
Short-Term: Non-Fund Based	1.50	1.50	[ICRA]A3+; Reaffirmed
Unallocated	3.50	3.50	[ICRA]BBB (Stable)/ [ICRA]A3+; Reaffirmed
Total	10.00	10.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to factor in Hero Mindmine Institute Private Limited's (HMIPL) status as a subsidiary of Hero Corporate Service Private Limited (HCSPL), an intermediate holding company of the Hero Enterprise Group. Being a part of the Group, which is promoted by Mr. Sunil Kant Munjal, the company enjoys access to healthy financial support and financial flexibility. Over the years, the promoter's track record of providing financial support, when required, is evidenced by infusion of Rs. 12.5 crore of compulsorily convertible preference equity shares in FY2011 and FY2012 and issuance of Rs. 3.5 crore of unsecured loans in FY2019 to help the company meet its elevated operating expenses.

ICRA notes that the company's financial performance had improved in FY2020 with the operating income (OI) growing by 6.3% YoY to Rs. 18.4 crore in FY2020, primarily driven by higher revenues from the PSU sector. Moreover, the operating profit margin improved to 8.8% in FY2020, compared to operating losses incurred in FY2019, aided by its cost control measures. The improvement in cash flow generation, coupled with the management's efforts to better manage its working capital cycle, reduced HMIPL's dependence on working capital borrowings, thereby improving the coverage indicators such as interest cover to 6.3 times (FY2019: -5.2 times), Adjusted Total Debt/ Adjusted OPBITDA¹ to 2.7 times (FY2019: -2.9 times) and gearing ratio to 0.7 times (FY2019: 1.2 times). However, the company's financial performance in FY2021 remained weak with the revenues declining by ~47% YoY to Rs. 6.8 crore in 9M FY2021 because of the adverse impact of Covid-19 pandemic on the demand for training modules and contents. Although the operating profit is likely to reduce during the current fiscal because of the sharp decline in revenues, the company's cost cutting initiatives are expected to offset the impact of negative operating leverage to some extent. Going forward, ICRA expects the operating profitability and credit metrics to improve gradually over the medium term, as HMIPL remains focused towards reducing its costs and increasing its top line.

The ratings remain constrained by the company's small scale of operations, significant accumulated losses on its balance sheet and high customer concentration with top five clients generating ~50% of its revenues. The ratings are also constrained by the high working capital intensity of the business due to a relatively elongated receivables cycle, partially attributable to the public sector undertaking (PSU) clientele with longer payment cycles. Additionally, in the absence of any effective entry barriers, HMIPL faces competition from organised and unorganised players in the training service industry, which limits its pricing flexibility. Nonetheless, its ability to provide differentiated services and the established relationships of Hero Enterprise Group with its various customers offers comfort.

The Stable outlook on the long-term rating reflects ICRA's belief that the company will continue to enjoy access to financial support from the promoters, with a gradual improvement in its operating performance also expected over the medium term.

¹ Adjusted for lease liability

Key rating drivers and their description

Credit strengths

Financial support and financial flexibility because of strong parentage – HMIPL is a part of the Hero Enterprise Group and is indirectly wholly-owned by Mr. Sunil Kant Munjal and his family. Being a part of the Group, the company enjoys healthy financial flexibility, and has received continued support from the promoters whenever necessary. Over the years, the promoters have infused ~Rs. 16.0 crore in the company in the form of compulsorily convertible preference equity shares and unsecured loans.

Credit challenges

Small scale of operations and presence in fragmented industry limits pricing power – HMIPL's scale of operation remains small with annual revenue of ~Rs. 18 crore in FY2020. In the current fiscal, the scale of operations has further declined, with corporates lowering their budgets for discretionary expenses and preferring to preserve liquidity. Additionally, the company is exposed to intense competition from a number of players in the training industry, thus limiting its pricing power.

High customer concentration risk with top five customers contributing ~50% of total revenues; high working capital-intensive business owing to high receivables – With 25-27% of its revenue being generated from its largest client i.e., Maruti Suzuki India Limited (MSIL) and ~50% of revenues being generated from the top five clients, the company remains exposed to high customer concentration risk. Moreover, the company's working capital intensity remains high, as most of its payments are realised within a period of two months from its clients with the same extending for over two months for certain PSU/Government clients, even as payments to the trainers are made in a month's time. Nevertheless, the company has been working on improving its efficiency in receivable collections, which aided in reducing the net working capital/OI (%) to 30% in FY2020 from 34% in FY2019. Going forward, it is expected to continue to work on improving its working capital cycle.

Weak financial risk profile characterised by significant accumulated losses; financial performance impacted by pandemic in FY2021 – The company's financial risk profile continues to be characterised by accumulated losses. Further, its financial performance has remained subdued in FY2021 because of the adverse impact of the pandemic. Nevertheless, financial support in the form of preference share capital from the ultimate holding company, Global Ivy Ventures LLP, has helped HMIPL in maintaining a comfortable capital structure. Going forward, increase in the scale of operations, along with the expectation of improvement in profitability, is likely to improve its financial risk profile over the medium term.

Liquidity position: Adequate

Despite moderation in cash flows from operations, HMIPL's liquidity position is **adequate**, supported by availability of unutilised working capital limits (average unutilised limits of Rs. 2 crore against the drawing power during the 14 month period ending in February 2021), no long-term debt repayments and minimal capex requirements. Further, ICRA expects the company's liquidity profile to be supported by availability of financial support from promoters in a timely manner.

Rating sensitivities

Positive factors – The company's ratings could be upgraded if there is an improvement in the parent's credit profile, along with an improvement in the financial performance of the company, aided by a scale-up in its core business of training services. HMIPL's ability to improve its working capital cycle through efficiency in receivable collection will also be considered favourably while reviewing the ratings.

Negative factors – HMIPL's ratings could be downgraded if the company's financial performance continues to remain weak, on a sustained basis, or if the parent's credit profile or likelihood of financial support weakens from the current level.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: Hero Corporate Service Private Limited (HCSPL) The rating assigned to HMIPL factors in the very high likelihood of its parent company, HCSPL, extending financial support to it because of the close business linkages between them. ICRA also expects HCSPL to be willing to extend financial support to HMIPL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

Incorporated in 2007, HMIPL provides services in the domain of learning and development. The company is primarily involved in providing corporate training and skill development services at various employment levels. It provides other services such as content development, performance consulting and HR solutions as well. Its customer base primarily includes corporates spread across numerous industries such as automobile, banking and financial services, consumer electronics, construction, infrastructure, FMCG, telecom and manufacturing, among others.

Pursuant to the business realignment among members of the Late Brij Mohan Lal Munjal family in August 2016, HMIPL is now a part of the Hero Enterprise Group, which is led by Mr. Sunil Kant Munjal. The company was established as the training and development venture of the earlier consolidated Hero Group and acquired by Hero Corporate Service Private Limited (HCSPL) on a going concern basis through a slump sale in August 2007. HCSPL, which is wholly-owned by the promoters through Global Ivy Ventures LLP, is an intermediate holding company of HMIPL and at present holds a 96.3% stake in the company (excluding preference shares).

The company is promoted by Mr. Sunil Kant Munjal, who is the Chairman of Hero Enterprise, which has interests in insurance distribution, steel- rolling, real estate, and corporate training.

Key financial indicators (audited)

HMIPL	FY2019	FY2020
Operating Income (Rs. crore)	17.4	18.4
PAT (Rs. crore)	-2.3	1.7
OPBDIT/OI (%)	-11.4%	8.8%
PAT/OI (%)	-13.4%	9.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.1
Total Debt/OPBDIT (times)	-2.9	2.8
Interest Coverage (times)	-5.2	6.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research

Note: Amount in Rs. crore; all calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
				Mar 30, 2021	Dec 6, 2019	Jul 11, 2018	Jun 20, 2017	
1 Cash Credit	Long Term	5.0	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	
2 Non-fund based limit	Short Term	1.5	NA	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-	
3 Unallocated limits	Long term and Short Term	3.5	NA	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	
4 Long-Term/short-term Interchangeable	Long-term and short term	-	-	-	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	

*An update on reason for delay in surveillance was published on October 30, 2019

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based- Cash Credit	NA	NA	NA	5.0	[ICRA]BBB (Stable)
NA	Non-fund based - Bank Guarantee	NA	NA	NA	1.5	[ICRA]A3+
NA	Unallocated	NA	NA	Na	3.5	[[ICRA]BBB (Stable)/ [ICRA]A3+

Source: Company

Annexure-2: List of entities considered for consolidated analysis- Not applicable

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