

December 06, 2019

Hero Mindmine Institute Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|-----------------------------------|----------------------------------|---|
| Long-Term: Fund Based-Facilities | 5.0 | 5.0 | [ICRA]BBB(Stable); reaffirmed |
| Short-Term: Non-Fund Based | 1.5 | 1.5 | [ICRA]A3+; reaffirmed |
| Unallocated | - | 3.5 | [ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed |
| Total | 6.5 | 10.0 | |

*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 member of the Group, promoted by Mr. Sunil Kant Munjal, the company benefits from access to healthy financial support and flexibility. Over the years, the promoter's track-record of providing financial support to the company 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.

The ratings remain constrained by the company's small scale of operations and its weak operating performance. HMIPL registered an operating loss of ~Rs 2 crore in FY2019 as compared to an OPBITDA of Rs. 0.6 crore in the previous year, which resulted in weak credit metrics at a standalone level. The moderation in profitability was primarily driven by inefficient cost management and lower-than-anticipated growth in revenue from its core business of training services due to loss of business from large clients.

Furthermore, HMIPL remains exposed to high customer concentration risk, with its top five clients generating more than 50% of its revenues in FY2019. The ratings are also constrained by high working capital intensity of the business due to a relatively elongated receivables cycle, partially attributable by the public sector undertaking (PSU) clientele with longer payment cycles. Additionally, in the absence of any effective entry barriers, the company 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 provide comfort.

Going forward, ICRA expects the company to continue to enjoy access to financial support from the promoters with a gradual improvement in its operating performance also expected over the medium term.

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. The company enjoys healthy financial flexibility, being a part of the Group as it has received continued support of the promoters whenever necessary. ICRA further draws

comfort from a considerable amount of fund earmarked by the promoters to meet the debt obligations of its investee companies, if required. Over the years, the promoters have infused about 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 a fragmented industry limits pricing power – Despite the continued increase in revenues over the past years, HMIPL's scale of operation remains small with an annual revenue of ~Rs. 17.4 crore in FY2019. Additionally, the company is exposed to intense competition from a number of players in the training industry thus limiting its pricing power. In FY2019, the company reported an operating loss of ~Rs. 2.0 crore, primarily driven by lower-than-anticipated revenue growth, coupled with inefficient cost management.

Significant client concentration risk – HMIPL continues to remain exposed to high customer concentration risk with around 50% of its revenue being generated from top five clients in FY2019. However, with the acquisition of new clients in both the Enterprise and the PSU segments, the client concentration is likely to moderate going forward.

High working capital intensive business owing to high receivables – 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. However, payments to the trainers are made in a month's time.

Weak financial risk profile characterised by significant accumulated losses – With significant accumulated losses on its books, the company's capital structure weakened materially in FY2019 owing to operating losses with gearing increasing to 1.2x at end-FY2019 from 0.4x in the year ago period. However, the preference share capital worth Rs. 12.6 crore issued by the promoters provides comfort.

Liquidity position: Adequate

HMIPL's liquidity position remains adequate, characterised by sufficient availability under its Rs. 5.0 cr working capital facility (Rs. 2.8 crore at end-FY2019), no long-term debt issuance and limited capex requirements (Rs. 6-8 lakh per annum). Further, ICRA expects the company's liquidity profile to be supported by continued promoter support, as guided by the management.

Rating sensitivities

Positive Trigger: The company's rating could be upgraded if there is a significant 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. The company's ability to improve its working capital cycle through efficiency in receivable collection will also be considered favourably while reviewing the ratings.

Negative Trigger: 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 The ratings are based on implicit support from the parent company. ICRA expects HCSPL to be willing to extend financial support to HMIPL, if required as assured by the ultimate holding entity of the Hero Enterprise Group, Global Ivy Ventures LLP. |
| Consolidation/Standalone | NA |

About the company

Incorporated in 2007, Hero Mindmine Institute Private Limited (HMIPL) provides services in the domain of learning and development. The company is primarily involved in providing training service at various employment levels. It also provides other services like content development, performance consulting and HR solutions. The company's customer base primarily includes corporates spread across numerous industries like automobile, banking and financial services, consumer electronics, construction, infrastructure, FMCG, telecom and manufacturing among other.

Pursuant to the business realignment among members of the Late Brij Mohan Lall Munjal family in August 2016, HMIPL is now a part of the Hero Enterprise Group. 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 currently 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)

| | FY2018 | FY2019 |
|--|--------|--------|
| Operating Income (Rs. crore) | 15.7 | 17.4 |
| PAT (Rs. crore) | 0.3 | (2.3) |
| OPBDIT/OI (%) | 3.6% | -11.4% |
| RoCE (%) | 5.6% | -18.7% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.7 | 1.6 |
| Total Debt/OPBDIT (times) | 5.6 | -2.9 |
| Interest Coverage (times) | 3.0 | -5.2 |
| DSCR | 3.5 | -4.6 |

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2020) | | | Rating History for the Past 3 Years | | | |
|---|---------------------------------------|-------------------------|--------------|--------------------|-------------------------------------|--------------------|--------------------------------|--------------------------------|
| | | Type | Amount Rated | Amount Outstanding | Rating | FY2019 | FY2018 | FY2017 |
| | | | | | 06-Dec-2019 | 11-Jul-2018 | 20-Jun-2017 | 14-Apr-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+ | - | - |
| 3 | Unallocated limits | Long term/ Short Term | 3.5 | NA | [[ICRA]BBB (Stable)/ [ICRA]A3+ | - | - | - |
| 4 | Long-Term/short-term; Interchangeable | Long term/ Short Term | 0.0 | NA | | - | [[ICRA]BBB (Stable)/ [ICRA]A3+ | [[ICRA]BBB (Stable)/ [ICRA]A3+ |

Amount in Rs. crore

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 | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------|--------------------------------|-------------|------------------|--------------------------------|--------------------------------------|
| NA | Cash Credit | NA | NA | NA | 5.0 | [ICRA]BBB (Stable) |
| NA | Bank Guarantee | NA | NA | NA | 1.5 | [ICRA]A3+ |
| NA | Unallocated | NA | NA | Na | 3.5 | [[ICRA]BBB (Stable)/ [ICRA]A3+ |

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