

Press Release

Master Business Enterprises

October 3, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Fund Based Facilities - Cash Credit	25.00	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)
2.	Short Term Fund Based Facilities – Packing Credit	12.00	IVR A4 (IVR A Four)
Total		37.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from the experience of the promoter, established network of clients and distribution network, infusion of capital by partners, moderate debt protection metrics and efficient working capital management. However, these strengths are, partially offset by stagnant operating income, weak profitability margins, intense competition due of low entry barriers, susceptibility to fluctuation in foreign exchange and client concentration risk. Growth in revenue, improvement in profitability margins and efficient working capital management are the key rating sensitivities.

List of key rating drivers with detailed description

Key Rating Strengths

Experienced promoter

The partner of the firm, Mr. S. Sudhakar has an extensive track record spanning over 20 years in the iron and steel trading industry. It has led to establishing a strong relationship with suppliers and customers.

Established network of clients and distribution network

The firm has an established network of clients in both domestic as well as international markets. In the global market, the firm has a strong distribution network through its

associates/ subsidiaries in key consuming markets like Sri Lanka, Dubai, and Austria owing to the vast experience and network of its promoters.

Infusion of capital by partners

The partners of the firm has infused capital of Rs 4.34 crore in FY19, which led to significant improvement in the tangible net-worth of the firm.

Moderate debt protection metrics

The firm has a moderate capital structure marked by the overall gearing of 1.39x as on March 31, 2019, which has improved from 1.70x as on March 31, 2018 primarily because of the capital infusion by the client. The firm has minimal long-term debt in the form of unsecured loans with a long term debt to equity ratio that is comfortable at 0.02x as on March 31, 2019 (PY – 1.70x). Total debt to gross cash accruals stood at 0.16x as on March 31, 2019. Further, the debt protection metrics are moderate, marked by interest coverage ratio of 1.41x.

Efficient working capital management

The debtor's days are moderate of 78 days in FY19. Even the creditor's days of the firm are reasonable at 41 days in FY19. The finished goods holding period is low at around 3-12 days for the past three years. The average cash credit utilization of the firm was moderate at approximately 64.14% during the past 12 months ended June 2019.

Key Weaknesses

Stagnant operating income

The operating income of the firm was stagnant at Rs.190.20 crore for FY19 as compared to Rs. 190.16 crore in FY18. It is mainly due to an increase in global commodity prices, which led to a decline in demand by the customers. For the last four years, the operating revenue grew at an average of around 4%.

Weak profitability margins

The profitability margins of the firm are shallow over the last four years. The EBITDA margin of the firm has been in the range of 0.6% - 2.1% over the previous three years. However, the EBITDA margin witnessed a marginal improvement from 1.70% in FY18 to

2.11% in FY19 on account of an increase in trade purchases of broken rice. The PAT margin also improved from 0.58% in FY18 to 0.99% in FY19.

Intense competition due of low entry barriers

The iron & steel trading and rice trading are highly competitive and comprises of numerous unorganized players, particularly domestic traders with cheap imports of steel structures, operating at different levels of the value chain. The low entry barriers limit the firm's pricing flexibility and bargaining power with the customer. Also, the firm's margins are mostly affected by the fluctuations in the price of commodity. However, more significant integrated players with strong sourcing relationships for raw material, those with superior marketing networks are likely to exhibit more stable credit profiles.

Susceptibility to fluctuation in foreign exchange

Around 12% of the sales of the firm in FY19 were exported, accounting for total forex exposure of ~Rs.22.18 crore during the year. In the light of the depreciation of the rupee over the last four years (~60 per dollar in June 2014 to ~72 per dollar in August 2019) there appears to be forex risk in the foreseeable future. However, by taking forward cover, this risk is partly mitigated by the firm.

Client concentration risk

Nearly 72% of the firm's revenue comes from the top ten customers. There is always volatility to the number of projects that could come up in any financial year. The firm saw the same operating income in FY19 compare to that of FY18. This risk is likely to persist in the future as well.

Analytical Approach & Applicable Criteria

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The firm maintains low cash and bank balance to meet its liquidity requirements. The firm is not planning to avail any long term debt in the near future indicating moderate liquidity position of the firm. The same is reflected in the comfortable projected interest coverage of 2.24x in FY19.

About the Company

Master Business Enterprises was incorporated in November 1999 as a partnership firm by Mr. Sudhakar's family. It is a family-owned business started by Mr. S Sudhakar. The management has an experience of 3 decades with Business interests in Iron & Steel products such as TMT Bars, Structurals, Pillets, Iron Scrap, Sponge Iron, etc.

It also started into the field of Surgical Equipment primarily to Orthopaedic Implants & Agro-exports - Rice (different grading) exports worldwide in the recent past. The firm has offices in Visakhapatnam and Hyderabad.

The type of products are TMT bars, structural steel, pellets, iron scrap, sponge iron, channels, angles, MS rounds, MS billets coal & coke, and medical implants and rice.

Financials (Standalone) (Rs. crores)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Provisional)
Total Operating Income	190.16	190.20
EBITDA	3.23	4.02
PAT	1.10	1.89
Total Debt	23.47	26.32
Tangible Networth	13.77	18.89
EBITDA Margin (%)	1.70	2.11
PAT Margin (%)	0.58	0.99
Overall Gearing Ratio (x)	1.70	1.39

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the rating of Master Business Enterprises into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 30, 2019.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based	Long Term	25.00	IVR BB/Sta	--	--	--

	Facilities – Cash Credit			ble Outlook			
2.	Short Term Fund Based Facilities – Packing Credit	Short Term	12.00	IVR A4	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	--	--	--	25.00	IVR BB /Stable Outlook
Packing Credit	--	--	--	12.00	IVR A4

