

Press Release

Garden City Education Trust

12 July, 2017

Rating Assigned



Total Instruments Rated*	Rs.10.50 Cr
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-' (read as SMERA BB minus)** and short term rating of '**SMERA A4+' (read as SMERA A four plus)** on the Rs. 10.50 crore bank facilities of Garden City Education Trust. The outlook is '**Stable**'.

The Bangalore-based Garden City Education Trust (GCET) registered on February 27, 1992 runs Garden City College (GCC). The college offers a range of courses in the fields of science, management, commerce, media studies to name a few. The institution is led by the trustees, Mr. V.G. Joseph, Ms Gracey K.J. and Ms Manoja.

Key Rating Drivers

Strengths

- **Established track record and diversity in courses offered**

GCET has been in operation for 25 years and offers various courses in the fields of science, fashion, life sciences, tourism among others. The institution is currently affiliated to Bangalore University. The trustees have experience over two decades in the field of education.

- **Healthy financial risk profile**

GCET has healthy gearing (debt to equity ratio) of 0.05 times as on 31 March, 2016, an improvement from 0.31 times as on 31 March, 2015. The net worth stood at Rs. 29.87 crore as on 31 March, 2016. The interest coverage ratio stood healthy at 17.89 times in FY2016 as against negative 1.54 times in FY2015.

Weaknesses

- **Uneven profitability**

The trust registered net profit of Rs. 3.55 crore in FY2014, after considering non-operating income of Rs. 4.35 crore which mainly includes profit on sale of assets. Further, the trust has incurred cash losses in FY2015. The EBITDA loss stood at Rs. 1.34 crore and net loss of Rs. 3.45 crore.

- **Low student intake**

Despite being in operation for 25 years, GCET has been able to generate only a moderate revenue of Rs. 20.71 crore in FY2016 as against Rs. 15.70 crore in FY2015 and Rs. 17.25 crore in FY2014. The uneven revenues are on account of low student intake. The average intake stood at ~63.63

percent in AY2015-16 as against ~51.64 percent in AY2014-15 for all courses.

- **Susceptibility of revenues due to delinking of courses from Bangalore University**

GCET will link its courses to the proposed Garden City University which will be set up by AY (Academic Year) 2017-18 instead of the Bangalore University earlier. This is likely to affect the intake of students for the current AY and also next year till it is able to regain its foot hold.

- **Intense competition and fragmented nature of business**

The trust is exposed to intense competition from other educational institutions in Bangalore.

- **Stringent regulatory framework**

GCET is exposed to risks related to unfavourable changes in government policies from time to time.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the trust.

Outlook: Stable

SMERA believes that GCET will maintain a stable outlook owing to its experienced management. The outlook may be revised to 'Positive' in case of increase in student strength on the back of growth in fee receipts while maintaining operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the trust fails to achieve scalability amidst intensifying competition in its area of operations or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded capex.

About the Rated Entity - Key Financials

The trust reported surplus of Rs. 6.76 crore on operating income of Rs. 20.71 crore in FY2016 as against deficit of Rs.3.45 crore on operating income of Rs.15.70 crore in FY2015. The net worth stood at Rs. 22.89 crore as on 31 March, 2016 compared to Rs.12.43 crore as on 31 March, 2015.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Services Sector - <https://www.smera.in/criteria-services.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.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	2.50	SMERA BB- / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+

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ABOUT SMERA

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