

Press Release

Garden City Education Trust

July 29, 2019



Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 10.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB /Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BB'** (**read as ACUITE double B**) and reaffirmed the short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 10.50 crore bank facilities of GARDEN CITY EDUCATION TRUST (GCET). The outlook is '**Stable**'.

The rating upgrade is driven by improvement in business risk profile on account of regular infusion of unsecured loans and improvement of revenues (inclusive of fee receipts, hostel fee, transportation fee among others) of Rs.33.71 crore in FY2019 (Provisional) from Rs.27.66 crore in FY2018.

GCET was registered in 1992 with the main objective of imparting educational training in various fields such as Arts, Computer science, Life science, Tourism, Management and Media science to name a few. GCET runs the Garden City College (GCC) and Garden City University (GCU) at Bangalore (Karnataka), which is presently offering about 30 different courses. The Trustees are Dr. Joseph V.G, Mrs. Gracey. K. J and Mr. Christo. V. Joseph.

Analytical Approach

Acuité has considered the consolidated financial and business risk profile of Garden City Education Trust (GCET) and Garden City University (GCU) to arrive at the rating as GCU is sponsored and owned by GCET. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Experienced management and established track record of operations

GCET has been in operations for more than two decades. The Promoter and current Chairman, Dr. Joseph V.G., has more than three decades of experience in the field of education. Dr. Joseph V.G. is supported by highly qualified people such as Dr. Thomas Aykara (M.A., Ph.D), Dr. Genevieve (M.Sc. Ph.D), Dr. V B Coutinho (B.Sc, LL.B, LL.M and Ph.D), Dr. N.S Ramegowda (M.Sc. Ph.D) and Mr. N.S. Ashok Kumar (Ph.D) among others. Further, the faculty of the College/University comprises of professionals in their respective fields. GCC/GCU offers more than 30 post graduate as well as under graduate courses in various fields such as Arts, Computer science, Life science, Tourism, Management and Media science to name a few.

• Healthy financial risk profile

The financial risk profile of GCET is healthy marked by tangible net worth of Rs.42.01 crore as on 31 March, 2019 (Provisional) which includes unsecured loans considered as quasi equity to the tune of Rs.9.75 crore, as against net worth of Rs.41.26 crore as on 31 March, 2018. The gearing (debt/equity) stood at 0.53 times as on 31 March, 2019 (Provisional) as against 0.39 times as on 31 March, 2018. The total debt of Rs.22.35 crore outstanding as on 31 March, 2019 (Provisional) comprises Rs.7.56 crore as term loan from bank, Rs.9.34 crore unsecured loans from promoters and Rs. 5.45 crore as working capital borrowing from the bank. The interest coverage ratio is moderate at 2.24 times in FY2019 (Provisional) as against 2.07 times in FY2018. Total outside liabilities to tangible net worth (TOL/TNW) stood healthy at 0.73 times as on 31 March, 2019 (Provisional) as against 0.59 times as on 31 March,

2018. Acuité believes that GCET will sustain its financial risk profile on the back of steady growth in admissions over the medium term.

Weaknesses

- **Moderate occupancy level**

The occupancy ratio of the trust reduced to 55 percent in FY2019 as compared to 64 percent in FY2018 on account of addition in the intake capacity of the existing courses and slower growth in new admissions.

- **Uneven profitability**

EBITDA margin declined to ~14.46 percent in FY2019 (Provisional) as compared to 16.90 percent in FY2018 and 22.70 percent in FY2017. The decline is mainly due to increase in advertisement expenses for the new university. Further, net profitability ratio stood at 2.20 percent in FY2019 (Provisional) as compared to 2.97 percent in FY2018.

- **Stringent regulatory framework and intense competition**

Various agencies such as AICTE, NBA, NAAC, MCI, UCG among others under the State and Central government prescribe regulatory frame work to GCET depending on the professional courses offered. The compliance is highly regulated and marked with entry, operation and exit barriers at each level which can impact the revenues and profitability of the trust. Further, GCET is exposed to intense competition from various educational institutes located at Bangalore and surrounding areas.

Liquidity position

GCET has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. GCET generated cash accruals of Rs.2.97-4.51 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.1.71-3.00 crore over the same period. The cash accruals of GCET are estimated to remain around Rs.3.8-5.1 crore during 2019-21, while its repayment obligation is estimated to be around Rs.1.8 crore per annum. GCET has moderate reliance on working capital borrowings, the cash credit limit remains utilised at ~40 percent during the last 3 months period ended June 2019. Acuité believes that the liquidity of GCET is likely to remain adequate over the medium term on account of growing cash accruals backed by increase in the number of courses and admissions.

Outlook: Stable

Acuité believes that GCET will benefit from its experienced management in the long term. The outlook may be revised to 'Positive' if there is more than expected increase in the society's receipts. Conversely, the outlook may be revised to 'Negative' if the society fails to achieve the scalability amidst intensifying competition in the area of operation or if financial risk profile or working capital cycle deteriorates.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	33.71	27.66	23.33
EBITDA	Rs. Cr.	4.88	4.67	5.30
PAT	Rs. Cr.	0.74	0.82	3.14
EBITDA Margin	(%)	14.46	16.90	22.70
PAT Margin	(%)	2.20	2.97	13.45
ROCE	(%)	5.51	6.24	11.94
Total Debt/Tangible Net Worth	Times	0.53	0.39	0.35
PBDIT/Interest	Times	2.24	2.07	3.57
Total Debt/PBDIT	Times	3.82	2.82	2.38
Gross Current Assets (Days)	Days	266	314	519

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>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-Aug-2018	Secured Overdraft	Long Term	2.50	ACUITE BB / Stable (Upgraded)
	Secured Overdraft	Long Term	3.00	ACUITE BB / Stable (Upgraded)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Reaffirmed)
12-Jul-2017	Secured Overdraft	Long Term	2.50	ACUITE BB- / Stable (Assigned)
	Secured Overdraft	Long Term	3.00	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	5.00	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	2.50	ACUITE BB+ /Stable (Upgraded from ACUITE BB/Stable)
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+ /Stable (Upgraded from ACUITE BB/Stable)
Bank guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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