

Press Release

Savitri Education Foundation

December 01, 2020

Rating Upgrade



Total Bank Facilities Rated*	Rs. 40.50 Cr.
Long Term Rating	ACUITE BBB/Stable (Upgraded)
Short Term Rating	ACUITE A3+ (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.40.50 crore of bank facilities of Savitri Education Foundation. The outlook is '**Stable**'.

The rating upgrade is driven by continuous improvement in the business risk profile of the group backed by improvement in revenues while sustaining their healthy profitability margins. The rating upgrade also takes into account the improvement in their networth levels, capital structure and liquidity position. The revenue of the group has improved to Rs.208.64 crore in FY2020 (Prov.) as compared to Rs.184.34 crore in the previous year. The operating profitability margin of the group has improved to 22.59 per cent in FY2020 (Prov.) as compared to 21.03 per cent in the previous year.

Savitri Education Foundation (SEF) was formed by Mr. Sanjay Kumar Khemka and Mr. Sunil Agarwal in 2015 to provide primary education in Kolkata. The trust operates 'The Newtown School', affiliated to CBSE Board with students of more than 3320 currently.

BEPL, the flagship entity of the group was founded by Mr. Sanjay Kumar Khemka and Mr. Sunil Agarwal in the year 2005. The entity is engaged in operating tutorial and coaching centers for engineering and medical entrance exams under the franchise of Aakash Educational Services (P) Ltd, New Delhi. BEPL currently has 8 centers in West Bengal and 4 in Patna with a student base of more than 14700.

Analytical Approach:

Acuite has consolidated the financial and business risk profile of Savitri Education Foundation (SEF) and Balajee Education Private Limited (BEPL). The group is herein being referred to as Savitri Group. The same is on account of common management, the same line of operations and significant operational and financial linkages. Extent of consolidation: Full

Key Rating Drivers:

Strengths

Experienced management

The promoters of the Savitri group, Mr. Sanjay Kumar Khemka and Mr. Sunil Agarwal, have long standing experience of more 15 years in the education sector in India. The founders, along with a strong team of qualified faculty members and state of the art infrastructure, have been imparting quality education to their students.

Healthy financial risk profile

The financial risk profile of the Savitri group is marked by healthy net worth, low gearing and strong debt protection metrics. The net worth of the group stood healthy at Rs.88.89 crore in FY 2020 (Prov.) as compared to Rs. 69.76 crore in FY2019. This improvement in networth is mainly due to the retention of current year surplus by the group. The gearing of the group stood low at 0.48 times as on March 31, 2020 (Prov.) when compared to 0.63 times as on March 31, 2019. This improvement in gearing is mainly on account of repayment of long term debt and improvement in networth of the group during the period. Interest coverage ratio (ICR) is healthy and stood at 8.43 times in FY2020 (Prov.) as against 8.01 times in FY 2019. The debt service coverage ratio (DSCR) of the group also stood healthy at 2.85 times in FY2020 (Prov.) as compared to 3.12 times in the previous

year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.78 times in FY2020 (Prov.) as compared to 0.68 times in the previous year. Going forward, Acuite believes the financial risk profile of the group will remain healthy backed by no major debt-funded capex plan over the medium term and steady net cash accruals.

Healthy scale of operation coupled with improving profit margins

The revenue of the group stood healthy at Rs. 208.64 crore in FY2020 (Prov.) as compared to Rs.184.34 crore in the previous year thereby registering a year on year growth of 13.18 per cent. This improvement is on account of an increase in average occupancy to 75 per cent in academic session 2020-21 as compared to 60 per cent in the previous year. The group has earned Rs.108.02 crore till 30th September in FY2020 (Provisional).

The Savitri group has consistently reported healthy profitability margins as reflected from operating margins at 22.59 per cent in FY2020 (Prov.) as compared to 21.03 per cent in the previous year. This improvement is on account of a decrease in administrative cost during the period. The net profitability margin of the group also stood healthy at 9.14 per cent in FY2020 (Prov.) as compared to 9.75 per cent in the previous year.

Weaknesses

Exposure to intense competition and stringent regulatory framework for the educational sector in India

The group faces intense competition from other private institutions offering similar courses. Given the competition, the ability of the group to attract requisite students in tune with its sanctioned intake would be a challenge. Further, the Indian education industry is highly regulated and consequently subject to the stringent regulatory framework, which is to be followed by group operated institutes. Any major change in regulatory framework by Government of India or change in policy by affiliated boards will have a major impact on the revenue, financial and operating performance of the group. Acuite believes that group's ability to scale up its operations while maintaining profitability will be a key rating monitorable.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure

Material Covenant

None

Liquidity Position: Strong

Acuite believes that the group has strong liquidity marked by healthy net cash accruals in FY2020 (Prov.) of Rs.33.62 crore as against Rs.8.15 crore of yearly debt obligations. The cash accruals of the group are estimated to remain in the range of around Rs. 30.45 crore to Rs. 43.10 crore during 2021-23 against Rs.8.15 crore repayment obligations in FY2021, in FY2022 and in FY2023 respectively. The gross current asset (GCA) days stood comfortable at 50 days in FY2020 (Prov.). The liquidity of the group is also supported by the unencumbered cash balance of Rs.21.82 crore and free investment with the bank of Rs.5.98 crore in FY2020 (Prov.). Moreover, the company has neither applied any COVID emergency credit line nor availed the loan moratorium till August 2020 for TL. However, the current ratio of the group stood low at 0.45 times in FY2020 (Prov.) on account of the high amount of advance fees received during the period. Acuite believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite believes Savitri group will continue to benefit over the medium term from the extensive experience of its promoters in the education sector. The outlook may be revised to 'Positive' if there is a substantial increase in the group's operating income while maintaining its profitability leading to improvement in its financial risk profile. The considerable increase in number of students would result in increased operating income. Conversely, the outlook may be revised to 'Negative' in case of a sharp decline in accruals, deterioration in profitability margin, deterioration in debt protection metrics or if the student enrolment witnesses a significant drop.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	208.64	184.34
PAT	Rs. Cr.	19.07	17.98
PAT Margin	(%)	9.14	9.75
Total Debt/Tangible Net Worth	Times	0.48	0.63
PBDIT/Interest	Times	8.43	8.01

About the Rated Entity - Key Financials (Standalone)

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	42.57	36.94
PAT	Rs. Cr.	0.53	2.52
PAT Margin	(%)	1.25	6.82
Total Debt/Tangible Net Worth	Times	0.85	0.95
PBDIT/Interest	Times	2.83	2.97

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-52.htm>
- Service Sector – <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
06-Sep-2019	Term Loan	Long Term	40.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Reaffirmed)
23-Jul-2019	Term Loan	Long Term	40.00	ACUITE BBB- (Indicative)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Indicative)
09-May-2018	Term Loan	Long Term	40.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	0.50	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	June 2016	9%	March 2023	40.00	ACUITE BBB/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A3+ (Upgraded)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head– Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Abhishek Dey Rating Analyst Tel: 033-66201208 abhishek.dey@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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