Press Release

Nachimuthu Industrial Association

October 05, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE BBB minus)** to the Rs. 50.00 crore bank facilities of Nachimuthu Industrial Association (NIA). The outlook is **'Stable'**.

NIA belongs to the Sakthi group of companies based out of Coimbatore (Tamil Nadu). NIA was established in 1956 promoted by Shri P. Nachimuthu and family. NIA currently operates 6 schools and 3 colleges under its umbrella offering undergraduate and post-graduate courses in various streams in engineering, Polytechnic, agriculture along with primary and secondary education. It has a student base of about 12340 as of August 2018.

About the Group

Nachimuthu Industrial Association (NIA) belongs to the Sakthi group of companies based out of Coimbatore; Sakthi group has diversified interests across various industries such as sugar, dairy, industrial alcohol, automobile distribution and components, transportation & Logistics, energy, textiles, Petrol Pump Operations, IT services, education, coffee, tea and cardamom plantations, and health care.

Analytical Approach

Acuité team has not consolidated the financial and business risk profiles of Nachimuthu Industrial Association (NIA) with other group entities, as there are no significant operational or financial linkages or investments among the entities.

Key Rating Drivers:

Strengths

- **Established track record of operations**

  Established in 1956, Nachimuthu Industrial Association is an educational, cultural and socio-spiritual non-profit organisation founded by Mr. P. Nachimuthu Gounder. NIA is in the education field over the last six decades, offering diverse courses through eight institutes from pre-primary school to masters across various domains; including engineering, Polytechnic and Agriculture streams. NIA's first foray is into polytechnic college in 1957, followed by schools in 1959, engineering college in 1998 and agricultural college in 2014. NIA is a family-run Trust with all the trustees having experience of more than four decades in running educational institutions. The educational institutions located across Coimbatore and Pollachi are spread in 150 acres campus along with required infrastructure facilities. NIA on regular basis invests atleast Rs.5.00 crore on improving the infrastructure facilities across its institutions. Acuité believes that established presence of the trust in the education sector, and brand image of NIA aids in steady enrolment levels in all schools and colleges provides growth prospects over the medium term.

- **Healthy financial risk profile**

  NIA's financial risk profile is supported by robust debt coverage metrics and strong net worth position resulted in healthy capital structure and healthy liquidity profile. The debt protection metrics are robust reflected by Interest coverage ratio (ICR) of 4.78 times and net cash accruals to total debt (NCA/TD) of 0.64 times as on March 31, 2018 (Provisional). The NIA's capital structure is strong as reflected by debt-to-equity of 0.27 times and Total Outside Liabilities to Tangible Net Worth (TOL/ TNW) of 0.47 times as on March 31, 2018 (Provisional). The liquidity profile also remains very strong, as evidenced by large cash and cash equivalents of Rs. 27.13 crore as on March 31, 2018 (Provisional) against Rs.26.26 crore in FY2017.

NIA, in the past, availed a term loan of about Rs.24 crore; as part of the security clause, it has kept deposit of about Rs.7.2 crore in the form of debt-service reserve account (DSRA) with Axis Bank towards 12 months of interest obligation and one annual installment of Rs.4.60 crore. This gives a strong cushion in case of any stretch in its liquidity to service the debt. Further, NIA maintains balances in current and savings account with the bank branches to take care of the establishment expenses for the next six months and balances with the branches including cash and bank balances as on March 31, 2018 (Provisional) are about Rs.17.49 crore.

NIA has reported cash accruals of about Rs.19.4 crore (Provisional) in FY2018; cash accruals over the medium term are expected in the range of Rs.22.0-24.0 crore against which its repayment obligations are around Rs.9.0 crore leaving adequate scope for margin money for capex. Acuité believes that healthy cash flows at the beginning of the academic year, and maintenance of balances across the branches to meet their requirements either of fee collections or overdraft account and huge buffer in DSRA is expected to keep the liquidity profile healthy.

- **Consistent growth in operating income and enrolment ratio**

The operating income of the NIA increased by 12 percent to Rs.75.34 crore in FY2018 (Provisional) from Rs.66.64 crore in FY2017 supported by the increase in total number of students to 12340 in AY2018 from 11890 in AY2017. Further, the enrolment ratio for the institutes such as Nachimuthu Polytechnic College (NPTC), Mahalingam College of Engineering and Technology (MCET), Vanavarayar Institute of Agriculture (VIA) are healthy and improving year-over-year at 73 percent, 86 percent, 100 percent respectively in FY2018. With the on-going capex for improving the infrastructure facilities across the institutions including for taking additional batches, the revenue profile is expected to improve over the medium term.

Weaknesses

- **Moderate capital expenditure plans and liquidity management**

NIA has taken up moderate capital expenditure (capex) of about Rs.28.55 crore, partly debt-funded by Rs.20.00 crore and balance out of internal accruals. The same is for improvement of infrastructure facilities which is an on-going activity for NIA; and current capex is expected to be completed partly for next academic season, and fully for academic season 2021. As the fee income is received in advance and, to ensure timely cash flow throughout the year, NIA availed overdraft facility of about Rs.14.5 crore which is highly utilised during off-season; and marginally utilised during fee collection period; its outstanding balance in July 2018 is about Rs.1.04 crore against sanctioned limit of Rs.14.5 crore. The interim reliance on working capital is owing to continuous capex, timing difference of loan proposals and spent, marginal amount of advances to group entities; however, at all times NIA draws funds out of overdraft account and maintains balances in branch accounts to ensure timely disbursement of salaries and other establishment expenses. This results in high utilisation of loan funds during off-season.

- **Education sector in India is highly regulated and competitive**

The education sector is highly regulated with the government deciding on the maximum student intake, fees, mandatory facilities, faculty strength and even faculty salary to an extent. Any adverse government regulations may impact the trust's revenue growth and accruals. The student-teacher ratio is within the stipulated norms for all the institutions. The institutions run by the trust faces stiff competition from other reputed institutions in the vicinity which puts pressure to attract fresh students. This is puts pressure on the profitability margins; operating margins have been declining consistently over the past three years from 34 percent in FY2016 to about 26 percent in FY2018. However, considering that the Sakthi Group has an established brand presence with good infrastructure, NIA is able to insulate surplus generation with improvement in revenues.

Outlook: Stable

Acuité believes NIA will maintain 'Stable' outlook from the extensive experience of the management in the education sector and the established brand presence of the Sakthi Group. The outlook may be revised to 'Positive' in case of significant improvement in its surplus generation, while sustaining the growth in revenues aided by healthy admission levels. The outlook may be revised to 'Negative' in case of any stretch in its working capital management, or higher-than-expected debt-funded capex or if any significant loans and advances are made to group entities leading to deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	75.34	66.64	66.50
EBITDA	Rs. Cr.	19.74	19.83	22.75
PAT	Rs. Cr.	9.42	8.69	4.77
EBITDA Margin	(%)	26.20	29.75	34.22
PAT Margin	(%)	12.51	13.05	7.18
ROCE	(%)	10.32	9.81	7.52
Total Debt/Tangible Net Worth	Times	0.27	0.36	0.46
PBDIT/Interest	Times	4.78	4.75	4.71
Total Debt/PBDIT	Times	1.23	1.59	1.66
Gross Current Assets (Days)	Days	224	247	220

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.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

Note on complexity levels of the rated instrument
https://www.acuite.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
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- / Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BBB- / Stable (Assigned)

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About Acuité Ratings & Research:

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