

Press Release

Nachimuthu Industrial Association

December 19, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

The rating reaffirmation is on the account of sustenance in NIA's business and financial risk profile with sustained growth in operating income and profitability of the NIA. NIA's revenue has improved marginally to Rs. 68.68 crore in FY2019 from Rs. 66.25 crore in FY2018, while its operating profitability has marginally declined by 200 bps to around 27 per cent in FY 2019. Further, the ratings continue to reflect the experienced management and established track record of operations and healthy financial risk profile. However, the rating is constrained by highly regulated and competitive nature of education sector.

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 10,870 as on October 31, 2019.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of NIA to arrive at the rating.

Key Rating Drivers

Strengths

• Established track record of operations

NIA was founded by Mr. P. Nachimuthu Gounder, in 1956 and has established brand presence in Tamil Nadu region over the last six decades.. It offers diverse courses through Nine institutes from pre-primary school to master's degree 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. NIA's operating income has been stagnant over the last 3 years ended FY2019 the operating income stood at Rs.68.68 crore in FY2019 as against Rs. 66.25 crore in FY2018. NIA has reported healthy margins in the range of 26-29 percent during last three years ending through FY2019. Acuite believes that established presence of the association in the education sector, and established brand image of NIA aids in steady enrolment levels in all schools and colleges.

• Healthy financial risk profile

NIA's financial risk profile is healthy marked by healthy network, low gearing levels and healthy debt protection metrics. The company has followed a conservative financial policy in the past, the same is reflected through its healthy capital structure marked by gearing and total outside liabilities to tangible network (TOL/TNW) levels of 0.14 and 0.30 times as on March 31, 2019 as against vis-à-vis 0.25 times and 0.40 times, respectively as on March 31, 2018. The leverage level is expected to remain low over the medium term. The debt/EBITDA continues to remain comfortable at around 0.85 times as on March 31, 2019. The corpus funds stood healthy stood at Rs.131.66 crore as on 31 March, 2019 as against Rs.118.75 crore as on 31 March, 2018. Its debt protection metrics are healthy marked by interest coverage and net cash accruals to total debt of 7.72 times and 1.03 times in FY2019 vis-à-vis 5.80 times and 0.63 times, respectively in FY2018. NIA's healthy cash accruals to the tune of about Rs.19 crores have supported in minimising the reliance on external debt. NIA reported cash accruals of Rs.19 crore in FY2019; its cash

accruals are expected to be in the range of Rs.20-22 crore in FY2020-22 against its repayment obligations of about Rs.2-7 crore during the same period and it is implementing regular capex of about Rs.5.00 crores for expansions. Acuite believes that NIA is likely to sustain its financial risk profile on the back of steady growth in admissions over the medium term

Weaknesses

• Education sector in India is highly regulated

Education sector is highly regulated with the government deciding on the maximum student intake, fees, mandatory facilities, faculty strength. Any adverse change in the government regulations may impact the trust's ability to generate sustained revenue growth and accruals. The institutions run by the trust faces stiff competition from other reputed institutions in the nearby vicinity which may inhibit the trust's ability to attract fresh students.

Liquidity Position: Adequate

NIA has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. NIA generated cash accruals of Rs.18 crore to Rs.19 crore during the last three years through FY2017-19, while its maturing debt obligation was in the range of Rs.5-6 crore during the same period. The accruals are expected in the range of Rs.20-22 crore in FY2020-22 against its repayment obligations will be in the range of Rs.2-7 crore during the same period. Its working capital borrowings utilized efficiently at 38 percent during the last six months period ended October 2019. The NIA maintains unencumbered cash and bank balances of Rs.11.65 crore as on March 31, 2019. The current ratio of the company stands at 1.01 times as on March 31, 2019. Acuite believes that the liquidity of the NIA is likely to remain adequate over the medium term on account of healthy cash accrual and to its repayments over the medium term.

Outlook: Stable

Acuite believes that NIA will continue to benefit over the medium term due to its "established brand presence, extensive experience of the management in the education sector and healthy financial risk profile. The outlook may be revised to "Positive", if the NIA demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining/improving its capital structure". Conversely, the outlook may be revised to "Negative", if NIA's generates lower-than-anticipated cash accruals or sharp decline in operating margins, or larger-than expected debt-funded capex or any significant investments in group entities, or thereby impacting its financial risk profile, particularly its liquidity.

Rating Sensitivities

- Sustained increase in inflow of students coupled with increase in fees
- Any large capex to further expand the operations

Any Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	68.68	66.25
PAT	Rs. Cr.	9.34	10.08
PAT Margin	(%)	13.60	15.22
Total Debt/Tangible Net Worth	Times	0.14	0.25
PBDIT/Interest	Times	7.72	5.80

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Oct-2018	Proposed Overdraft	Long Term	20.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Term Loan	Long Term	30.00	ACUITE BBB-/ Stable (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	15.00	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB- / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40042327 bhavanisankar.oruganti@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294022 rating.desk@acuite.in

About Acuité Ratings & Research:

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