

## Press Release

### Nachimuthu Industrial Association

August 02, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BBB   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

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

#### Rationale for rating reaffirmation

The rating reaffirmation takes into account increase in NIA's revenue and healthy financial risk profile. It also draws comfort from company's experienced management and established track record of operations. However, the decline in NIA's operating margin acts as a constraining factor for the rating. Ability of the company to maintain its revenue while improving its operating margin and ability to maintain an efficient working capital cycle will remain a key rating sensitivity factor.

#### About the Company

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.

#### 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 and experienced management

NIA was founded by Mr. P. Nachimuthu in 1956 and has an 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 is a family-run Trust with all the trustees having

experience of more than four decades in running educational institutions.

Acuité 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**

Financial risk profile of NIA is healthy marked by healthy network, low gearing and healthy debt protection metrics. The networth of the company has improved to Rs.177 Cr as on 31 March, 2022 (Provisional) as against Rs.160 Cr as on 31 March, 2021 on account of healthy accretion to reserves. The gearing (debt-equity) has marginally improved to 0.03 times as on 31 March, 2022 (Provisional) as against 0.04 times as on 31 March, 2021. The gearing of the company is however expected to increase over the medium term on account of proposed debt funded capex plan. The total debt of Rs.4.72 Cr as on 31 March, 2022 (Provisional) consists of long term bank borrowings of Rs.0.19 Cr and short term working capital limit of Rs.4.53 Cr.

The interest coverage ratio and DSCR stood high at same level of 273.74 times for FY2022 (Provisional) as against 26.44 times and 3.72 times for FY2021. The Net Cash Accruals to Total debt stood higher at 4.99 times for FY2022 (Provisional) as against 3.41 times for FY2021. The Total outside liabilities to Tangible net worth stood at 0.17 times for FY2022 (Provisional) as against 0.16 times for FY2021.

Acuité believes that the financial risk profile of NIA will remain healthy in near to medium term albeit some moderation on account of increase in debt levels for its proposed debt funded capex plan.

### **Weaknesses**

#### **Decline in operating margin albeit increase in revenue**

NIA reported revenues of Rs.62 Cr for FY2022 (Provisional) as against Rs.53 Cr in FY2021 which is a growth of ~16 percent on account of increase in collection of tuition fees and other related fees during the academic year 2021-22 as against 2020-21. Apart from that, the company also had a subsequent increase in the income generated from its printing, farm division and wellness clinic segments during FY2022 as against FY2021. However, the operating margin of the company got declined to 30.20 percent in FY2022 (Provisional) as against 37.73 percent in FY2021 due to significant increase in the administrative expenses and employee costs. The net profit margin however stood improved at 27.80 percent in FY2022 (Provisional) as against 24.66 percent in FY2021 on account of decrease in the interest and depreciation expenses.

Acuité believes that the ability of NIA to improve its operating margin in near to medium term will continue to remain a key rating sensitivity factor.

### **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 government regulations may impact NIA's ability to generate sustained revenue growth and accruals. The institutions run by NIA faces stiff competition from other reputed institutions in the nearby vicinity, which may inhibit the company's ability to attract fresh students.

### **Rating Sensitivities**

- Ability to maintain scale of operations while improving operating margin
- Ability to maintain an efficient working capital cycle

### **Material covenants**

None

### **Liquidity position - Adequate**

NIA has adequate net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.20 Cr to Rs.24 Cr during FY2020 to FY2022

(Provisional) against its repayment obligation in the range of Rs.5 Cr to Rs.0.13 Cr for the same period. Going forward the NCA are expected in the range of Rs.19 Cr – Rs.21 Cr for period FY2023-FY2024 against repayment obligation in the range of Rs.0.09 Cr – Rs.0.10 Cr for the same period. The working capital operations of the company are moderately intensive marked by its improved gross current asset (GCA) days of 136 days for FY2022 (Provisional) as against 265 days for FY2021. The average bank limit utilization for 6 months' period ended Mar 2022 stood lower at ~6 percent. Current ratio stands at 1.19 times as on 31 March 2022 (Provisional). The company has maintained cash & bank balance of Rs.7 Cr in FY2022 (Provisional).

Acuité believes that the liquidity of NIA is likely to remain adequate over the medium term on account of healthy cash accruals against its maturing debt obligations.

### Outlook: Stable

Acuité believes that NIA will maintain 'Stable' outlook over the medium term on account of its experienced management with established track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	61.73	53.11
PAT	Rs. Cr.	17.16	13.10
PAT Margin	(%)	27.80	24.66
Total Debt/Tangible Net Worth	Times	0.03	0.04
PBDIT/Interest	Times	273.74	26.44

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

Not applicable

### Any other information

None

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

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

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Mar 2021	Proposed Bank Facility	Long Term	24.20	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Term Loan	Long Term	10.80	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
	Secured Overdraft	Long Term	15.00	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)

19 Dec 2019	Term Loan	Long Term	20.00	ACUITE BBB-   Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	15.00	ACUITE BBB-   Stable (Reaffirmed)
	Secured Overdraft	Long Term	15.00	ACUITE BBB-   Stable (Reaffirmed)
05 Oct 2018	Proposed Term Loan	Long Term	30.00	ACUITE BBB-   Stable (Assigned)
	Proposed Secured Overdraft	Long Term	20.00	ACUITE BBB-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Catholic Syrian Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	24.20	ACUITE BBB   Stable   Reaffirmed
Catholic Syrian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	10.80	ACUITE BBB   Stable   Reaffirmed

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Nilesh Soni Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:nilesh.soni@acuite.in">nilesh.soni@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.