

Press Release

Ajekar Padma Gopal Education Trust

November 26, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs. 8.00 crore bank facilities of Ajekar Padma Gopal Education Trust (APGET). The outlook is '**Stable**'.

Ajekar Padma Gopal Education Trust (APGET) was established in 2010 by Dr. Sudhakar Shetty, M. Sc., Ph. D. The trust is a non-profit organisation and operates a Karkala Jnana Sudha PU College and Karkala Jnana Sudha English Medium High School under APGET. The trust provides education from nursery to high school. The curriculum in the international school is affiliated to the Karnataka Secondary Education Examination Board for Sudha English Medium High School and Karkala Jnana Sudha PU College is affiliated to Department of Pre University Education Board. There are total 1514 students, 76 teaching staff and 109 non-teaching staff under APGET for AY2019.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of APGET to arrive at the rating.

Key Rating Drivers

Strengths

• Healthy growth in revenue receipts

APGET has a healthy occupancy ratio of around 85 percent for academic year (AY) 2017-18; the student strength for AY2019 is 1514 improved from 1135 in AY2018 supported by class additions and increased enrolment at about 83 percent from about 73 percent in the past. The growth in revenue has been supported by a steady increase in student intake and periodic fee revisions. The revenue receipts improved from Rs.6.87 crore in FY2017 to Rs.10.81 crore in FY2018. APGET has continuously incurred capex of about Rs.7.8 crore and Rs.5.0 crore in FY2018 and FY2017 respectively. It was for addition of new class rooms at the current premises and for new setup at Bellary for PU College. Revenues from new branch are expected from AY 2019-20. Acuité believes that continuous growth in intake, steady fee revision and branch expansion are expected to support growth in revenues over the medium term.

• Established reputation aided by good infrastructure

Established in 2010, APGET is an educational, cultural and socio-spiritual non-profit organisation founded by Dr. Sudhakar Shetty. APGET Schools have good infrastructure with impressive indoor and outdoor facilities in a campus spread over 15 acres of land, along with required infrastructure facilities. The favourable location of APGET's school boosts growth prospects. Acuité believes that established presence of the trust in the education sector aids in steady enrolment levels in all schools and colleges providing growth prospects over the medium term.

• Above average financial risk profile

APGET's financial risk profile is supported by moderate gearing (debt-to-equity) and debt coverage metrics. The gearing is moderate at 1.05 times and Total Outside Liabilities to Tangible Net Worth (TOL/ TNW) stood at 1.26 times as on March 31, 2018. The debt protection metrics are moderate reflected by Interest Coverage Ratio (ICR) of 4.71 times and net cash accruals to total debt (NCA/TD) of 0.26 times as on March 31, 2018. APGET over the last two years has incurred a capex of about Rs.13.0 crore funded out of term loan of Rs.6.00 crore and balance out of internal

accruals and trustees' contribution in the form of land of about Rs.1.70 crore. APGET generated cash accruals of about Rs.2.70 crore in FY2018; and is expecting cash accruals in the range of Rs.3.00 - 4.00 crore over the medium term, against which its repayment obligations are about Rs.1.00 crore per annum. Acuite believes that, with moderate cash accruals and modest regular capex, the financial risk profile is expected to improve marginally over the medium term.

Weaknesses

• Modest scale of operations and competitive segment

APGET's revenues are modest in the education sector with revenues of Rs.10.80 crore in FY2018, though improved from Rs.5.70 crore in FY2016. Further, entire revenues are from one single location and campus and highly concentrated. Education sector is highly competitive. The education segment till (K-12) is characterised by stiff competition, particularly in the Karnataka Secondary Education school segment. This is owing to the presence of many quality schools that have been operating for a relatively longer period of time.

• Education sector in India is highly regulated

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 puts pressure on the surplus generation; operating margins have been declining consistently over the past three years from 33.52 percent in FY2016 to about 30.15 percent in FY2018. However, considering the established presence with good infrastructure, APGET is able to insulate surplus generation with improvement in revenues.

Outlook: Stable

Acuite believes that APGET will maintain 'Stable' outlook from the extensive experience of the management in the education sector and the established track record of operations. 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 larger-than-expected debt-funded capex or less-than-estimated cash accruals leading to stretch in the liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	10.81	6.87	5.70
EBITDA	Rs. Cr.	3.26	2.37	1.91
PAT	Rs. Cr.	1.17	0.87	1.18
EBITDA Margin	(%)	30.15	34.49	33.52
PAT Margin	(%)	10.84	12.65	20.71
ROCE	(%)	12.11	14.27	32.67
Total Debt/Tangible Net Worth	Times	1.05	1.21	1.12
PBDIT/Interest	Times	4.71	5.24	70.08
Total Debt/PBDIT	Times	3.00	2.53	2.00
Gross Current Assets (Days)	Days	59	39	50

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
Term loans	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB / Stable
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB / Stable

Contacts

Analytical	Rating Desk
<p>Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in</p> <p>Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-40055452 bhavanisankar.oruganti@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 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. Acuité ratings 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. Acuité ratings 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) for the latest information on any instrument rated by Acuité.