

Press Release

Ajekar Padma Gopal Education Trust

January 30, 2020



Rating Upgraded

Total Bank Facilities Rated*	Rs.8.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB/Stable)

* Refer Annexure for details

Rating Rationale

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

The rating upgrade is on the account of improvement in APGET's business and financial risk profile with stable growth in operating income and profitability of the trust. The revenue profile of the trust has improved to Rs.11.80 cr. in FY2019 from Rs.10.81 cr. in FY2018. The rating is mainly driven by established track record of operations, improved occupancy in its institutes, strong brand recognition with eminent and experienced governing council members, steady revenue growth and comfortable debt coverage indicators.

Ajekar Padma Gopal Education Trust (APGET) was established in 2010 by Dr. Sudhakar Shetty. The trust is a non-profit organisation and operates a Karkala Jnana Sudha PU College and Karkala Jnana Sudha English Medium High School. 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. The trust has a total student base of 1659 students for AY 2019-2020 vis-à-vis 1517 students for AY 2018-2019.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record of the trust and experience of the trustees in the field of education

Established in 2010, APGET is an educational, cultural and socio-spiritual non-profit organisation founded by Dr. Sudhakar Shetty. The trust has an eminent governing council comprising members having vast experience in the education sector supports the growth prospects over the medium term.

- Healthy growth in revenue receipts

APGET has shown consistent growth in student strength over the last three years; the student strength for AY2020 is 1659 improved from 1135 in AY2018. Further, the growth in revenue has been supported by a steady increase in student intake and periodic fee revisions. Increasing preference for CBSE curriculum in recent times has aided the enrolment growth, which has reflected in increase in its revenue receipts; revenues have improved from Rs.6.87 crore in FY2017 to Rs.11.80 crore in FY2019. APGET's operating margin improved to 36.03 percent in FY2019, from 30.06 percent in FY2018.

Acuité believes that established presence of the trust in the education sector, improving brand image aids in steady enrolment levels in all schools this coupled with steady fee revision and branch expansion is expected to support growth in revenues over the medium.

- Moderate financial risk profile

APGET's financial risk profile is marked by moderate networth, healthy gearing levels and strong debt protection metrics. APGET has followed a moderately aggressive financial policy as reflected by its peak gearing of around 1.21 times as on March 31, 2017. The gearing levels have however moderated to around 0.84 times as on March 31, 2019 on account of moderate accretion to reserves and scheduled repayments. The debt/EBITDA continues to remain comfortable at around 2.55 times for FY2019.

The corpus fund stood at Rs.13.74 crore as on 31 March 2019 as against Rs.9.72 crore as on 31 March 2018. Steady growth in revenue and profit accretions lead to strong debt protection metrics of interest coverage and net cash accruals to total debt of 6.04 and 0.33 times in FY2019 respectively vis-à-vis 4.70 times and 0.26 times respectively in FY2018. SSMET reported cash accruals of Rs.17.56 crore in FY2019. Acuité believes that APGET will 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

Liquidity of the APGET is adequate marked by moderate cash accruals to its repayment obligations. APGET generated cash accruals of about Rs.3.78 crore during FY2019; and is expecting cash accruals in the range of Rs.3.75 - 4.50 crore over the medium term, against which its repayment obligations are about Rs.1.00 crore per annum. The trust collects fees quarterly from its students and therefore ensuring adequate cash inflow throughout the year. Acuité believes that the liquidity of the APGET is likely to remain adequate over the medium term on account of moderate cash accrual to its repayments over the medium term.

Rating Sensitivities

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

Any Material Covenants

None

Outlook: Stable

Acuité 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 lower-than-estimated cash accruals leading to stretch in the liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	11.80	10.81
PAT	Rs. Cr.	1.83	1.16
PAT Margin	(%)	15.50	10.74
Total Debt/Tangible Net Worth	Times	0.84	1.05
PBDIT/Interest	Times	6.04	4.70

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- 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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Nov-2018	Term Loans	Long Term	10.00	ACUITE BB (Assigned)
	Proposed Long Term Loan	Long Term	2.00	ACUITE BB (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
Term loans	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+ / Stable (Upgraded from ACUITE BB/Stable)

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About Acuité Ratings & Research:

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