

Press Release

Sree Educational Society

December 27, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.68 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 triple B minus**) to the Rs. 11.68 crore bank facilities of SREE EDUCATIONAL SOCIETY (SES). The outlook is '**Stable**'.

SES, established in 1997, is engaged in the activity of running an engineering college and MBA under the banner 'Sreenidhi Institute of Science & Technology' near Hyderabad (Telangana). The college is affiliated to the Jawaharlal Nehru Technological University, Hyderabad (JNTUH) till 2009; and it got autonomous status in 2010. The institution has student strength of 6982 for academic year 2018 -19.

Analytical Approach

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

Key Rating Drivers

Strengths

- Established track record, range of courses offered supported by experienced management**

SES has been in existence for around two decades offering a range of courses for undergraduate and post graduate students in the fields of Science and management. The society is currently led by President, Mr. Prithvi Pathi Rao, a doctor by profession and Mr. K T Mahi, the Secretary possesses more than two decades of experience in the administration of educational institution. The operations are also assisted by Mr. Narashima Reddy (Executive Director) and Mr. C.H. Shiva Reddy (Principal) who possesses vast experience in the educational industry.

The institutions offer courses in eight streams for under graduation, 8 streams in post-graduation and two streams in business administration with a total student strength of about 7000 for academic year 2018 -19. The institutions have good placement record of about 75 percent for last three years through 2018; healthy employment placement, good student teacher ratio and infrastructure supports the institutions in securing 100 percent of sanctioned intake, thus, supporting in maintaining the business risk profile over the medium term.

- Increase in scale of operations**

Revenues of the society grew at a compound annual growth rate (CAGR) of 24.8 percent from Rs.47.34 crore in FY2015 to Rs.92.15 crore in FY2018. This is mainly due to increase in the sanctioned intake and actual intake of students YoY for under graduate engineering courses where the occupancy is 100 percent over the last two years. Further, growth in revenues is also attributed to increase in fee structure. For 8 months in FY2019 (From April to November 2018), the society reported revenues of Rs.70.00 crore with an expected revenues of about Rs.96.00 crore in FY2019. Acuité believes that the revenue profile is expected to improve supported by YoY increase in sanctioned intake, revision in the fee and the demand for quality education.

- Moderate financial riskprofile**

Financial risk profile of the society is moderate marked by moderate gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. Gearing is moderate and improved to 1.38 times as on 31 March, 2018 as against 2.81 times as on 31 March, 2017 on account of accumulated profits. TOL/TNW is moderate at 2.98 times as on 31 March, 2018 as against 5.81 times as on 31 March, 2017. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) are comfortable at 5.12 times and 0.54 times respectively in FY2018. Debt service coverage ratio is comfortable at 3.48 times as on 31 March, 2018.

SES reported cash accruals of about Rs.17.00 crore in FY2018; its cash accruals are expected in the range of Rs.18 – 21 crore over the medium term against which its repayment obligations are about Rs.1-1.5 crore. SES is not planning for any significant debt funded capex over the medium term. Acuité believes that with moderate accruals and modest repayment obligations, the financial risk profile of the society is expected to improve over the medium term.

Weaknesses

- **Intense competition and highly regulated Education sector in India**

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 society's revenue growth and accruals. The student-teacher ratio is within the stipulated norms for all the institutions. The institutions run by the society faces stiff competition from other reputed institutions in the vicinity which puts pressure on the intake or fee. However, it is partly offset by an established brand presence, good academic achievements and placement records.

- **Moderate working capital cycle**

Operations of the society are moderately working capital intensive though improved to 92 days in FY2018 as against 159 days in FY2017. This is mainly on account of moderately high debtor's cycle at 73 days in FY2018 as against 142 days in FY2017. This is mainly related to fees reimbursement from the government as 40 percent of the under graduate fees are reimbursed by the government. As of March 31, 2018 its outstanding receivables are about Rs.18.00 crore against Rs.26.40 crore in FY2017. As on November 2018, receivables stood at Rs.29.00 crore.

The government pays fee reimbursement in multiple trenches based on the fund availability leading to cash flow mismatch and reliance on working capital borrowings. SES enjoys overdraft of Rs.7.50 crore which is highly utilised on an average at about 80 percent for six months through November, 2018. Timely receipt of the reimbursement of fee from Government of Telangana is a key rating sensitivity factor over the medium term.

Outlook: Stable

Acuité believes that SES will maintain a 'Stable' outlook over the medium term from the long track record of operations and experienced management. The outlook may be revised to 'Positive' in case of significant improvement in its working capital management while sustaining the growth in the revenues and profitability. The outlook may be revised to 'Negative' in case of any significant stretch in fee reimbursement or larger than expected debt funded capital expenditure leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	92.15	70.32	58.71
EBITDA	Rs. Cr.	20.32	15.62	8.52
PAT	Rs. Cr.	9.43	18.96	1.38
EBITDA Margin	(%)	22.05	22.22	14.52
PAT Margin	(%)	10.23	26.96	2.36
ROCE	(%)	25.58	69.26	73.27
Total Debt/Tangible Net Worth	Times	1.38	2.81	-3.38
PBDIT/Interest	Times	5.12	10.39	3.99
Total Debt/PBDIT	Times	1.48	1.37	1.94
Gross Current Assets (Days)	Days	92	159	166

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

None

Any other information

Not Applicable

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
Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	4.18	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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