

## Press Release

Sree Educational Society

March 11, 2020



### Rating Downgraded

<b>Total Bank Facilities Rated*</b>	Rs. 11.68 crore
<b>Long Term Rating</b>	ACUITE BB+/ Negative (Downgraded from ACUITE BBB-, Outlook: revised from Stable to Negative)

\* Refer Annexure for details

### Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the above mentioned bank facilities of Sree Educational Society (SES). The outlook is revised to '**Negative**' from '**Stable**'.

The rating downgrade is on account of continuous decline in the operating profitability margin leading to lower net cash accruals. The society's operating margin in FY2019 declined to 18.51 percent from 22.05 percent in FY2018 and 22.22 percent in FY2017. The operating margins have further dipped to 15.37 percent in 10MFY2020 (Provisional). The decline in margins have been mainly due to rise in staff salary. Moreover, adjustment in the fee structure by AICTE has led to net losses and cash losses in FY2019.

Acuité has also revised the outlook to 'Negative' due to further deterioration expected in their operating performance vis-à-vis historical trends. Net losses in FY2019 have resulted in erosion of corpus fund and in turn have deteriorated the gearing levels of the society significantly. The gearing levels have deteriorated from 1.38 times in FY2018 to 3.56 times in FY2019. Any increase in debt levels or debt funded capex plan resulting in deterioration in financial risk profile will entail a further rating downgrade.

Sree Educational Society established in the year 1997. The society is engaged in the activity of running an engineering college and MBA under 'Sreenidhi Institute of Science & Technology' near Hyderabad, Telangana. It was affiliated to the Jawaharlal Nehru Technological University, Hyderabad (JNTUH) till 2009. From 2010 the institution attained autonomous status. The society has a student strength of 7029 for 2019-20 against 6982 for 2018-19.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of SES to arrive at the 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 President of the society, Mr. Prithvi Pathi Rao, who is a doctor by profession and Secretary Mr. K T Mahi possess more than two decades of experience in the educational administration. The day to day operations are also managed by Mr. Narashima Reddy (Executive Director) and Mr. Ch Shiva Reddy (Principal) who possess vast experience in the educational industry. Acuité believes that the society will benefit from the experienced management and established track record of operations.

#### Weaknesses

- **Decline in operating profitability**

The society has registered an EBITDA margin of 18.51 percent during FY19 vis-à-vis 22.05 percent during the previous year. The decline in operating margin is on account of high salaries to professors and staff while there was no change in student fees structure. Employee costs as a percentage of revenues increased to 52.45 per cent in FY19 as compared to 46.53 per cent in FY18. Moreover, the society has achieved operating margin of 15.37 percent in 10MFY20 (P). Acuité believes that the company's operating margins will remain vulnerable to high salaries to professors and staff.

- **Average financial risk profile**

The financial risk profile of the society is average marked by moderate net worth, high gearing and modest debt protection metrics. The net worth of the society stood modest at Rs.10.28 crore in FY2019 as compared to Rs. 23.16 crore in FY2018. The decline in net worth is on account of the revision in fees shown as an exceptional loss of Rs.19.17 crore in FY2019 which resulted in negative PAT of Rs.12.33 crore, which lowered the reserves. The debt-equity (gearing) stood high at 3.56 times in FY2019 as compared to 1.38 times in FY2018 due to rise in short term borrowings. The total debt of Rs.36.59 crore in FY2019 consists of term loan of Rs. 14.94 crore and working capital loans of Rs. 21.65 crore.

- **Education sector in India is highly regulated and competitive**

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 to attract fresh students. However, considering that they has an established brand presence and has been consistently producing academic achievements, the society has been insulated from the competition, to some extent.

#### **Rating Sensitivity**

- Sustenance of revenues
- Improvement in operating profitability

#### **Material Covenants**

None

#### **Liquidity Profile**

The society's liquidity position is adequate to service its maturing debt obligations. However, net cash accruals were negative on account of exceptional loss of Rs.19.17 crore reported in FY2019 by the society due to revision in fees as regulated by AICTE. The society's operations are moderately working capital intensive marked by Gross Current Asset (GCA) of 104 days in FY2019 as compared to 92 days in FY2018. The current ratio stood at 0.78 times as on March 31, 2019 and the society maintains unencumbered cash and bank balances of Rs.5.52 crore as on March 31, 2019. Acuité believes that the liquidity of the society is likely to remain adequate over the medium term in the absence of any significant debt funded capex.

#### **Outlook: Negative**

Acuité believes that the society's credit profile could face pressure over the medium term on account of high employee cost with no change in fees that has significantly affected operating profitability. The rating may be downgraded in case of further deterioration in financial risk profile and profitability margins thereby impacting the liquidity and debt protection indicators of the company. Conversely, the outlook may be revised to 'Stable' if the company is able to show significant growth in revenue and generating adequate cash accruals driven by healthy profitability.

### About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	91.45	92.15
PAT	Rs. Cr.	(12.33)	9.43
PAT Margin	(%)	(13.48)	10.23
Total Debt/Tangible Net Worth	Times	3.56	1.38
PBDIT/Interest	Times	(0.37)	5.12

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

Brickwork, vide its press release dated Sep 26, 2019 had denoted the rating of Sree Educational Society as 'BWR D; ISSUER NOT COOPERATING'.

### Any other information

Not Applicable

### Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Service Sector- <https://www.acuite.in/view-rating-criteria-4.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
27-Dec-2018	Overdraft	Long Term	7.50	ACUITE BBB-/Stable (Assigned)
	Term Loans	Long Term	4.18	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	7.50	ACUITE BB+/ Negative (Downgraded and Outlook revised)
Term Loans	Not Applicable	Not Applicable	Not Applicable	4.18	ACUITE BB+/ Negative (Downgraded and Outlook revised)

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### About Acuité Ratings & Research:

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