

Press Release

Sree Educational Society

June 02, 2021

Rating Reaffirmed, Assigned and Outlook revised



Total Bank Facilities Rated*	Rs.35.68 Cr
Long Term Rating	ACUITE BB+/Stable (Reaffirmed and outlook revised)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.35.68 crore bank facilities of Sree Educational Society (SES). The outlook is '**Stable**'.

The revision of outlook is on account of improvement in the overall business risk profile of the society marked by increase in revenue and improvement in profitability levels. Acuite believes that the entity would sustain the improved profitability going forward too, resulting in better cash accruals. The higher accruals would, in turn, translate into improvement in their capital structure and debt protection measures. The society continues to draw comfort from its established track record of operations and experienced professionals.

Established in 1997, Hyderabad based, Sree Educational Society (SES) is engaged in the activity of running engineering and Masters of Business Administration (MBA) programs under 'Sreenidhi Institute of Science & Technology' (SIST). It was affiliated to the Jawaharlal Nehru Technological University, Hyderabad (JNTUH) till 2009. From 2010, the institution had attained autonomous status. SIST campus is spread across 33 acres, located in Yanampet of Ghatkesar Mandal in Rangareddy district of Telangana.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SES to arrive at the rating.

Key Rating Drivers

Strengths

• Established presence in the industry

SES has been in existence of over two decades offering a great range of courses for undergraduate and post graduate students in the fields of Science and Management. The President of the society, Mr. Pruthvi 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 Dr. P. N. Reddy (Executive Director) and Mr. Ch Shiva Reddy (Principal) who possess vast experience in the educational industry. Acuite believes that the society will benefit from the experienced professionals and established track record of operations.

• Significant improvement in revenue and profitability margin

The society's revenues increased to Rs.95.26 crores in FY2021 (Provisional) as compared to Rs.88.82 crores in FY2020. The increase in revenue is on account of increase in tuition fees for B. Tech students. The fees of the university are determined by All India Council for Technical Education (AICTE). SES's operating margin stood at 14.96 per cent in FY2021 (Provisional) as compared to 11.48 per cent in FY2020 as a result of cost rationalization measures undertaken by the society, majorly on administrative expenses. Acuite believes that the society's ability to sustain the growth momentum in its revenues and profitability metrics going forward would be key rating sensitivity.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the society is moderate marked by modest net worth, high gearing and healthy debt protection metrics. The net worth of the society stood at Rs.11.41 crore in FY2020 as compared to Rs. 10.28 crore in FY2019. The Debt-equity (gearing) stood high at 3.31 times in FY2020 as compared to 3.56 times in FY2019. The total debt of Rs.37.80 crore in FY2020 consists of short term debt of Rs.23.69 crore term loan of Rs.10.46 crore, maturing obligation of Rs.2.24 crores and unsecured loans of Rs.1.41 crore. The healthy debt protection metrics of the society is marked by Interest Coverage Ratio of 3.11 times in FY2020 and Debt Service Coverage Ratio of 1.95 times in FY2020. The NCA/TD (Net Cash accruals to total debt) stood healthy at 0.21 times in FY2020. Acuite believes that financial risk profile of the society will improve over the medium term in the absence of major debt funded capital expenditure and moderate accretions to reserves.

• 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 have an established brand presence and has been consistently producing academic achievements, the society has been insulated from the competition, to some extent.

Rating Sensitivity

- Improvement in gearing
- Sustenance of growth in revenues and profitability margins

Material Covenants

None

Liquidity Profile: Adequate

The liquidity position is adequate marked by sufficient net cash accruals of Rs.7.96 crores in FY2020 as against maturing obligation of Rs.2.24 crores in previous year. The society maintained unencumbered cash and bank balances of Rs.3.42 crore as on March 31, 2020. However, the current ratio stood at 0.72 times as on March 31, 2020 compared to 0.63 times as on March 2019 due to high other current liabilities of Rs.54.17 crores as on March 31, 2020. The bank limits are fully utilized for the six months ended at February 2021. Acuite 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: Stable

Acuite believes that the society will maintain a 'Stable' outlook over the medium term on account of the established track record of the society and experienced professionals. The outlook may be revised to 'Positive' if the society achieves substantial improvement in its gearing. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues and profitability leading to deterioration in liquidity.

About the Rated Entity - Key Financials

	Unit	FY20(Actual)	FY19(Actual)
Operating Income	Rs. Cr.	88.82	91.45
PAT	Rs. Cr.	1.12	(12.33)
PAT Margin	(%)	1.26	(13.48)
Total Debt/Tangible Net Worth	Times	3.31	3.56
PBDIT/Interest	Times	3.11	(0.37)

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

Brickwork, vide its press release dated Dec, 14 2020 had denoted the rating of Sree Educational Society as 'BWR D; ISSUER NOT COOPERATING'

Any other information

Not Applicable

Applicable Criteria

- Services Entities – <https://www.acuite.in/view-rating-criteria-50.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

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

Note on complexity levels of the rated instrument

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
11-Mar-2020	Overdraft	Long Term	7.50	ACUITE BB+/Negative (Downgraded and outlook revised from Stable)
	Term Loans	Long Term	4.18	ACUITE BB+/Negative (Downgraded and outlook revised from Stable)
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. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB+/ Stable (Reaffirmed and outlook Revised from Negative)
Term Loans	Not Available	Not Available	Not Available	4.18	ACUITE BB+/ Stable (Reaffirmed and outlook Revised from Negative)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE BB+/ Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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