

Press Release

Sree Educational Society

April 13, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	35.68	ACUITE BB Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	35.68	-	-

Rating Rationale

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

Rating Rationale

The rating reaffirmation takes into account SES's established position for more than two decades in educational industry with long operational track record of the trustees. The society offers a great range of courses for undergraduate and post graduate for students in the field of Science and Management. The rating also draws comfort from Society's moderate financial risk profile, characterized by moderate gearing levels and comfortable debt protection metrics. These strengths are however, partly offset by the decline in profitability margins, stretched liquidity position and highly regulated and competitive operating industry.

About the Company

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 track record and great range of courses offered in the university

SES has been in existence for more than 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. 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 managed by Mr. Narashima Reddy (Executive Director) and Mr. Ch Shiva Reddy (Principal) who possess vast experience in the educational industry. It is engaged in the activity of running engineering and Masters of Business Administration (MBA) programs.

Acuité believes that the society will continue to benefit from the experienced management and established track record of operations.

- **Moderate financial risk profile**

The financial risk profile of the society is marked by modest network, moderate gearing and comfortable debt protection metrics. The tangible net worth of the society stood at Rs.25.19 Cr as on 31st March, 2022 as compared to Rs.21.21 Cr as on 31st March, 2021. The gearing level of the society stood comfortable at 0.78 times as on March 31, 2022 as against 1.82 times as on March 31, 2021. The Total Outside Liability/Tangible Net Worth (TOL/TNW) improved yet stood moderate at 3.68 times as on March 31, 2022 as compared to 5.15 times as on 31st March, 2021. The debt protection matrices of SES remain comfortable marked by Interest Coverage Ratio of 3.47 times and Debt Service Coverage Ratio at 2.52 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.50 times as on March 31, 2022 as against 0.41 times as on March 31, 2021. Acuité believes that going forward, the financial risk profile of the society will continue to remain moderate over the medium term, in the absence of any major debt funded capex plans.

Weaknesses

- **Declining profitability margin**

The profitability margins of the society declined reflected by operating profit margin of 12.65 percent during FY2022 compared against 20.15 percent during FY2021. The decline in operating margin is on account of increase in employee costs. However, the society has achieved operating margin of 13.43 percent in 6M FY23 (Provisional). Similarly, the profit after tax (PAT) margin also declined to 3.88 per cent as on FY2022 as compared to 10.67 per cent in FY2021.

Acuité believes that the society's ability to improve and sustain the profitability margins going forward would continue to remain a key rating sensitivity.

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high GCA days of 228 days as on March 31, 2022 as compared to 225 days as on March 31, 2021. This is mainly on account of the high debtor's cycle of 200 days in FY2022 against 212 days in FY2021 owing to fees reimbursement from the government as 50 percent of the under graduate fees are reimbursed by the government. The government pays fee reimbursement in several tranches based on the fund availability with the government.

Acuité believes that any delay in reimbursing the fee will further likely to deteriorate the credit profile of the society put pressure on the liquidity.

- **Highly regulated and competitive industry**

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 Sensitivities

- Improvement in scale of operations and profitability margins
- Reimbursement of fees by the government on time
- Deterioration in working capital cycle

Material covenants

None

Liquidity Position

Stretched

The company's liquidity position is stretched marked by high utilization of working capital facilities by the society and low current ratio. The average fund based limit utilization by the society remained high at 98.49 percent for six months ended February 2023. The high utilization is majorly on account of high receivable days of the society. Furthermore, the current ratio of SES remained low at 0.79 times as on March 31, 2022 similarly as previous year. However, net cash accruals of Rs.9.80 Cr in FY2022 as against a long term debt repayment of only Rs. 1.50 Cr over the same period. Further, the unencumbered cash and bank balances stood at Rs 5.63 Cr as on March 31, 2022. Acuité believes that the liquidity position of the society will continue to remain stretched on account of high utilization of working capital limits led by high receivable period over the medium term.

Outlook: Stable

Acuité 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 as trustees. 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	102.40	91.90
PAT	Rs. Cr.	3.98	9.81
PAT Margin	(%)	3.88	10.67
Total Debt/Tangible Net Worth	Times	0.78	1.82
PBDIT/Interest	Times	3.47	4.90

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

Brickworks vide its press release dated 18/07/2022 had reaffirmed the company to BWR D; INC

Any other information

Not Applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors uncertainty in cash flow patterns number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as Simple' can carry high levels of risk. -or more details. please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.Acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Aug 2022	Proposed Bank Facility	Long Term	24.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Secured Overdraft	Long Term	7.50	ACUITE BB (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	4.18	ACUITE BB (Downgraded and Issuer not co-operating*)
02 Jun 2021	Proposed Bank Facility	Long Term	24.00	ACUITE BB+ Stable (Assigned)
	Term Loan	Long Term	4.18	ACUITE BB+ Stable (Reaffirmed)
	Secured Overdraft	Long Term	7.50	ACUITE BB+ Stable (Reaffirmed)
11 Mar 2020	Secured Overdraft	Long Term	7.50	ACUITE BB+ Negative (Downgraded from ACUITE BBB- Stable)
	Term Loan	Long Term	4.18	ACUITE BB+ Negative (Downgraded from ACUITE BBB- Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE BB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	24.00	ACUITE BB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	2.54	ACUITE BB Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.64	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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