

Press Release
Sree Educational Society
July 11, 2024
Rating Upgraded



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

Rating Rationale

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

Rationale for Rating

The rating upgrade reflects the sustainable growth in the business risk profile and further improvement in financial risk profile. In FY2023, the revenue of the society was at Rs. 108.65 crore, as against Rs. 102.40 crore in FY2022. The revenues of the company for FY2024 were at Rs. 112.35 crore (Provisional). The turnover has improved due to improvement in fees structure of the existing courses in FY2023 and in FY2024. The operating margin of the society has improved to 20.52 percent in FY2024 (Prov.) and 20.04 percent in FY2023 as compared to 12.65 percent in FY2022 due to an overall reduction in the employee cost and incremental improvement of revenue income.

Acuite also derives comfort from the financial risk profile of the society which continues to remain healthy, with gearing below unity and healthy debt coverage indicators led by consistent increase in the networth, due to healthy cash accruals over the years. In addition, the society has an adequate liquidity profile as reflected from its increasing net cash accrual, minimum debt repayment and healthy current ratio. The rating further draws comfort from the society's established track record of the operation for more than two decades. These strengths are however, partly offset by competitive nature of the 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. The society is promoted by Dr. K. Pruthvipathi Rao, Dr. K. Lakshmi Devi, Mr. K. T. Mahi, Mrs. Vala Prasanna, Mrs. K. Saritha, Mr. K. Abhijeet Rao, Mr. K. Jivv Vickram Rao.

Unsupported Rating
Not Applicable

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 and range of courses offered in the university

SES has been in existence for more than 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 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.

Healthy financial risk profile

The financial risk profile of the society is marked by healthy net worth, moderate gearing, and comfortable debt protection metrics. The net worth of the society stood healthy at Rs. 50.86 crore in FY2024 (Prov.) and Rs. 38.01 crore in FY2023 as compared to Rs. 25.19 crore in FY2022 due to accretion to reserves. The gearing of the society stood moderate at below unity levels 0.62 times and 0.72 times in FY2024 (Prov.) and FY2023 respectively. Interest coverage ratio (ICR) has improved to 8.03 times in FY2024 (Prov.) and 9.20 times in FY2023 as compared to 3.47 times in FY2022. The debt service coverage ratio (DSCR) of the society also improved to 5.18 times in FY2024 (Prov.) and 5.64 times in FY2023 as compared to 2.52 times in FY2022. Acuité believes that the financial risk profile of the society will continue to remain healthy at the back of healthy accruals leading to comfortable capital structure and comfortable debt protections metrics over the medium term.

Weaknesses

Working capital intensive nature of operations

The working capital intensive nature of operations is marked by high GCA days of 274 days in FY2024 (Prov.) and 261 days in FY2023 as compared to 228 days in FY2022. This is mainly on account of the high debtor's cycle of 250 days in FY2024 (Prov.) and 236 days in FY2023 against 200 days in FY2022 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
- Further deterioration in working capital cycle

Liquidity Position

Adequate

The society's liquidity position is adequate, marked by steady net cash accruals of Rs. 20.20 crore in FY2024 (Prov.) as against a long-term debt repayment of only Rs. 1.58 crore over the same period. The unencumbered cash and bank balances stood at Rs. 0.77 crore as on March 31st 2024. However, the current ratio stood low at 1.14 times in FY2024 (Prov.) and 0.96 times in FY2023 as compared to 0.79 times in FY2022. Additionally, the fund-based limit utilized □ 98 percent for the six months ended April 2024. However, the working capital intensive nature of operations is marked by high GCA days of 274 days in FY2024 (Prov.) and 261 days in FY2023 as compared to 228 days in FY2022. Acuité believes that going forward the liquidity position of the company will improve due to gradually improving cash accruals.

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

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	112.35	108.65
PAT	Rs. Cr.	12.85	12.82
PAT Margin	(%)	11.44	11.80
Total Debt/Tangible Net Worth	Times	0.62	0.72
PBDIT/Interest	Times	8.03	9.20

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

Not Applicable

Any other information

None

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, Acuite 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
13 Apr 2023	Cash Credit	Long Term	7.50	ACUITE BB Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	24.00	ACUITE BB Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	2.54	ACUITE BB Stable (Reaffirmed)
	Term Loan	Long Term	1.64	ACUITE BB Stable (Reaffirmed)
17 Aug 2022	Proposed Long Term Bank Facility	Long Term	24.00	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
	Secured Overdraft	Long Term	7.50	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
	Term Loan	Long Term	4.18	ACUITE BB (Downgraded & Issuer not co-operating* from ACUITE BB+ Stable)
02 Jun 2021	Term Loan	Long Term	4.18	ACUITE BB+ Stable (Reaffirmed)
	Secured Overdraft	Long Term	7.50	ACUITE BB+ Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	24.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	32.12	ACUITE BB+ Stable Upgraded (from ACUITE BB)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.54	ACUITE BB+ Stable Upgraded (from ACUITE BB)
Kotak Mahindra Bank	Not avl. / Not appl.	Term Loan	21 Jan 2019	Not avl. / Not appl.	21 Jan 2026	Simple	1.02	ACUITE BB+ Stable Upgraded (from ACUITE BB)

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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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