

## Press Release

Shri Modi Shikshan Sansthan

January 06, 2020

Rating Reaffirmed & Assigned



|                                     |  |
|-------------------------------------|--|
| <b>Total Bank Facilities Rated*</b> | Rs. 36.00 Cr.<br>(Enhanced from Rs. 30.00 Cr.) |
| <b>Long Term Rating</b>             | ACUITE A-/ Outlook: Stable<br>(Reaffirmed)     |

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 16.74 crore bank facilities of SHRI MODI SHIKSHAN SANSTHAN (SMSS). The outlook is '**Stable**'.

Further, Acuite has assigned long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 19.26 crore bank facilities of SMSS. The outlook is '**Stable**'.

Jaipur-based Shri Modi Shikshan Sansthan was founded in 2001 by Mr. Saurabh Modi who is the chairman of the Society and Mrs. Neerja Modi who is the treasurer. The Society runs a school under the name 'Neerja Modi School' (NMS) with classes from kindergarten to 12th Standard with total student strength of 5211 for academic year 2019-20 and 4891 for academic year 2018-19. NMS is an International General Certificate of Secondary Education (IGCSE), International Baccalaureate Diploma Programme (IBDP) and Central Board of Secondary Education (CBSE) affiliated school. Further the Society has 1102 employees encompassing the teaching staff of 403. NMS extends its services by providing hostel facilities to its students with total capacity of 175 students in the campus. NMS has developed a Cricket Academy of their own and also runs a school named 'Nischay Girls' for imparting education to underprivileged girls as a part of its corporate social responsibility activities.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

- **Established track record, experienced management and steady revenue growth**

The Society has an established brand presence in Jaipur region demonstrated by their track record of operation of almost two decades. The increasing brand presence coupled with the rich experience of the management in the education industry has helped NMS in increasing their student strength year on year and attract students along the lines of their sanctioned intake. Further SMSS is currently under the process of expanding their student intake capacity by construction of an extra wing for around 400 new students for standards 1<sup>st</sup> to 5<sup>th</sup>. SMSS's operating income has been growing steadily over the last 3 years ended FY2019 is marked by compounded annual growth rate (CAGR) of 9.72 per cent. The operating income stood at Rs. 57.72 crore in FY2019 as against Rs. 47.95 crore in FY2017.

Further, Acuite believes, the Society will benefit from its established brand presence resulting in improvement in actual intakes and higher revenues.

- **Healthy financial risk profile**

SMSS has healthy financial risk profile marked by healthy net worth, healthy debt protection measures and low gearing. The net worth increased to Rs.59.74 crore as on 31 March, 2019 as against Rs.51.06 crore in the previous year on account of healthy accretion of reserves. The Society's gearing (Debt-Equity) stood low at 0.05 times as on 31 March, 2019 as against 0.06 times in the previous year. The total debt of Rs.3.00 crore consists entirely of long term loan of Rs. 3.00 crores from the bank. The healthy revenue growth coupled with healthy profitability levels have resulted in healthy net cash accruals of Rs.12.52 crore during 2017-19. SMSS's coverage indicators stood healthy marked by the

interest coverage ratio which stood at 39.39 times in FY2019 as against 23.76 times in the previous year. TOL/TNW ratio stood at 0.29 times in FY2018.

- **Increasing demand prospects for education industry**

Lately, there has been a thrust on education by both the state and central governments. The private sector is playing a significant role in the education sector, especially professional education, in the country. With popularization of private self-financing colleges and deemed universities, the role of the private sector in education has been accepted and recognized. Educational outcomes are one of the key areas influenced by family incomes. Increasing urbanization with increasing income levels will demand quality education resulting in improving occupancies in reputed schools and colleges. The quality of the education becomes an important factor and the effectiveness of education depends on qualitative variables such as characteristics of schools, teachers and classrooms. Acuite believes that private institutions are likely to witness healthy student enrolment over the medium term due to increase in importance of education.

### **Weaknesses**

- **Stringent regulations of the educational sector in India and competitive industry:**

The Indian education industry is highly regulated and SMSS is subjected to the regulatory framework which is to be followed by Society operated institutes. Any major change in regulatory framework by Government of India or change in policy by various affiliated boards will have major impact on the revenue, financial and operating performance of the Society. Further the institute faces competition from other private institutions offering similar courses. Given the competition, the ability of the institute to attract requisite students in tune with its sanctioned intake would be a challenge. This is expected to limit the group's capability to increase fee along with the increase of occupancy. Further, various agencies under the State and Central Government prescribe regulatory framework depending on the professional courses offered. Hence, the group is subject to the stringent regulatory framework for the educational sector in India. Apart from the regulatory framework in India, the various affiliations with international boards like IGCSE also impacts and limits the group's day-to-day business activities.

- **Project implementation risk**

The school is expanding its student's intake capacity by adding new branch at Kalwara, Jaipur which upon completion will enhance the student intake of NMS by ~400 students for standard 1<sup>st</sup> to 5<sup>th</sup>. The total estimated cost of this project is Rs.27.43 crore. The project funding includes term loan of Rs.17.00 crore and balance by net cash accruals and Society contributions. The project work has been initiated and is expected to commence its operations from FY2020; any delay would impact the debt servicing ability of the Society to a certain extent. However, Acuite believes experienced promoters, healthy reserves and net cash accruals will reduce the risk to certain extent.

### **Liquidity Position**

SMSS has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The Society generated cash accruals of Rs. 12.52 crore for FY2019 against debt obligations of Rs. 0.90 crore for the same period. The cash accruals of the Society are estimated to remain in the range of around Rs. 13.70 crore to Rs. 17.84 crore during 2020-22 against repayment obligations ranging from Rs. 1.98 crore to Rs. 2.44 crore. The Society maintains unencumbered cash and bank balances of Rs. 1.87 crore as on 31 March 2019. Further, the current ratio stands moderate at 1.30 times as on 31 March 2019. Acuite believes that the liquidity of the Society is likely to remain healthy over the medium term on account of healthy cash accruals against debt repayments arising on account of capital expenditure incurred by the Society over the medium term.

### **Outlook: Stable**

Acuite believes that SMSS will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, extensive experience of the management in the education sector and strong presence of NMS in the region of Jaipur. The outlook may be revised to 'Positive' in case the Society registers higher-than-expected growth in its revenue and profitability along with improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the Society registers lower-than-expected growth in revenues and profitability or in case of deterioration in the Society's financial risk profile.

### **About the Rated Entity - Key Financials**

|                               | Unit    | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income              | Rs. Cr. | 57.72         | 52.90         |
| Profit after tax (PAT)        | Rs. Cr. | 8.68          | 7.56          |
| PAT Margin                    | (%)     | 15.04         | 14.28         |
| Total Debt/Tangible Net Worth | Times   | 0.05          | 0.06          |
| PBDIT/Interest                | Times   | 39.39         | 23.76         |

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

Not Applicable

#### Any other information

Not Applicable

#### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>

#### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

#### Rating History (Up to last three years)

| Date        | Name of Instrument / Facilities | Term      | Amount (Rs. Cr.) | Ratings/Outlook              |
|-------------|---------------------------------|-----------|------------------|------------------------------|
| 31-Dec-2018 | Secured Overdraft               | Long Term | 12.00            | ACUITE A-/ Stable (Assigned) |
|             | Term Loan                       | Long Term | 1.00             | ACUITE A-/ Stable (Assigned) |
|             | Proposed Term Loan              | Long Term | 17.00            | ACUITE A-/ 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 | 12.00                             | ACUITE A-/ Stable (Reaffirmed) |
| Term loan-1            | Not Applicable   | Not Applicable | Not Applicable | 0.27 (Revised from Rs. 1.00 Cr.)  | ACUITE A-/ Stable (Reaffirmed) |
| Term loan-2            | Not Applicable   | Not Applicable | Not Applicable | 1.26                              | ACUITE A-/ Stable (Assigned)   |
| Proposed long term     | Not Applicable   | Not Applicable | Not Applicable | 2.47 (Revised from Rs. 17.00 Cr.) | ACUITE A-/ Stable (Reaffirmed) |
| Term loan-3            | Not Applicable   | Not Applicable | Not Applicable | 18.00                             | ACUITE A-/ Stable (Assigned)   |
| Overdraft              | Not Applicable   | Not Applicable | Not Applicable | 2.00                              | ACUITE A-/ Stable (Reaffirmed) |

#### Contacts

| Analytical  | Rating Desk   |
|---|---|
| <p>Aditya Gupta<br/>Head- Corporate and Infrastructure Sector<br/>Tel: 022-49294041<br/><a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Nikhilesh Pandey<br/>Ratings Analyst - Rating Operations<br/>Tel: 011-49731304<br/><a href="mailto:nikhilesh.pandey@acuite.in">nikhilesh.pandey@acuite.in</a></p> | <p>Varsha Bist<br/>Manager - Rating Desk Tel:<br/>022-49294011<br/><a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p> |

**About Acuité Ratings & Research:**

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