

Press Release

Shri Modi Shikshan Sansthan

August 05, 2021

Rating Reaffirmed & Withdrawn



Total Bank Facilities Rated*	Rs.36.00 Cr.
Long Term Rating	ACUITE A-/ Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.36.00 crore bank facilities of Shree Modi Shikshan Sansthan (SMSS). The outlook is '**Stable.**'

The rating action continues to derive comfort from experienced management, established track record of ~2 decades and healthy financial risk profile marked by strong gearing position and healthy debt protection metrics. SMSS' debt to equity ratio stood at 0.07 times as on March 31, 2021 (Provisional) and interest coverage ratio was at 13.17 times in FY21 (Provisional), though has deteriorated from 44.11 times a year back due to lower profits amid Covid-19 led disruptions. Due to lower fees in FY21 on the back of Covid-19, the society reported 37.03per cent decline in revenue in FY21 (Provisional). However, student's intake increased by over 3per cent and EBITDA margin expanded to 27.36per cent in FY21 (Provisional) from 19.57per cent in FY20 with lower operating cost.

About the Company

Jaipur-based Shri Modi Shikshan Sansthan was founded in 2001 by Mr. Saurabh Modi, chairman of the Society and Mrs. Neerja Modi, who is a 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 5,387 for the academic year (AY) 2020-21. NMS is an International General Certificate of Secondary Education (IGCSE), International Baccalaureate Diploma Programme (IBDP) and Central Board of Secondary Education (CBSE) affiliated school. Besides, 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 financial and business risk profiles of SMSS to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**
 SMSS has an established brand presence in Jaipur region demonstrated by their ~2 decades of track record of operations. The increasing brand presence coupled with the rich experience of the management in the education industry has enabled NMS in increasing their student strength every 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 1st to 5th. During AY2020-21, student strength increased by over 3 per cent to 5,387. However, the Supreme Court's order to charge lower fees and time extension for payment of fees for AY 2020-21 in light of Covid-19-led challenges resulted in 37.03per cent fall in revenue in FY21 (Provisional) to Rs.41.55 crore. Consequently, the society reported net profit of Rs.4.79 crore in FY21 (Provisional) compared to Rs.9.40 crore in FY20. Although, EBITDA margin in FY21 (Provisional) expanded to 27.36 per cent from 19.57per cent in FY20. This was led by lower operating cost. This restricted the impact of lower revenue at the bottom level to some extent.

Acuite believes the society's established brand presence and experienced management would continue to support the improvement in student intake going ahead.

- **Healthy financial risk profile**

Financial risk profile of SMSS continues to remain healthy marked by rising net worth, strong gearing position and healthy debt-protection metrics. The society's net worth as on March 31, 2021 (Provisional) stood at Rs.73.95 crore against Rs.69.15 crore as on March 31, 2020.

Gearing position (debt to equity ratio) continued to remain below unity led by lower debt level besides higher net worth. As on March 31, 2021 (Provisional), debt to equity ratio of the society stood at 0.07 times vis-à-vis 0.13 times a year back. Total debt, as on March 31, 2021 (Provisional) was at Rs.5.08 crore compared to Rs.8.93 crore as on March 31, 2020. SMSS' debt level as of March 2021 (Provisional) entirely comprises long-term debt. Acuite believes gearing position of the society would continue to remain below unity going ahead, though would deteriorate from FY21 (Provisional) level to some extent as the society is likely to draw additional debt for its on-going capex. Total outside liabilities to tangible net worth ratio (TOL/TNW), as on March 31, 2021 (Provisional), stood at 0.26 times.

Interest coverage ratio of SMSS in FY21 (Provisional) stood at a healthy level of 13.17 times, though deteriorated from 44.11 times in FY20. Debt service coverage ratio (DSCR) of the society, for FY21 (Provisional), was at a comfortable level of 6.66 times. Though both the coverage indicators would decline to some extent amid additional debt, interest coverage ratio would stand at a healthy level of 11.10-13.19 times over a medium term. DSCR would remain at a comfortable level of 3.5 to 6.5 times during FY22 to FY24.

- **Increasing demand prospects for education industry**

There has been a thrust on education by the government. 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. Increasing urbanization with rising 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 in 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.

Rating Sensitivities

- Inability to increase student intake

Material Covenants

Nil

Liquidity Position – Strong

Liquidity position of SMSS continues to remain strong marked by healthy cash accruals to maturing debt obligations. SMSS generated cash accruals of Rs.10.57 crore for FY21 (Provisional) compared to debt obligations of ~Rs.1.06 crore. Moreover, bank limit utilization during the six months through May 2021, was nil. Current ratio of the society, however, continued to remain below unity as on March 31, 2021

(Provisional), though has improved to 0.65 times from 0.31 times a year back. Cash accruals are estimated in the range of Rs.11.90 crore to Rs.14.07 crore during FY22 to FY24 against loans repayment obligations of Rs.1.88 crore to Rs.3 crore during the same period.

Acuite believes that the liquidity of the Society would remain healthy over a medium term on account of healthy cash accruals to debt repayment obligations.

Outlook: Stable

Acuite believes that SMSS would maintain a 'Stable' outlook over a 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. Conversely, the outlook may be revised to 'Negative' in case the society registers lower than expected growth in revenues and profitability, hurting its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	41.55	65.99
PAT	Rs. Cr.	4.79	9.40
PAT Margin	(%)	11.54	14.25
Total Debt/Tangible Net Worth	Times	0.07	0.13
PBDIT/Interest	Times	13.17	44.11

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-52.htm>
- Entities in Services Sector -<https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Jan-2020	Secured Overdraft	Long Term	12.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	0.27	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	1.26	ACUITE A-/Stable (Assigned)
	Proposed Long Term Loan	Long Term	2.47	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	18.00	ACUITE A-/Stable (Assigned)
	Secured Overdraft	Long Term	2.00	ACUITE A-/Stable (Reaffirmed)
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	Lender Name	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Punjab National Bank	Not Applicable	Not Applicable	Not Applicable	18.00 (enhanced from Rs.12.00 crore)	ACUITE A-/Stable (Reaffirmed)
Term Loan	Punjab National Bank	Not Available	Not Available	Not Available	1.26	ACUITE A- (Withdrawn)
Overdraft	HDFC Bank	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A- (Withdrawn)
Term Loan	HDFC Bank	Not Available	Not Available	Not Available	18.00	ACUITE A- /Stable (Reaffirmed)

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About Acuité Ratings & Research:

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