

Press Release

Hansraj Memorial Education Society

January 03, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 95.00 Cr.
Long Term Rating	ACUITE Provisional BB / Outlook: Stable

* Refer Annexure for details

^Provisional will be converted to final on the finalisation of sanction terms

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE Provisional BB**' (**read as ACUITE Provisional double B**) to the Rs. 95.00 crore proposed bank facilities of Hansraj Memorial Education Society (HMES). The outlook is '**Stable**'.

HMES was founded by Late Shri. Hans Raj Bhatia in 2002. The society operates 3 schools in Jalandhar (Punjab) offering KG to 12 standard education along with franchising its name to 8 schools through its Associate organisation 'Learning Wings Education Systems'. The schools under the trust are known by the name of 'Cambridge International'. HMES is planning to establish a school in Mohali which will commence operations from Academic year 2019-2020. The society is managed by a panel of seven trustees with Mr. Ajay Bhatia as President.

Analytical Approach

Acuité has considered standalone business and financial risk profile of HMES to arrive at the rating.

Key Rating Drivers

Strengths

- **Established presence in and around Jalandhar:**

The society was established in 2002 and presently, runs three schools under the brand name Cambridge International in Jalandhar (Punjab). The society shares its brand name through a franchisee model with 8 other schools wherein the trustees are involved to the extent of quality of education provided and teaching staff. The society is largely managed by Bhatia family having presence in various industries through different entities. The management has shown a track record of building brand presence by taking various initiatives such as using franchisee model, opening kinder gardens in nearby localities of their schools to act as feeders for admission in schools and introducing new courses including International Baccalaureate Studies Services, thereby supporting HMES's occupancy levels.

The society's first school Cambridge International School for girls was established in 2004 and is running at 86 percent occupancy. Likewise, the other two schools operated by HMES- Cambridge International Co-Ed School (established in 2008) and Cambridge International Foundation School (established in 2012) are running at 95 and 76 percent occupancy levels, respectively.

HMES reported revenues of Rs.43.40 crore in FY2018 (Provisional) as against Rs.40.71 crore in FY2017. The Society plans to establish a school in Mohali which will commence operations from academic year 2019-2020 and is expected to augur well to the society's cashflows given the strong brand acceptance in Punjab. HMES has strong faculty strength with comfortable student faculty ratio of 17:1 with majority of the faculties being post graduates.

Acuité believes that HMES's business risk profile will continue to benefit from managements strong operational track record and brand presence.

- **Refinancing plan with presence of DSRA mechanism**

HMES is in the process of refinancing its existing debt with additional exposure of Rs.25.00 crore towards expansion of girl's school and part of it towards Cambridge International School (Mohali). The tenure of

the loan is expected to be 10 years and the repayments would be quarterly. Further, the society plans to maintain a DSRA equivalent to a quarter of debt servicing obligation i.e. interest and principal. The fee receipts will be routed through an ESCROW mechanism. The refinancing plan would result in revising the repayment schedule to quarterly as against present, monthly repayments with few lenders; thereby, ensuring that the repayments are coterminous with the fee receipts ensuring that the debt servicing obligations are met in time.

Weaknesses

- **Aggressive capex plans**

HMES has undergone a significant capital expenditure over the last three years ending March 31, 2018 towards upgrading existing schools and additional services offered. The capex was funded through a mix of internal accruals and debt exposure. The net block has grown to Rs. 103.00 crore as on March 31, 2018 (Provisional) as against Rs. 87.75 crore as on March 31, 2016 which includes advances to land owners of Rs.24.48 crore as on March 31, 2018. This is met by internal accruals in anticipation of future growth plans. The capital expenditure and repayment obligations are highly dependent on the cash flows of the society which has resulted in increased dependence on short term working capital borrowings for operational expenditure. Further, Acuité has observed delinquencies in the servicing of current outstanding debt on several instances, major reason being the unmapped repayment structure to the fee cycle and the short tenure of loans from few lenders. High priority for funding of capital expenditure has impeded the society's ability to service debt in a timely manner.

HMES's liquidity profile is likely to be further impacted by funding requirement towards capital expenditure along with supporting Mohali School for operating expenses. The society is executing a largely debt funded capital expenditure of ~Rs. 25.00 crore towards starting a new school in Mohali (CBSE Board), opening kinder gardens to act as feeders to increase operating levels and adding a floor to existing girls school to increase operating capacity. HMES also has obligation towards funding remaining portion of investments in land of ~Rs. 20.00 crore over the next two years. The society's ability to complete the capex within the time & cost estimates and attract and enroll students (both for the new and old schools) as envisaged and maintain its surplus margin would remain the key rating sensitivities.

Acuité believes that any significant increase in the cost of ongoing capital expenditure would result in additional pressure on cash flows impacting the liquidity and financial risk profile of HMES.

Outlook: Stable

Acuité believes that the outlook on HMIS will remain 'Stable' over medium term on the back of strong track record and brand presence in the education sector. The outlook may be revised to 'Positive' in case of strong growth in occupancy rate while maintain profitability along with timely completion of capex plans. Further, the outlook may be revised to 'Negative' in case of any significant decline in occupancy levels or in case of higher than expected increase in debt levels impinging the capital structure. Further, any significant cost overruns in the capex plan would also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	43.40	40.71	38.14
EBITDA	Rs. Cr.	20.77	19.49	19.05
PAT	Rs. Cr.	7.98	6.46	4.85
EBITDA Margin	(%)	47.85	47.89	49.95
PAT Margin	(%)	18.40	15.87	12.71
ROCE	(%)	17.09	16.67	32.22
Total Debt/Tangible Net Worth	Times	1.92	2.54	2.58
PBDIT/Interest	Times	2.27	2.10	1.98
Total Debt/PBDIT	Times	3.22	3.64	3.40
Gross Current Assets (Days)	Days	18	15	45

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Term loans	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE Provisional BB / Stable
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE Provisional BB / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE Provisional BB / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Leena Gupta Analyst - Rating Operations Tel: 02249294035 leena.gupta@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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