

Press Release

Chitkara Educational Trust

D-U-N-S® Number: 91-597-6924

January 09, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 65.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A1

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) to the Rs. 65.00 crore bank facilities of Chitkara Educational Trust (CET). The outlook assigned is '**Stable**'.

CET was established in 1998 by Dr. Ashok Chitkara who is the Chairman of the Trust as well as Chancellor of Chitkara University and Dr. Madhu Chitkara who is the General Secretary of the trust and Vice-chancellor of Chitkara University. The trust manages a school and colleges and offers undergraduate programs, post-graduate program and doctoral programs in fields such as Engineering, Management, Pharmacy and other courses in Health Sciences, Nursing to name a few. The school is recognised by Education Department, Chandigarh Administration and affiliated till grade/class 10+2 with Central Board of Secondary Education (CBSE), New Delhi.

CET has established two universities by the name of Chitkara University, Baddi (Himachal) and Chitkara University, Patiala (Punjab). Chitkara University (Himachal) started its operations from Academic Year 2008-09 after the Legislature of Himachal Pradesh passed Chitkara University Act, 2009 and Chitkara University (Punjab) was established by the Punjab State Legislature under 'Chitkara University Act'. The Himachal campus is spread across 17 acres with student strength of ~2000 students for the academic session 2017-18 and Punjab campus is spread over 50 acres with the student strength of ~10000 students for the academic session 2017-18.

The University extends its services by providing hostel facilities to its students with total capacity of 5500 students including both Himachal and Punjab campus. Chitkara University is recognised by the University Grants Commission (UGC). The university is also accredited by the National Assessment and Accreditation Council (NAAC). Relevant programmes are approved by the Council of Architecture (COA), Pharmacy Council of India (PCI), National Council for Teacher Education (NCTE), Indian Nursing Council (INC) and National Council for Hotel Management and Catering Technology (NCHMCT).

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of CET to arrive at the rating.

Key Rating Drivers

Strengths

• Established track record, experienced management and steady revenue growth

CET has its presence since 1998 and runs a renowned school since 2004 under the name of 'Chitkara International School' (CIS) having established track record of over two decades. CIS is well established school at Chandigarh region in Punjab and has been ranked as one of the Top 3 schools in Chandigarh City Rankings 2016 by Digital Learning. Also, Chitkara University was ranked 4th nationwide amongst top universities for filing 46 patents during the year 2015 -16 and best University for Research in India 2018 by Integrated Chambers of Commerce and Industry. Besides

this, CET has achieved operating revenue which has increased to Rs.200.91 crore in FY2018 as compared to Rs.182.44 crore in FY2017 and Rs. 160.66 crore in FY2016. The revenues are growing at a steady rate over the years and are well supported by increase in student strength coupled with fee hikes. Further, it offers hostels facility to attract students from other states/town adding to its revenue profile. The hostel revenue and hike in hostel fees has also helped to increase the revenue receipts for the school for academic year 2017 -18 and 2018 - 19.

The trust is promoted by Dr. Ashok Chitkara, who is a member of the Indian Mathematical Society, Indian Science Congress Association and Indian Society for Technical Education; and has an experience of 42 years in teaching and mentoring. Apart from being the Chairman of CET, Dr. Chitkara is also the Chancellor of the Chitkara University, Punjab and Himachal. The university has been associated with many reputed and international education institutions such as London School of Economics and Political Science (LSE), California State University (CSU), George Washington University (GWU), University of British Columbia (UBC) to name a few. Also, the university has shown an ability to attract many reputed companies such as Capgemini, Accenture, Pepsico, Flipkart to name a few for the recruitments.

Acuite believes that the established brand name of the institute and extensive experience of the management has helped the trust attract reputed recruiters which in turn helps the trust increase its occupancy rate going forward, which is expected to showcase in higher revenue expectation in future.

• **Healthy Financial Risk Profile**

CET's financial risk profile is marked by its healthy net worth, healthy debt protection measures and low gearing. The net worth increased to Rs.191.00 crore as on 31 March, 2018 as against Rs.164.88 crore in the previous year on account of increasing revenue and profitability, leading to higher accretion to reserves. The trust's gearing is estimated to be low at 0.38 times as on 31 March, 2018 as against 0.49 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.68 times as on March 31, 2016. The total debt of ~Rs.73.25 crore consists of long term debt of Rs.36.96 crore and Rs.36.29 crore of short term debt obligations. The healthy revenue growth coupled with healthy profitability levels has resulted in healthy net cash accruals of Rs.37.54 crore during 2016-18. The interest coverage ratio stood at 5.94 times in FY18 as against 5.06 times in the previous year. NCA/TD ratio stood 0.51 times in FY18.

Acuite believes that strong accruals during 2016-18 helped the trust maintain a healthy financial profile and incur routine capital expenditure.

• **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 popularisation of private self-financing colleges and deemed universities, the role of the private sector in education has been accepted and recognised. Educational outcomes are one of the key areas influenced by family incomes. Increasing urbanisation 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

• **Intense competition and stringent regulatory framework for the educational sector in India**

The institutes of the trust are affiliated to Chitkara University and Chandigarh Administration with Central Board of Secondary Education (CBSE). Various agencies such as the University Grants Commission (UGC), National Assessment and Accreditation Council (NAAC), National Council for Teacher Education (NCTE), and National Council for Hotel Management and Catering Technology (NCHMCT) under the State and Central government prescribe regulatory framework depending on the professional courses offered. The institutes face competition from other private institutions offering similar courses.

Given the competition, the ability of the institutes to attract requisite students in tune with its actual capacity would be a challenge. This is expected to limit the trust's capability to increase fee along with the increase of occupancy. Hence, the trust is subject to the stringent regulatory framework of

the educational sector in India. Apart from the regulatory framework in India, the various affiliations with central boards such as CBSE also impacts and limits the trust's day-to-day business activities.

Outlook: Stable

Acuite believes that CET will maintain 'Stable' outlook over the medium term owing to its long standing presence in the industry and extensive experience of the management in the education sector. The outlook may be revised to 'Positive' in case of significant improvement in its surplus generation, while sustaining the growth in revenues aided by healthy admission levels. The outlook may be revised to 'Negative' if the trust faces challenges in maintaining the revenue growth or its debt protection indicators due to profitability pressure or higher-than-expected debt-funded capital expenditure deteriorating its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	200.91	182.44	160.66
EBITDA	Rs. Cr.	43.75	43.72	40.71
PAT	Rs. Cr.	25.95	25.61	22.71
EBITDA Margin	(%)	21.78	23.97	25.34
PAT Margin	(%)	12.92	14.03	14.13
ROCE	(%)	13.18	14.49	28.38
Total Debt/Tangible Net Worth	Times	0.38	0.49	0.68
PBDIT/Interest	Times	5.94	5.06	4.11
Total Debt/PBDIT	Times	1.62	1.74	2.21
Gross Current Assets (Days)	Days	17	15	13

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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 (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
Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- / Stable (Assigned)
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A- / Stable (Assigned)
Overdraft	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE A- / Stable (Assigned)

Long Term Loans	Not Applicable	Not Applicable	Not Applicable	24.50	ACUITE A- / Stable (Assigned)
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A- / Stable (Assigned)
Bank Guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A1 (Assigned)

Contacts

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About Acuité Ratings & Research:

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