

## Press Release

Chitkara Educational Trust

March 25, 2020

### Rating Reaffirmed, Withdrawn & Assigned



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

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs. 61.00 crore bank facilities of Chitkara Education trust (CET). The outlook is '**Stable**'.

Further, Acuite has withdrawn and assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 4.00 crore bank facilities of CET. The outlook 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, postgraduate 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 recognized by Education Department, Chandigarh Administration and affiliated till grade/class 10+2 with Central Board of Secondary Education (CBSE) and has a strength of around 1800. 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 ~2600 students for the academic session 2019-20 and Punjab campus is spread over 50 acres with the student strength of ~12700 students for the academic session 2019-20. The University extends its services by providing transportation and 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 profile 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. CET has achieved operating revenue which has increased to Rs.223.16 crore in FY2019 as compared to Rs.200.91 crore in FY2018 and Rs. 160.66 crore in FY2017. 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 2018 -19 and 2019 - 20. 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 43 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 has healthy financial risk profile marked by healthy net worth, healthy debt protection measures and low gearing. The net worth increased to Rs.214.72 crore as on 31 March, 2019 as against Rs.193.73 crore in the previous year on account of healthy accretion of reserves. The Trust's gearing (Debt-Equity) stood low at 0.28 times as on 31 March, 2019 as against 0.38 times in the previous year. The total debt of Rs.60.09 crores consists of long term loan of Rs. 28.42 crores and working capital borrowings to the tune of Rs. 31.67 crores from the bank. The healthy revenue growth coupled with healthy profitability levels have resulted in healthy net cash accruals of Rs.108.10 crore during 2017-19. CET's coverage indicators stood healthy marked by the interest coverage ratio which stood at 7.44 times in FY2019 as against 5.94 times in the previous year. Total outside liability to total net worth (TOL/TNW) ratio stood at 0.73 times in FY2019 and the debt service coverage ratio stood healthy at 2.14 times.

#### **Weaknesses**

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

The Indian education industry is highly regulated and CET is subjected to the regulatory framework which is to be followed by Trust 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 Trust. Further the institutes run by the trust 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 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 CBSE also impacts and limits the group's day-to-day business activities.

#### **Rating Sensitivities**

- Improvement in operating levels and profitability.
- Significant Improvement in working capital cycle.

#### **Material Covenants**

None

#### **Liquidity Position**

CET has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The Trust generated cash accruals of Rs. 33.71 crore for FY2019 against debt obligations of Rs. 13.02 crore for the same period. The cash accruals of the trust are estimated to remain in the range of around Rs. 37.88 crore to Rs. 42.90 crore during 2020-22 against repayment obligations ranging from Rs. 13.02 crore to Rs. 2.38 crore. The trust maintains unencumbered cash and bank balances of Rs. 6.82 crore as on 31 March 2019. Further, the bank limits of the trust for the last 6 months ending on February 2020 remained utilized at an average of around 65-70 percent. Acuite believes that the liquidity of the Trust 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 Trust over the medium term.

**Outlook: Stable**

Acuite believes that CET 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 in the region of Punjab and Himachal Pradesh. The outlook may be revised to 'Positive' in case the Trust 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 Trust registers lower-than- expected growth in revenues and profitability or in case of deterioration in the Trust's financial risk profile.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	223.16	200.91
Profit after tax (PAT)	Rs. Cr.	20.99	25.95
PAT Margin	(%)	17.10	21.78
Total Debt/Tangible Net Worth	Times	0.28	0.38
PBDIT/Interest	Times	7.44	5.94

**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
09-Jan-2019	Overdraft	Long Term	10.00	ACUITE A-/ Stable (Assigned)
	Drop line Overdraft	Long Term	4.00	ACUITE A-/ Stable (Assigned)
	Overdraft	Long Term	19.50	ACUITE A-/ Stable (Assigned)
	Long term loans	Long Term	24.50	ACUITE A-/ Stable (Assigned)
	Drop line Overdraft	Long Term	4.00	ACUITE A-/ Stable (Assigned)
	Bank Guarantee/ Letter of Guarantee	Short Term	3.00	ACUITE A1 (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	10.00	ACUITE A-/ Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE A-/ Stable (Reaffirmed)
Long term loans	Not Applicable	Not Applicable	Not Applicable	24.50	ACUITE A-/ Stable (Reaffirmed)
Drop line Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A-/ Stable (Reaffirmed)
Proposed long term	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A-/ Stable (Assigned)
Drop line Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A- (Withdrawn)
Bank Guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A1 (Reaffirmed)

### Contacts

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

### About Acuite Ratings & Research:

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