

Press Release

A Shama Rao Foundation

D-U-N-S® Number: 67-548-4314

March 08, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 43.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs. 43.00 crore bank facilities of A Shama Rao Foundation (ASRF). The outlook is '**Stable**'.

Mangalore-based, ASRF, part of the Srinivas Group, was established as a trust in 1988 by CA. A. Raghavendra Rao. The trust manages 18 colleges with undergraduate, post-graduate and doctoral programs in fields such as Science, Engineering, Management, and Health Sciences, to name a few. Further, the Group has established its own university, Srinivas University, which started operations from FY2018.

The colleges are affiliated to the Mangalore University, Rajiv Gandhi University of Health Sciences, Vishvesharaya Technological University and approved/recognised by All India Council for Technical Education (AICTE), National Council for Teacher Education (NCTE) and Airports Council International (ACI) for respective areas of educational courses offered. All the colleges under the Srinivas group are spread across three campuses at Pandeshwar, Valachil and Mukka in Mangalore with about 12,000 students, 76 courses and 3000 staff members. The Group also has hospital and a hotel under its management.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of A Shama Rao Foundation, Srinivas College of PG Management Studies, Vijayalakshmi Educational Trust, Srinivas College of Education, Srinivas College of Hotel Management, Srinivas College of Physiotherapy Trust, Srinivas College of Health Science Trust, Srinivas Institute of Medical Science & Research Centre, Srinivas Institute of Technology, Srinivas School of Business, Srinivas School of Management, Srinivas School of Engineering together referred to as the Srinivas Group to arrive at the rating. The consolidation is in view of the common management and operational and financial alignments. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Established track record, experienced management and steady growth in student intake

Srinivas Group has its presence in the field of education since 1988, thereby gaining an experience of almost three decades in the aforementioned industry. The Group runs 18 colleges offering courses in varied areas including Science, Engineering, Management, and Health Sciences. The promoter, CA. A. Raghavendra Rao has his own CA firm, having branches in 7 cities, and has been associated with Southern Indian Regional Council of Chartered Accountants of India. The Group also has presence in the hospitality segment. In 1980, CA A. Raghavendra Rao set up his own hotel, Hotel Srinivas. Further, Dr. A.Srinivas Rao (his son) has a doctorate degree in Education Management and has been associated with the management of higher education institutions since the past 25 years.

Srinivas Group already has around 76 courses and is in the process to expand its portfolio which is visible by the Y-O-Y increase in sanctioned student intake. The sanctioned student intake increased to 5,515 fresh students in FY2018 against 5,010 students in FY2017 and 3,896 students in FY2017. Further, the Group was able to maintain the sanction to actual intake ratio in the range of 71-76 per centin

the 3 years through 2016 to 2018. The Group's revenue stood at Rs.93.70 crore for FY2018 against Rs.100.43 crore for FY2017. Further, the Group has registered revenue of ~Rs.107.00 crore for the period April, 2018 to December, 2018. Long track record of the Srinivas Group along with extensive experience of the management has helped them attract many reputed companies such as Infosys, TCS, Tech Mahindra, L & T, Accenture, Tata Motors, Axis Bank, Leela Hotels, Taj Group, Amazon, Flipkart, Fortis and Arvind Mills, to name a few. Acuite believes that the established brand name of the Group along with management's extensive experience helps the trust attract reputed recruiters which in turn helps the trust to increase its occupancy rate and generate higher revenues in the future.

- **Healthy financial risk profile**

Srinivas Group has healthy financial risk profile marked by healthy net worth, healthy debt protection measures and low gearing. The net worth increased to Rs.147.84 crore as on 31 March, 2018 as against Rs.138.07 crore in the previous year on account of healthy accretion of reserves. The trust's gearing stood low at 0.47 times as on 31 March, 2018 as against 0.63 times in the previous year. The company has followed a conservative financial policy in the past as reflected by its peak gearing of around 0.63 times as on March 31, 2017.

The total debt of ~Rs.69.50 crore consists of long term loan from the bank. The healthy revenue growth coupled with healthy profitability levels have resulted in healthy net cash accruals of Rs.63.67 crore during 2016-18. The interest coverage ratio stood at 4.37 times in FY2018 as against 3.46 times in the previous year. TOL/TNW ratio stood at 0.64 times in FY2018. 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 education sector in India**

The institutes of the trust are affiliated to Mangalore University and Rajiv Gandhi University of Health Sciences. Various agencies such as the University Grants Commission (UGC), National Assessment and Accreditation Council (NAAC), All India Council for Technical Education (AICTE), Airports Council International (ACI), 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 education sector in India.

Outlook: Stable

Acuite believes that Srinivas Group 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.

Liquidity Position

Srinivas Group has healthy liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.18.47 to 25.07 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.13.00-16.00 crore over the same period. The cash accruals of the company are estimated to remain around Rs.30.00-40.00 crore during 2019-21 while its repayment obligation are estimated to be around Rs. 25.00-30.00 Crore. The Group has repaid its term debt obligations in advance for FY2019. The company maintains unencumbered cash and bank balances of Rs.23.70 crore as on March 31, 2018 and is expected to maintain the same in near to medium term. The current ratio of the company stands healthy at 1.81 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accrual against its repayment obligations over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	93.70	100.43	86.60
EBITDA	Rs. Cr.	30.86	27.39	26.19
PAT	Rs. Cr.	7.46	2.75	0.13
EBITDA Margin	(%)	32.94	27.27	30.24
PAT Margin	(%)	7.96	2.74	0.15
ROCE	(%)	6.75	5.06	8.58
Total Debt/Tangible Net Worth	Times	0.47	0.63	0.56
PBDIT/Interest	Times	4.37	3.46	3.10
Total Debt/PBDIT	Times	2.14	3.05	2.75
Gross Current Assets (Days)	Days	144	122	59

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

CARE, vide its press release dated January 31, 2018 had denoted the rating of Srinivas Group as 'ICRA BBB-/Stable; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

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>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.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
Term loans	Not Applicable	Not Applicable	Not Applicable	41.50	ACUITE BBB / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB / Stable

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Jyotsna Nebhnani Analyst - Rating Operations Tel: 022 49294074 jyotsna.nebhnani@acuite.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.