

Press Release

The Surabhi Educational Society

July 23, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 25.00 crore bank facilities of THE SURABHI EDUCATIONAL SOCIETY. The outlook is '**Stable**'.

The Surabhi Educational Society (TSES) is established in July, 2014 by Mr. Mahender Rao and Mr. Hareender Rao along with others. TSES operates 'Surabhi Institute of Medical Sciences', a medical college and a 300 bedded hospital - 'Surabhi Hospital'. Both the medical College and hospital are located at Siddipet (Telangana). Medical Council of India (MCI) has accorded permission to start operations of the college with an intake of 150 students for the first batch of 2019-20.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of The Surabhi Educational Society to arrive at this rating.

Key Rating Drivers

Strengths

- Society member's extensive experience**

Society members, Mr. Hareender Rao and Mahender Rao have more than 15 years of experience in operating medical college and hospital. They are associated with Arihant Education Society as Founder Promoters and it operates a 1000 bedded hospital with a medical college 'Chelmeda Anand Rao Institute of Medical Sciences' located at Karimnagar (Telangana). With the experience, the promoter trustees have formed this trust to setup a medical college and hospital. Hospital started operations in FY2016, and it has got approval for medical college operations starting Academic Year (AY) 2019-20. Now, the management is further building infrastructure for the second year operations to start in the next year. Acuité believes that Members' managerial competence and vast business network will considerably contribute to the growth of this Medical College and Hospital.

Weaknesses

- Project implementation risk**

TSES is implementing a moderate debt-funded capex of Rs.17.01 crore for development of infrastructure of class rooms, hostel and other amenities for the academic year 2020-21. Currently, TSES has infrastructure for one batch of 150 students who are undergoing 1st year of graduation. The capex is proposed to be funded out of term loan of Rs.12.75 crore, and balance by promoter members. The project is expected to be complete by November 2019, as MCI will inspect the college during December 2019 for ascertaining the availability of infrastructure for the 2nd year. The project is in the initial stages with construction and is expected to incur about Rs.4.26 crore out of accruals and promoter funds. Acuité believes that timely sanction and disbursement of term loan is critical besides timely completion for inspection of MCI.

- Unfavorable regulations and stringent norms**

The society operates in the education as well as healthcare sector which are highly regulated. Any change in policies or deficiency in the infrastructure may lead to restricting the college to take admissions for any academic year which adversely impacts the business and financial risk profile

though the same is partly mitigated by experienced management team in this sector.

Liquidity Position: Stretched

TSES's liquidity is stretched marked by Rs. 0.54 Crore cash accruals in FY2019 (provisional). TSES is doing a capex of Rs 17.01 Crore for development of infrastructure for 2nd year operations. TSES propose to fund this project by way of term loan of Rs.12.75 crore which is yet to be sanctioned, and rest from promoters. The project shall be ready for inspection by around December 2019. Any delay in completion of the project will adversely impact the future cash flows of TSES. TSES's cash flows from the admissions and hospital revenues are expected to be around Rs.13.0 crore in FY2020 (estimated). Acuite believes that with undergoing capex, the liquidity continues to be stretched over the medium term.

Outlook: Stable

Acuite believes that TSES will maintain a 'Stable' outlook over the medium term on account of its experienced management in the health sector. The outlook may be revised to 'Positive' in case of stabilisation of its operations and timely completion of the project. Conversely, the outlook may be revised to 'Negative' in case of any significant delay in completion of the project or any significant delays in getting approvals impacting the business risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY2018 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	0.87	0.87	0.32
EBITDA	Rs. Cr.	0.43	0.27	0.02
PAT	Rs. Cr.	(0.03)	(0.12)	(0.10)
EBITDA Margin	(%)	49.17	31.75	5.10
PAT Margin	(%)	(3.38)	(14.23)	(30.40)
ROCE	(%)	0.17	(1.37)	(3.96)
Total Debt/Tangible Net Worth	Times	0.02	0.04	0.10
PBDIT/Interest	Times	9.91	6.24	0.98
Total Debt/PBDIT	Times	0.43	1.02	22.44
Gross Current Assets(Days)	Days	171	159	176

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Service 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 Loan	Not Applicable	Not Applicable	Not Applicable	12.75	ACUITE BB- / Stable
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE BB- / Stable

Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A4+
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About Acuité Ratings & Research:

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