Press Release

SRIMATHI SUNDARAVALLI MEMORIAL EDUCATIONAL TRUST

November 11, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 37.22 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** on the Rs. 37.22 crore bank facilities of SRIMATHI SUNDARAVALLI MEMORIAL EDUCATIONAL TRUST (SSMET). The outlook is **'Stable'**.

Srimathi Sundaravalli Memorial Educational Trust (SSMET) was established in 1985 by Mr. K Santhanam located at Chennai, Tamilnadu. The trust operates three schools in Chennai - Srimathi Sundaravalli Memorial School-Chromepet established 1986, Sri Sarada Secondary School- Chromepet established 1986 and Srimathi Sundaravalli Memorial School-Perungalathur established in 2012. All three schools are affiliated to the Central Board of Secondary Education (CBSE). The trust has a total student base of 10,200 students for AY 2019-2020 vis-à-vis 10,100 students for AY 2018-2019. The trust also operates a senior citizen home, SSM Residency.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of SSMET to arrive at the rating.

Key Rating Drivers

Strengths

• **Established track record and experienced management**

SSMET has been in existence for around three decades offering primary and secondary education. The trust is promoted by Mr. K Santhanam along with other trustees. SSMET trustees have experience of nearly three decades in running educational institutions. The vast experience of the trustees has resulted in strong brand image in Chennai. The schools have been ranked among the top schools in the Chennai region and has consistently reported healthy student enrollment rate of about 90-95 % over the last few years. A majority of the school's faculty has more than five years of teaching experience. Further the schools are located in the strategic locations in the suburbs which limits the competition risk to an extent; and the increasing preference for CBSE curriculum in recent times which has aided the enrolment growth reflected in increase in its revenues from Rs.83.34 crore in FY2017 to Rs. 97.37 crore in FY2019 (Provisional), while maintaining steady margins of around 26 per cent over the last three years. Its compound annual growth rate (CAGR) is 8.00% over the last three years ending through FY2019. Acuité believes that established presence of the trust in the education sector, and brand image across Tamilnadu aids in steady enrolment levels in all schools this coupled with steady fee revision and branch expansion is expected to support growth in revenues over the medium.

• **Moderate financial risk profile**

SSMET's financial risk profile is marked by moderate networth, moderate gearing levels and healthy debt protection metrics. SSMET has followed a moderately aggressive financial policy as reflected by its peak gearing of around 2.8 times as on March 31, 2018. Th e gearing levels have however moderated to around 1.9 times as on March 31, 2019 on account moderate accretion to reserves and scheduled repayments. The debt/EBITDA continues to remain comfortable at around 2.5 times as on March 31, 2019.. The corpus fund stood at Rs.33.65 crore as on 31 March, 2019 (Provisional) as against Rs.22.98 crore as on 31 March, 2018. Moderate growth in revenue and profit accretions lead to moderate debt protection metrics of interest coverage and net cash accruals to total debt of 3.02 and 0.29 times in FY2019 (Provisional) respectively. SSMET reported cash accruals of Rs.17.56 crore in FY2019 (Provisional); its cash accruals are expected to be in the range of Rs.15 -20 crore in FY2020-22 against its repayment obligations of about Rs.8-9 crore during the same period and regular capex of about Rs.3.00-5.00 crores for expansion. Acuité believes that SSMET will sustain its financial risk profile on the back of steady growth in admissions over the medium term.

Weaknesses

- **Education sector in India is highly regulated**

Education sector is highly regulated with the government deciding on the maximum student intake, fees, mandatory facilities, faculty strength. Any adverse change in the government regulations may impact the trust's ability to generate sustained revenue growth and accruals. The institutions run by the trust faces stiff competition from other reputed institutions in the nearby vicinity which may inhibit the trust's ability to attract fresh students.

Liquidity Position: Adequate

Liquidity of the SSMET is adequate marked by moderate cash accruals to its repayment obligations. SSMET reported accruals are expected to be in the range of Rs.15-20 crore in FY2020-22 against its repayment obligations of about Rs.8-9 crore during the same period and regular capex of about Rs.3.00-6.00 crores for expansion. The trust collects fees quarterly from its students and therefore ensuring adequate cash inflow throughout the year. SSMET doesn't have any working capital facilities. Acuité believes that the liquidity of the SSMET is likely to remain adequate over the medium term on account of moderate cash accrual to its repayments over the medium term.

Rating Sensitivities

- Sustained increase in inflow of students coupled with increase in fees
- Any large capex to further expand the operations

Any Material Covenants

None

Outlook: Stable

Acuité believes that SSMET will maintain a 'Stable' outlook over the medium term from the long track record of operations in the education segment and experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its cash accruals. The outlook may be revised to 'Negative' in case of any larger than expected debt funded capital expenditure leading to deterioration of its financial risk profile particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	97.37	93.94	83.34
EBITDA	Rs. Cr.	26.25	24.47	21.76
PAT	Rs. Cr.	10.65	3.46	0.00
EBITDA Margin	(%)	26.95	26.05	26.11
PAT Margin	(%)	10.94	3.68	9.04
ROCE	(%)	21.08	22.87	44.76
Total Debt/Tangible Net Worth	Times	1.88	2.77	2.38
PBDIT/Interest	Times	3.02	1.75	3.01
Total Debt/PBDIT	Times	2.41	2.60	2.14
Gross Current Assets (Days)	Days	10	19	54

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-52.htm
- Entities In Services Sector - https://www.acuite.in/view-rating-criteria-50.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.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	37.22	ACUITE BB / Stable

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