

Press Release

Gandhi Educational Trust

June 01, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.35.00 Cr.
Long Term Rating	ACUITE BBB- / Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.35.00 Cr. bank facilities of Gandhi Educational Trust (GET). The outlook is '**Stable**'.

About the company

Tamil Nadu-based, Gandhi Educational Trust established in the year 1990 by Mr. T. Harigopalan being a chairman to the trust along with 5 other trustees. The trust runs schools in Vellore and Chennai. The trust manages 4 schools which offer primary and secondary education. Sunbeam Matriculation Higher Secondary School, Sunbeam CBSE School and Sunbeam Nursery and Primary School, these 3 schools located in Katpadi region and Sunbeam Matriculation Higher Secondary School is located in Chennai region.

The rating assigned to the bank facilities of GET factors in its established track record of operations, experienced management, market position regionally, above-average financial risk profile, moderate scale of operations and satisfactory profitability margins, and adequate liquidity. These strengths are offset by its moderate project risk and fall in student strength due to Covid-19 impact and exposure to intense competition.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GET to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management; established track record of operations and market position in Tamil Nadu**
 Gandhi Educational Trust established in the year 1990 by Mr. T. Harigopalan being a chairman to the trust along with 5 other trustees. Mr. T. Harigopalan possesses more than 3 decades experience in education sector. The trust manages 4 schools which offer primary and secondary education. Sunbeam Matriculation Higher Secondary School, Sunbeam CBSE School and Sunbeam Nursery and Primary School, these 3 schools located in Katpadi region and Sunbeam Matriculation Higher Secondary School is located in Chennai region. The total intake capacity for 4 schools is at 6,270 students while the actual strength stood at 5,058 student for FY2020. The trust also provides IIT and NEET coaching for Class XI and XII students. Acuité believes that the reasonable market position of the schools regionally and promoter's extensive industry experience will aid GET's business risk profile over the medium term.
- Moderate scale of operations and profitability margins**
 The scale of operations of the trust has remained moderate. The revenues stood at Rs.23.91 Cr for FY2020 as against Rs.29.91 Cr in FY2019 and Rs.24.30 Cr in FY2018. The decline in fees and head count led to decline in gross receipts for FY2020. Moreover, considering the Covid-19 situation, the trust didn't collect the fees for March 2020 month which also led to decline in gross receipts. The profitability margins of the trust remained moderate and stood at 25.37 percent in FY2020 as against 38.83 percent in FY2019 and 30.56 percent in FY2018. The decline in gross receipts for FY2020 led to dip in profitability margins for the period. Acuité believes that the revenue is expected to improve backed by takeover of 2 schools and profitability margins are expected to remain stable over the medium term.

• Above-average financial risk profile

The financial risk profile of the trust has remained above-average. The networth of the trust stood at Rs.50.54 Cr as on March 31, 2020 as against Rs.46.77 Cr as on March 31, 2019. The trust doesn't have any existing debt obligation as on March 31, 2020. Acuite believes that the financial risk profile of the trust is expected to remain healthy over the medium term albeit the gearing is expected to increase on account of expected debt funded capex plan.

Weaknesses

• Moderate Project Risk

The trust has planned to take over 2 primary and secondary schools named Nag Matriculation primary and secondary school with a total intake capacity of about 2,000 students. The purchase consideration is of Rs.40 Cr out of which trust is planning to fund through Rs.10 Cr from internal accruals and remaining Rs.30 Cr from bank loan. The trust has already taken over the management control for the current academic year and Rs.8.00 Cr was paid to the party and remaining amount is yet to be sanctioned by the bank. Acuite believes that the ability of the trust to complete the project without any cost or time over run will remain critical from credit perspective.

• Exposure to intense competition and regulatory changes

GET, which runs primary and secondary schools faces competition from other schools regionally. Increase in intakes will largely depend on their ability to provide quality education through continuous development in the infrastructure, diversity in the course offering. Further, education sector is highly regulated by the government. Any changes in the regulatory environment will have a bearing effect on GET. Acuite believes that this risk can be partially mitigated due to the trust's established presence and experienced management.

Rating Sensitivity factors

- Timely completion of the project
- Lower-than-expected revenue or profitability leading to lower net cash accruals

Material Covenants: None

Liquidity Position: Adequate

The liquidity position of the trust has remained adequate. The trust generated net cash accruals of Rs.6.52 Cr for FY2020 as against no debt repayment obligation. The cash and bank balance of the trust stood at Rs.10.15 Cr as on March 31, 2020. The current ratio of the trust stood at 36.36 times as on March 31, 2020. Acuite believes that the company's liquidity is expected to remain adequate over the medium term.

Outlook: Stable

Acuite believes that GET will maintain a Stable outlook in the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the trust's scale of operations increases on the back of further increase in fee receipts, while maintaining its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the trust fails to achieve scalability amidst intensifying competition in its area of operations or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded capital expansions.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	23.95	29.91
PAT	Rs. Cr.	3.73	8.99
PAT Margin	(%)	15.56	30.04
Total Debt/Tangible Net Worth	Times	-	-
PBDIT/Interest	Times	1348.65	71.47

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Application of 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/view-rating-criteria-55.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 Bank Facility	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB-/Stable (Assigned)

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About Acuité Ratings & Research:

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