

Press Release

Stonehill Education Foundation

July 15, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BBB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	40.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 40 crore long term bank facilities of Stonehill Education Foundation (SEF). The outlook is '**Stable.**'

Rationale for rating assigned

Rating assigned takes into account SEF's healthy financial risk profile with low gearing and comfortable coverage indicators which are expected to remain even stable post addition of long term debt. The rating also draws comfort from the strong market position of the Embassy group and its established track record in project execution. SEF's operating performance has seen a decline in FY2021 primarily on account of disruptions caused by Covid 19 restrictions. However, its performance has shown gradual recovery in FY2022 with improvement in student intake. However, Acuite takes note of the moderation in operating profitability and the same continues to remain a key monitorable. The debt raised will be used to for development of another school. The project is currently at a nascent stage and is exposed to execution risk and is developed by the Embassy Knowledge Infrastructure Project Private Limited (EKIPPL) which is part of the Embassy Group. This risk is however, mitigated on account of Embassy Group's long track record of operations. However, the cash flow from the SEF are expected to be adequate to cover the repayment obligations on the debt with DSCR expected to be in the range of 1.85 times for FY2023.

About the Company

SEF a section 8 company formed in 2008 is an Embassy Group (EG) education initiative. SEF started Stonehill International School (SIS) under its operations in 2008. SIS is a private, co-educational premium day and boarding international school in Bangalore, Karnataka. The school offers the International Baccalaureate (IB) curriculum for ages 3-18, in the Primary Years Programme, Middle Years Programme and the Diploma Programme. The school is spread over 34 acres campus and is equipped with sports fields and other facilities. It is accredited by the Council of International Schools (CIS) and the New England Association of Schools and Colleges (NEASC). Further, the school is a member of the Australian Boarding Schools Association (ABSA).

Analytical Approach

Acuite has considered standalone financial and business risk profiles of SEF to arrive at the rating.

Key Rating Drivers

Strengths

Strong market position of the group and long track record of the school demonstrating cultural diversity.

SEF under its operations, started the Stonehill International School in Bengaluru, Karnataka. SEF is a section 8 company incorporated in 2008 and is a part of the Embassy Group (EG). EG is a privately held real estate developer based in Bengaluru. EG was incorporated in 1993 by Mr. Jitendra Virwani and the group has developed 64+ Million Sq. Ft. of properties in its legacy of expertise spanning 30 years. EG's operations are spread across Indian and international markets that include Bangalore, Chennai, Pune, Coimbatore, Trivandrum, Serbia and Malaysia. The group has executed real estate development projects for verticals like commercial, residential, hospitality, industrial warehouse spaces, services, retail and education. SEF is an education initiative by the EG and the current directors of SEF are Mr. Karan Virwani and Mr. Narpal Singh Choraria. The school is a premium day and boarding school with operations since 2008. It offers International Baccalaureate (IB) curriculum for students from grade nursery to class 12. The school welcomes students from a wide variety of background which includes long-term Indian residents, children of expatriates who are working in India on fixed-term contracts and children of Indians who have lived and worked abroad but who have returned to India. Currently, the school has students of more than thirty nationalities which brings various cultures and diversities under one roof to make a united community of students.

Acuite believes that, the school's long track record of operations with multi cultured flock along with established market position of the EG would continue to support SEF's growth.

Healthy Financial Risk Profile

The financial risk profile of the company is healthy marked by healthy gearing and comfortable coverage indicators. SEF's tangible net worth stood at Rs. 106.07 Cr. as on March 31, 2022(Prov.) and Rs. 96.35 Cr. as on March 31, 2021. Until FY2021, the company did not have any major debt on its balance sheet apart from a vehicle loan. However, company availed a TL to the tune of Rs. 40 crore in FY2022 for the construction of a proposed CBSE school which is expected to be completed by 2024. The school will be operated by Stonehill CSEY Foundation, a wholly owned subsidiary of SEF. Even with the addition of the debt, SEF's gearing still remained healthy at 0.38 times as on 31st March 2022(Prov.) marked by strong net worth of around 106 crore as on March 31, 2022(Prov.) Going forward, gearing is expected to improve and remain in the range of 0.31 times. Debt protection metrics stood at Debt Service Coverage ratio (DSCR) at 48.57 times in FY2022(Prov.) against 55.46 times in FY2021. Interest Coverage ratio (ICR) stood at 176.06 times in FY2022(Prov.) as against 249.58 times in FY2021. Going forward, with the commencement of repayment of the additional debt the coverage indicators are expected to remain comfortable with DSCR at 1.85 times and ICR at 4.52 times for FY2023 respectively.

Weaknesses

Deterioration in operating profitability in FY2021-FY2022 due to the impact of COVID

SEF reported revenues of Rs. 71.95 crore during FY2022(Prov.) against Rs. 78.69 crore in FY2021 and Rs. 86.70 crore in FY2020. Operating margins during the same period stood at 13.21 percent, 21.53 percent and 24.46 respectively. The revenues during FY2021 & FY2022 reduced owing to decreased fee receipts and student intake predominantly the expatriate students who returned back to their respective countries during the Covid crisis. Further, the operating margins have deteriorated during FY2022 due to lesser revenues on account of Covid while fixed expenses pertaining to faculty salaries and admin expenses increased, resulting in a negative operating leverage. However, with operations getting back to normalcy and the no. of students reaching 541 in FY2022 against 474 in FY2021, Acuite expects SEF to achieve its pre-covid revenue levels by FY2024.

Project execution and demand risk

SEF has proposed to start another CBSE school in Bengaluru to be operated by its wholly owned subsidiary Stonehill CESY Foundation. The construction of the proposed school is still at a nascent stage while SEF has availed a term loan to the tune of Rs. 40 crore towards the construction of the same. The operations of the proposed school are estimated to start in 2024. However, the entire debt would be serviced by SEF, during the entire tenure of the loan. Any time or cost overruns in the project completion may adversely affect SEF's financial profile. However, this risk is mitigated to some extent as the construction of the new school is undertaken by its own group company which has a long track record of project execution. The group has developed 64+ Million Sq. Ft. in its legacy of expertise spanning 30 years of operation spread across Indian and international markets that include Bangalore, Chennai, Pune, Coimbatore, Trivandrum, Serbia and Malaysia. Further, SEF's current cashflows are comfortably sufficient to meet the debt obligations, even in case of any delay or absence of additional cashflows from the proposed school.

Rating Sensitivities

- Sustained improvement in revenue and profitability
- Completion of on going project without significant time and cost overruns.

Material covenants

None

Liquidity Position Adequate

The liquidity of the company will remain adequate basis its sufficient Net Cash Accruals (NCA) against maturing debt obligations. The NCA of the company in FY2022 (Prov.) stood at around Rs. 11 crore against the maturing debt obligations of Rs. 4.30 Cr during the same period. The company is expected to maintain NCA of Rs. 10-11 Cr as against maturing debt obligation of Rs. 6 Cr in the medium term. The company maintained fixed deposits with the bank of Rs. 13.94 crore as on 31st March 2022 as against 23.11 crore as on 31st March 2021.

Outlook: Stable

Acuité believes that the outlook on SEF's rated facilities will remain 'Stable' over the medium term on account of steady cashflows expected from the current school operations. The outlook may be revised to 'Positive' in case SEF generates greater than expected revenues along with significant improvement in the operating margins. Conversely, the outlook may be revised to 'Negative' in case of lesser than expected revenues and delay in the generation of adequate cashflows of the proposed school adversely affecting SEF's liquidity profile.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	78.69	86.70
PAT	Rs. Cr.	16.20	22.73
PAT Margin	(%)	20.58	26.21
Total Debt/Tangible Net Worth	Times	0.00	0.01
PBDIT/Interest	Times	249.58	301.67

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>

- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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:

Not Applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	40.00	ACUITE BBB+ Stable Assigned

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About Acuité Ratings & Research

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