

Press Release
Birla Sanskriti Trust

February 13, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	171.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	171.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 171.00 Cr bank facilities of Birla Sanskriti Trust (BST). The outlook is '**Stable**'.

Rationale for the rating

The rating favourably factors in the established brand image of Birla Sanskriti Trust (BST) through renowned schools in Kolkata, operating for more than six decades, and its focus on holistic student development by way of healthy student-teacher ratio along with premium academic and co-curricular infrastructure. The rating takes into account the improvement in the operational performance of the Trust in FY2022 on account of the reopening of schools amid the waning impact of Covid-19. Simultaneously, with the withdrawal of the fees rebate by the High Court in the current year, the accruals are likely to improve further going forward. The rating also continues to derive comfort from the experienced trustee and strong promoter background. Further, the rating also considers the continued maintenance of escrow account for deposit of school fees with the lender which ensures debt servicing in a timely manner together with Debt Service Reserve Account (DSRA) with three months' interest obligations. However, the rating continues to be constrained by highly leveraged capital structure and delay in expansion of the Little Steps School, along with susceptibility to intense competition and to regulatory risks in the education sector.

About the Trust

Birla Sanskriti Trust (BST) was formed in May 1957 by Late B.K.Birla for imparting education. The trust offers primary and secondary education through educational institutions for more than six decades. It runs seven schools in West Bengal namely Ashok Hall Girls Higher Secondary School, GD Birla Centre for Education, Mahadevi Birla Shishu Vihar, Little Gems Play School, Little Steps School, Birla Gyan Mandir and Bansberia Happy Valley School. Ms. Manjushree Khaitan, a key person in the B K Birla Group, is one of the main Trustees, along with Mr. R P Pansari and Mr. Prasun Ghosh.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of BST to arrive at the rating.

Key Rating Drivers

Strengths

Established brand equity

Set up in 1957 by the founding trustee, Late B.K.Birla (who passed away in July 2019), BST has been in existence for over six decades and Ashok Hall Group of Schools has schools that are among Kolkata's reputed private schools. Ms. Manjushree Khaitan (daughter of Late B.K. Birla), a key figure in the B. K. Birla group, has been associated with the B.K Birla group for long along with other trustees Mr. R.P Pansari and Mr. Prasun Ghosh. Further, by virtue of being a part of, B.K. Birla group of entities which has a vast experience across industries, Acuité derives comfort from the strong presence and brand image of the group.

Strong Vintage

Mahadevi Birla Shishu Vihar (set up in 1946) Ashok Hall Girls' Higher Secondary School (set up in 1957) and G D Birla Centre for Education (set up in 1973), are amongst the most popular schools in the city. While the increasing competition in the catchment area have restricted the student growth, the strength of the brand built over decades has been a major support. Furthermore, the quality education aids a strong brand recall among the parents. Acuité notes BST has been able to drive tuition fees across its key institutes, aided by high brand value which mitigates future competition risks.

With withdrawal of fees rebate, improvement likely in FY23

A sharp fall in admission on account of pandemic and reduced tuition fees in its major schools as per the Honorable Calcutta High Court order, resulted in a decline in the overall top line of the Trust in FY2021 over the previous fiscal. However, resumption of academic activities, given the normalization in students' enrolment and resumption of offline school led to an increase in the Trust's turnover to Rs. 99.33 crore in FY2022 as compared to revenues of Rs.68.26 Cr in FY2021, registering a YoY growth of around 45.51 per cent. Moreover, continued focus on cost optimisation resulted in improved profitability margins in FY22, with reduction in operating losses.

As the classes were conducted online during the pandemic, the Trust reduced the term fees by 20 per cent for all grades, as per Honorable Calcutta High Court order. Additionally, the number of students dropped both in academic years 2021 and 2022. Till December 2022, the Trust has been able to achieve a revenue of Rs. 72.50 Cr (prov). However, with the revision of school fees since the current fiscal, Acuité expects the operational performance of the Trust to improve steadily.

Weaknesses

Highly leveraged capital structure constrained by weak debt protection metrics

BST's weak financial risk profile is marked by eroded corpus fund largely on account of consecutive operating losses till FY22. The corpus fund of the Trust declined to Rs.40.18 Cr as on March 31, 2022 from Rs.47.71 Cr as on March 31, 2021 on account of losses incurred. As a result, debt protection metrics also remained weak, further impacted by the debt burden of Rs.175 Cr. The debt-equity ratio also stood high at 4.31 times as on March 31, 2022, on account of the high term loan taken for expansion of the Little Steps School. The Trust's debt protection metrics have remained weak due to high interest bearing borrowings. In addition, the Trust's profitability remain exposed to adverse impact of the pandemic. The weak debt protection metrics of the Trust is marked by Interest Coverage Ratio at 0.75 times as on March 31, 2022 and Debt Service Coverage Ratio at 0.67 times as on March 31, 2022. Acuité believes that the financial risk profile of the Trust is expected to improve over the medium term with significant improvement in admissions and consequent improvement in fees per student to pre-Covid levels in FY2024.

Expansion project of the Little Steps School

The Trust had taken the initiative to further develop and expand the operations of Little Steps School. The total cost of the project was estimated at around Rs.250 Cr. and funding of around Rs.175 Crs has already been disbursed. However, the project is currently on hold and

the implementation schedule is yet to be finalised since the same got delayed due to previous pandemic scenario. But the repayments have started and have been repaid on time till date. On account of the expansion project the Trust has kept security money with the land owners 'Kesoram Textile Limited' in the form of Earnest Security Deposit. However, as per mutual understanding between the parties subsequently in FY21 and FY22, a part of the deposit has been refunded as per the repayment schedule by the said body corporate, due to ongoing litigation against the property. The deposit stood at Rs.167.68 Cr as on 31st December 2022 (Rs.187.27 Cr as on 31st March 2022) and is further expected to come down gradually, thus providing some comfort in the liquidity of the Trust.

Vulnerability of margins to higher employee costs due to intense competition

The schools are required to maintain high staff ratio due to various disciplines being offered under multiple curriculum at the higher secondary level. BST pays competitive salary to retain the talent pool. Though the faculty attrition rate has been low in the last few years, with increasing number of schools in the catchment area, the trust will have to pay competitively, exposing the margins to higher employee retention cost. Nevertheless, the operating margins had improved on the back of lower operating costs and cost-savings initiatives undertaken by the Trust, which included downsizing of staff and reduction in salaries.

Rating Sensitivities

- Scaling up of operations while improving their profitability margin
- Increase in student strength
- Timely refund of the deposit given as 'advance for land'

Material covenants

None

Liquidity Position: Stretched

Covid first wave, further exacerbated by subsequent waves severely impacted the Trust's cash flows. However, the Trust's liquidity position is expected to support debt servicing in the near-to-medium term on account of presence of escrow mechanism to ensure timely repayment as the fees from all the six schools are deposited in the mentioned account. The current ratio also stood moderate at 1.04 times as on 31st March, 2022. The cash flow cover is expected to be comfortable during the tenure of the loan and its debt service coverage ratio (DSCR) expected to improve over the tenure of the loan, owing to the expectation of steady improvement in fees and admission levels supporting the debt repayment obligation. Further, BST maintains DSRA equivalent to three months debt service obligation in the form of fixed deposits, which supports the liquidity profile of the Trust. Acuité believes that BST, being a strategically important entity for the Birla group shall continue to benefit from the financial, operational and management support from the group as and when required.

Outlook: Stable

Acuité believes that the outlook on BST will be 'Stable' over the medium term on account of strong brand value and experienced management. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins and capital structure. Conversely, the outlook may be revised to 'Negative' in case of decline in the Trust's revenues or profit margins, or in case of deterioration in the Trust's financial risk profile.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	94.77	68.26
PAT	Rs. Cr.	(7.53)	(15.85)
PAT Margin	(%)	(7.95)	(23.22)
Total Debt/Tangible Net Worth	Times	4.31	4.10
PBDIT/Interest	Times	0.75	0.39

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

Brickworks, vide its press release dated January 12, 2023 had downgraded the rating of Birla Sanskriti Trust to 'BWR BB+/Stable'; ISSUER NOT COOPERATING'.

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.49	ACUITE BBB- Stable Assigned
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	170.51	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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