

Press Release

Zeal Education Society

February 14, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	24.00	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	24.00	-	-

Rating Rationale

Acuite has assigned its long term rating of **ACUITE BB (read as ACUITE Double B)** to the Rs. 24 Cr bank facilities of **Zeal Education Society (ZES)**. The outlook is 'Stable'.

Rationale for Rating Assigned

The rating assigned takes into account the experienced management and moderate financial risk profile of Zeal Education Society (ZES). However, the above mentioned strengths are partially offset by the working capital intensive nature of operations of ZES and intense competition along with stringent regulatory framework associated with education sector in India.

About the Company

Zeal Education Society is an educational trust based out of Pune and Sangli in Maharashtra. It was established in 1996 by Founder-Member Mr. Sambhaji Katkar. The trust currently has total 9 members. The society operates with schools and colleges offering various UG and PG courses in Engineering and Management. The society has 5000 students and around 600 teaching and non-teaching staff.

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of the company to arrive at the rating

Key Rating Drivers

Strengths

- Established track record of operations and experienced management

ZES was established in 1996 and runs education institutes offering courses in Primary and Secondary School, Engineering and Management. The society is promoted by Mr. Sambhaji Katkar along with other 8 members, each of whom have extensive experience in managing educational society which has helped ZES to establish a brand name in the field of education in Pune and Sangli districts of Maharashtra.

Acuité believes that established position of the society in educational sector and experience of the promoters may continue to benefit the society's business risk profile over the medium term.

- **Moderate financial risk profile**

ZES has moderate financial risk profile marked by moderate networth, low gearing and above average debt coverage indicators. The tangible networth stood at Rs. 58.40 Cr as on March 31, 2022 as against Rs. 53.28 Cr as on March 31, 2021 and Rs. 52.83 Cr as on March 31, 2020. The increase in the networth in FY22 is due to the accretion of profits to reserves. The society has a conservative financial policy reflected through low gearing ratios. ZES's overall gearing remained low at 0.14 times as on 31 March, 2022 as against 0.15 times as on 31 March, 2021 and 0.08 times as on 31 March, 2020. The gearing stood low in the books as the company does not have any significant debt in its books. The total outside liabilities to tangible net worth (TOL/TNW) of the society stood at 1.66 times as on March 31, 2022 as against 1.65 times as on March 31, 2021 and 1.26 times as on March 31, 2020. The coverage ratios of the company remained above average with Interest Coverage Ratio (ICR) of 67.53 times in FY22 as against 597.21 times in FY21 and (254.97) times in FY20. The NCA/TD stood at 1.40 times in FY22 as against 0.94 times in FY21 and (1.25) times in FY20.

Acuité expects the financial risk profile may continue to remain moderate over the near to medium term on account of no major debt-funded capex plans.

Weaknesses

- **Working Capital Intensive Operations**

ZES has working capital intensive nature of operations marked by high GCA days of 341 days as on March 31, 2022 as against 409 days as on March 31, 2021 and 244 days as on March 31, 2020. GCA days are primarily driven by debtor days of 325 days as on March 31, 2022 as against 393 days as on March 31, 2021 and 221 days as on March 31, 2020. The debtor days are high due to the delayed payments from students due to covid pandemic and delayed re-imbursements of fees from the Government. The trust derives its working capital support from its creditors. The creditor days stood at 376 days as on March 31, 2022 as against 423 days as on March 31, 2021 and 328 days as on March 31, 2020.

Acuité believes that the company's ability to improve its working capital cycle will remain a key rating sensitivity.

- **Intense competition and stringent regulatory framework for the educational sector in India**

The society faces competition from other private institutions offering similar courses. Given the competition, the ability of the institutes to attract requisite students in tune with its sanctioned intake would be a challenge. This is expected to limit the society's capability to increase fee along with the increase of occupancy. Further, various agencies under the State and Central Government prescribe regulatory framework depending on the professional courses offered. Hence, the society is subject to the stringent regulatory framework for the educational sector in India.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margin
- Further elongation of working capital cycle

Material covenants

None

Liquidity Position Adequate

The liquidity position of the company remains adequate with sufficient net cash accruals of Rs. 11.73 Cr. in FY22 and Rs. 7.41 Cr. in FY21 against maturing debt obligations of Rs. 2-3 Cr. over the same period. The company is expected to generate cash accruals in the range of Rs. 13-15 crore during 2023-24 period against maturing debt obligations of around Rs. 2-3 Cr. during the same period. The trust's GCA days stood at 341 days as on March 31, 2022. The current ratio of the company stood at 0.86 times as on March 31, 2022. The trust derives its working capital support from its creditors. Furthermore, the company maintained unencumbered cash and bank balances of Rs. 0.83 Cr as on March 31, 2022.

Acuite believes that the liquidity position would be adequate over the medium term on account of moderate cash accruals against repayment obligations.

Outlook: Stable

Acuite believes that ZES will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	71.21	50.97
PAT	Rs. Cr.	5.13	0.42
PAT Margin	(%)	7.21	0.82
Total Debt/Tangible Net Worth	Times	0.14	0.15
PBDIT/Interest	Times	67.53	597.21

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

Not Applicable

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	15.62	ACUITE BB Stable Assigned
Abhyudaya Cooperative Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.38	ACUITE BB Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Simran Kesharwani Analyst-Rating Operations Tel: 022-49294065 simran.kesharwani@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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