

Press Release
Zeal Education Society
May 14, 2024



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.08	ACUITE BB+ Stable Assigned	-
Bank Loan Ratings	24.00	ACUITE BB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	32.08	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BB+**' (read as **ACUITE Double B Plus**) from '**ACUITE BB**' (read as **ACUITE Double B**) on the Rs. 24.00 Cr. bank facilities of Zeal Education Society (ZES). The outlook is '**Stable**'.

Further, Acuite has assigned its long-term rating of '**ACUITE BB+**' (read as **ACUITE Double B Plus**) to the Rs. 8.08 Cr. bank facilities of Zeal Education Society (ZES). The outlook is '**Stable**'.

Rationale for Upgrade

The upgrade in the rating factors in the improvement in the business and financial risk profile of the entity marked by improvement in operating income and profitability margins. The operating income stood at Rs.101.94 Cr. in FY2023 as against Rs.71.21 Cr. in FY2022. The increase in the operating income is recorded by higher fees for education, conveyance etc and donations. Further, the company is estimated to achieve around ~Rs.115 Cr. for FY2024 (Est). The operating margins of the company improved and stood at 18.83 percent in FY2023 as against 16.36 percent in FY2022. Also, the PAT margins stood at 10.77% in FY2023 as against 7.21% in FY2022. The rating upgrade also takes into consideration the adequate liquidity, moderate financial risk profile marked by moderate net worth, low gearing and above average debt protection metrics. 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 was incorporated in the year 1996 and promoted by Mr. Sambhaji Katkar. It is an educational trust. The trust has around 9 members. It runs various schools and colleges in the brand name of Zeal in Pune and Sangli in Maharashtra. It has around more than 12000 students and around 600 teaching and 300 non-teaching staff.

Unsupported Rating

Not Applicable

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.

Further, the revenue of the entity improved and stood at Rs.101.94 Cr. in FY2023 as against Rs.71.21 Cr. in FY2022. The improvement in the revenue is through higher fees for education, conveyance, donations, etc. The operating margins improved and stood at 18.83 percent in FY2023 as against 16.36 percent in FY2022. Also, PAT margins improved and stood at 10.77 percent in FY2023 as against 7.21 percent in FY2022. Going ahead the entity had secured ISO-21000 certification, achieved A+ accreditation by the Engineering institute and is in process of achieving MBA certifications for engineering polytechnic institute.

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 protection metrics. The networth increased to Rs. 69.38 Cr. in FY23 as against Rs. 58.40 Cr. in FY22. The networth increased due to accretion of profits to reserves.

The company's total debt stood at Rs. 9.34 Cr. as on March 31, 2023 as against Rs. 8.38 Cr. as on March 31, 2022. The total debt of Rs. 9.34 Cr. consists of long-term loans as on March 31, 2023.

The group's overall gearing stood low at 0.13 times as on March 31, 2023 as against 0.14 times as on March 31, 2022. Gearing stood low in the books due to lower debt. The TOL/TNW stood moderate at 1.22 times as on March 31, 2023 as against 1.66 times as on March 31, 2022. The TOL/TNW stood moderate due to higher trade payables (which majorly includes the gratuity payable) and other current liabilities (which includes salary payable and deposits).

The ICR stood high at 20.60 times in FY23 as against 67.53 times in FY22. The ICR stood very high in FY22 due to negligible interest as against EBITDA. The NCA/TD improved and stood at 2.07 times in FY23 as against 1.40 times in FY22. The improvement in FY23 is due to higher increase in NCA as against debt.

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 highly working capital-intensive nature of operations marked by improved Gross Current Assets (GCA) days of 226 days as on March 31, 2023 as against 341 days as on March 31, 2022. This is majorly due to high debtor days and other current assets. The collection period improved yet stood high at 216 days as on March 31, 2023 as against 325 days as on March 31, 2022. The debtors in the books majorly includes fees receivable from students and scholarship amount, re-imburement receivable from Government for backward class students. The collection terms are around 30 days.

Furthermore, ZES's creditor days stood at 206 days as on March 31, 2023 as against 376 days as on March 31, 2022. The entity pays its creditors for goods/supplies like stationery, lab materials etc within 8 days. However, trade payables in the books stands high as it majorly includes gratuity payable and other current liabilities which includes salary payable and deposits. The trust derives its working capital support from its creditors and internal accruals. 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

Liquidity Position

Adequate

ZES has adequate liquidity position marked by adequate net cash accruals against maturing debt obligations. The company generated cash accruals of Rs. 19.32 Cr. in FY23 and Rs. 11.73 Cr. in FY22 against maturing debt obligations of Rs. 3 Cr. over the same period. The cash accruals of the company are estimated to remain around Rs.22-30 crore during FY2024-25 period against maturing debt obligations of around Rs. 3 Cr. Also, the company maintained unencumbered cash and bank balances of Rs. 0.02 crore as on March 31, 2023. The current ratio of the company stood at 0.98 times as on March 31, 2023 as against 0.86 times 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	101.94	71.21
PAT	Rs. Cr.	10.98	5.13
PAT Margin	(%)	10.77	7.21
Total Debt/Tangible Net Worth	Times	0.13	0.14
PBDIT/Interest	Times	20.60	67.53

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Feb 2023	Proposed Long Term Bank Facility	Long Term	15.62	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	8.38	ACUITE BB Stable (Assigned)

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 avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	17.05	ACUITE BB+ Stable Upgraded (from ACUITE BB)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	8.08	ACUITE BB+ Stable Assigned
Abhyudaya Cooperative Bank	Not avl. / Not appl.	Term Loan	29 Jun 2018	Not avl. / Not appl.	15 Jul 2026	Simple	4.64	ACUITE BB+ Stable Upgraded (from ACUITE BB)
Abhyudaya Cooperative Bank	Not avl. / Not appl.	Term Loan	20 Mar 2019	Not avl. / Not appl.	15 Jun 2029	Simple	1.77	ACUITE BB+ Stable Upgraded (from ACUITE BB)
Abhyudaya Cooperative Bank	Not avl. / Not appl.	Term Loan	16 Mar 2019	Not avl. / Not appl.	15 Jun 2029	Simple	0.54	ACUITE BB+ Stable Upgraded (from ACUITE BB)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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