



Press Release
GDR Educational Society
October 05, 2023

Rating Assigned and Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|----------------------------------|-------------------|
| Bank Loan Ratings | 8.00 | ACUITE BBB Stable Assigned | - |
| Bank Loan Ratings | 55.00 | ACUITE BBB Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 63.00 | - | - |

Rating Rationale

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Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) to the Rs. 55.00 Cr bank facilities of GDR Educational Society (GDRES). The outlook is '**Stable**'. Also, Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE Triple B**) to the Rs. 8.00 Cr bank facilities of GDRES. The outlook is '**Stable**'.

Rationale for Rating Reaffirmation

The rating reaffirmation takes into account the successful track record and established position of the Trust's institute/colleges/school in Bhilai, Chhattisgarh. The rating also draws comfort from trust's healthy financial risk profile, characterised by healthy network base, low gearing and comfortable debt protection metrics. The rating also factors that the trust would sustain its profitability resulting in improved cash accruals over the medium term. However, these strengths are partially offset by highly regulated and competitive educational sector and geographic concentration of the trust's institutes

About the Trust

Founded in 1999 in Bhilai, Chhattisgarh, GDRES is engaged in the education industry and provided graduate and post-graduate courses in diverse fields such as engineering, pharmacy, commerce, computer application, among others. GDRES manages 11 colleges and institutions and a school, with a collective enrollment capacity of over 17,000 students. The day-to-day affairs of the Trust are managed by Mr. Sourabh Rungta.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Successful track record and healthy enrolment rates with diverse course offerings**

The president of the Trust, Mr. Sourabh Rungta has over 15 years of experience in the education sector. As a result of his expertise, GDRES has established a strong presence and

brand visibility in Chhattisgarh over the past few years, operating 11 institutes and a school in Bhilai. GDRES offers diverse undergraduate and postgraduate courses, including engineering, pharma, finance and computer applications among others. The trust has been able to enroll

upto 14,500 students collectively in all the institutes as on March 31, 2023. The placement record of the institutes has also been healthy at around 90 per cent as on March 31, 2023. Between FY 2022 and FY 2023, Purple Orchid Tree LLP (POTL, a Special Purpose Vehicle of Alpha Alternatives Holdings Pvt. Ltd.) had assumed management control as they had invested in the trust. However, FY 2023, the trust has fully refinanced their investment through Tata Capital Finance Ltd. and the management control now vests with the Rungta family.

Presently, the Governing & General Body members consists of 7 members from Rungta family and 2 independent members from POTL. Acuité believes that the trust will continue to benefit from the extensive experience of its present management and continued healthy enrolment rates over the medium term.

- **Steady scale of operations albeit a fluctuating margin**

The trust achieved revenues of Rs.97.14 Cr in FY2023 as compared to revenues of Rs.95.48 Cr in FY2022, which is supported by revised fee structure and increase in admissions in most of the institutes. The revenue is expected to improve backed by expected steady enrolments and fees revision over the medium term. During FY2023, the margins stood at healthy levels of 32.05 per cent, a slight moderation from FY2022 which was at 38.04 per cent. This has been largely due to increase in employee, power and administration costs during the year. Going forward, the margins is expected to remain at similar levels over the medium term. The Profit after tax (PAT) margin also declined to 10.74 per cent in FY2023 as against 16.43 per cent in FY2022. The RoCE levels stood at a comfortable level of 6.85 per cent in FY2023 as against 8.34 per cent in FY2022. Acuité believes the business risk profile of the trust to be sustained supported by higher intake of students and revised fee structure.

- **Healthy financial risk profile**

The financial risk profile of the trust is marked by healthy net worth, low gearing and comfortable debt protection metrics. The tangible net worth of the trust stood at Rs.176.53 Cr. as on 31 March 2023 as compared to Rs.174.05 Cr. as on 31 March 2022 aided by accretion to reserves. Furthermore, its capital structure remains moderately leveraged marked by gearing of 0.52 times as on 31 March 31, 2023. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.59 times as on March 31, 2023. The debt protection metrics of the trust remains comfortable marked by Interest Coverage Ratio at 4.15 times and Debt Service Coverage Ratio at 2.34 times as on March 31, 2023. The net cash accruals to total debt (NCA/TD) stood at 0.27 times in FY2023.

Going forward, Acuité believes that the financial risk profile will remain healthy over the medium term, backed by steady accruals with no major debt funded capex plans.

Weaknesses

- **Presence in a highly regulated and competitive Industry**

The education sector is highly regulated with the government deciding on the maximum student intake, fees, mandatory facilities, faculty strength and even faculty salary to an extent. Any adverse government regulations may impact the trust's revenue growth and accruals. The student-teacher ratio is within the stipulated norms for all the institutes. The instituted run by the trust faces stiff competition from other reputed institutions in the vicinity which puts pressure to attract fresh students. Given the competition, the ability of the trust to attract requisite students in tune with its sanctioned intake would be a challenge. However, considering GDRES has an established brand presence and has been consistently producing academic achievements, the society has been insulated from the competition to some extent. Acuité believes that GDRES's ability to scale up its operations while maintaining profitability will be a key rating monitorable.

- **Geographic Concentration of the institutes**

Although GDRES enjoys a brand recognition, its operations are confined within Bhilai, Chhattisgarh. Presently, the trust does not have any plans to diversify into new institutes or

increase its presence in any other states. The same leads to geographic concentration of the trust and is expected to be a limiting factor in its growth trajectory over the medium term.

Rating Sensitivities

- Scaling up of operations while maintaining their profitability margin
- Addition of new curriculum leading to increase in number of enrolments
- Any debt funded capex plans

All Covenants

None

Liquidity Position

Adequate

The trust has adequate liquidity profile as reflected in steady cash accruals and absence of debt funded capex plans. The trust had a net cash accrual of Rs.25.24 Cr as on March 31, 2023 as against term debt repayment of Rs.6.20 Cr over the same period. Further, the current ratio also stood comfortable at 6.82 times as on March 31, 2023. Moreover, the cash and bank balances of the trust stood at Rs.5.97 Cr as on March 31, 2023. Acuité believes that the trust will maintain adequate liquidity position due to steady accruals vis-à-vis its maturing debt obligations and comfortable current ratio over the medium term.

Outlook: Stable

Acuité believes that the outlook on GDRES will be 'Stable' over the medium term on account of experienced management, long track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins and improvement in enrollment rates. 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 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 97.14 | 95.48 |
| PAT | Rs. Cr. | 10.43 | 15.69 |
| PAT Margin | (%) | 10.74 | 16.43 |
| Total Debt/Tangible Net Worth | Times | 0.52 | 0.55 |
| PBDIT/Interest | Times | 4.15 | 6.00 |

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>
- 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 |
|-------------|--------------------------------|-----------|-----------------|--------------------------------|
| 08 Mar 2023 | Proposed Bank Facility | Long Term | 55.00 | ACUITE BBB 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 Applicable | Proposed Long Term Loan | Not Applicable | Not Applicable | Not Applicable | Simple | 0.60 | ACUITE BBB Stable Reaffirmed |
| Avanse Financial Services Ltd. | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 4.50 | ACUITE BBB Stable Reaffirmed |
| TATA Capital Financial Service Ltd. | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 49.90 | ACUITE BBB Stable Reaffirmed |
| TATA Capital Financial Service Ltd. | Not Applicable | Term Loan | Not available | Not available | Not available | Simple | 8.00 | ACUITE BBB Stable Assigned |

Contacts

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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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