

December 06, 2021

## Vidya Mandir Society: Rating reaffirmed and removed from ‘Issuer Not Cooperating’ category; outlook revised to Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	30.00	30.00	[ICRA]A- (Negative); rating reaffirmed and removed from ‘Issuer Not Cooperating’ category; outlook revised from Stable
<b>Total</b>	<b>30.00</b>	<b>30.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in the outlook on the long-term rating for Vidya Mandir Society (VMS) to Negative from Stable considers the weakening of its cash accrual in FY2021 following the pandemic and a further likely deterioration in the same in the current fiscal due a significant increase in the entity’s employee expense. The rating, however, continues to draw comfort from VMS’ established track record of running educational institutions and imparting quality education for a long time and diversification of the society’s revenue stream across three schools and a college. The rating also factors in VMS’ conservative capital structure with limited borrowings vis-a-vis a healthy tangible net worth and a sizeable liquid investment portfolio, which is likely to keep its net debt at a negative level in the near to medium term.

The rating is constrained by VMS’ small scale of current operations and a decline in its revenue by 20% in FY2021 on the back of a significant fees reduction for students following the pandemic. Its revenue is likely to increase going forward with an improvement in the operating environment and an expected growth in the number of students from a new school, which commenced operations in FY2019. However, VMS’ operations would remain exposed to Covid-19 related restrictions. ICRA notes that given the heightened competition in the education sector, retention and development of talent will continue to remain major challenges for VMS which, in turn, may impact the margins if it is unable to increase the fees commensurately, going forward. The rating also considers the entity’s exposure to regulatory risks inherent in the education sector and regular capital expenditures likely to be incurred by the society to maintain a tax-free status, encumbering its cash flows.

### Key rating drivers and their description

#### Credit strengths

**Established and long track record of the society in imparting quality education** – VMS has a long track record in the field of education and benefits from the strong reputation of its flagship schools and college. Birla High School (BHS - Moira Street) and Sushila Birla Girls’ School (SBGS) in Kolkata have good reputation for providing quality education and have been ranked among the top schools in West Bengal. BHS - Moira Street, established in 1941, is the oldest institution run by VMS. J.D. Birla Institute (JDBI), a college established in 1962, came under VMS through a gift deed from Sukriti Education Society (a part of the SK Birla Group) in 2017. JDBI is among the reputed colleges in West Bengal for commerce courses for girls and has also been accredited at “A” grade by National Assessment and Accreditation Council.

**Diversified revenues across institutions** – VMS’ revenue is diversified across various institutions. In FY2021, SBGS contributed 24% to the revenue, while JDBI and BHS-Moira Street contributed almost equally (31% and 32%, respectively) to the overall revenue. The contribution of the new school, BHS- Mukundapur (operating from FY2019) was relatively low (13%) in FY2021 but has steadily increased in the last two years and is likely to increase significantly going forward, with addition of new classes. Diversification across the institutions lends stability to VMS’ revenues and reduces its asset concentration risk.

**Conservative capital structure with limited debt and healthy net worth; net debt likely to remain negative** – The capital structure of the society remained conservative over the years. It does not have any working capital borrowing, but it started availing a term loan from FY2020 for the ongoing capex for BHS- Mukundapur. Nevertheless, limited debt (Rs. 15.0 crore as on March 31, 2021) vis-a-vis a healthy tangible net worth (Rs.129.6 crore as on March 31, 2021) led to a low gearing (0.1 time as on March 31, 2021). VMS is availing an incremental term loan of Rs. 15.0 crore. However, the society's sizeable liquid investments and free cash (Rs. 25.4 crore and Rs. 7.0 crore respectively, as on March 31, 2021) are likely to keep the net debt negative in the near to medium term.

## Credit challenges

**Cash accrual weakened due to the pandemic in FY2021 and likely to decline further in the current fiscal due to an increase in employee expense** – The Covid-19 pandemic related disruptions adversely impacted VMS' performance in FY2021. Its operating income declined by 20% to Rs. 63.6 crore in FY2021 from Rs. 79.4 crore in FY2020, and its operating margin declined to 18.9% in FY2021 from 25.0% in the previous fiscal due to a significant reduction in fees for students and lower admission in the college due to the pandemic. As a result, VMS reported a net deficit of Rs. 2.1 crore in FY2021 vis-a-vis a net surplus of Rs. 7.0 crore in FY2020, and its net cash accrual in FY2021 weakened to Rs. 11.9 crore from Rs. 19.8 crore in FY2020. In the current fiscal, a significant increase in the employee salary is likely to adversely impact the society's net cash accrual further. Going forward, despite an expected increase in fees and student admission, the entity's operations are likely to remain exposed to Covid-19 related restrictions.

**Small scale of operations** – The society's total student strength stood at 6,650 in AY2020-21, growing at a compounded annual growth rate of around 11% over the last five years, aided by inclusion of the college in its portfolio from AY2017-18 and commencement of operation of the new school (BHS- Mukundapur) from AY2018-19. Nevertheless, the society's overall scale of operation remains small compared to the large players in the school and higher education segments having presence in multiple states.

**Regulatory risks inherent in the education sector** – The education sector in India remains regulated and the society's operations may be impacted in case of any adverse regulatory developments. Government directives and legal proceedings led to a sizeable reduction in fees for students in FY2021 amid the pandemic. VMS, along with other players in the sector, would remain exposed to such risk, going forward.

**Regular capital expenditure required to maintain a tax-free status** - The society is required to incur regular capital expenditure to maintain a tax-free status. It incurred a capex of Rs. 96.5 crore for setting up the new school (BHS-Mukundapur) till March 31, 2021. The pending capex for the new school (BHS-Mukundapur) till FY2023 is estimated at around Rs. 32 crore. In addition, VMS is likely to incur capex for other institutes and some additional facilities (auditorium etc.) for the new school in the near to medium term. The sizeable amount of ongoing capex is likely to encumber the society's cash flows to some extent, though a part of the pending capex would be funded by a fresh term loan of Rs. 15 crore.

## Liquidity position: Adequate

The society's liquidity is likely to remain **adequate**. Its fund flow from operations stood at around Rs. 11 crore in FY2021, declining from around Rs. 19 crore in FY2020 due to fees reduction on account of the pandemic. The cash flows are likely to be adversely impacted in the current fiscal due to a sizeable salary hike for employees. However, with an improvement in the operating environment, the society has started increasing fees for students. Hence, the cash flows are likely to improve, going forward. The society's ongoing capital expenditure for BHS - Mukundapur is likely to entail an additional cash outlay of around Rs. 32 crore till FY2023 (in addition to other capex). VMS availed a term loan of Rs. 15 crore till FY2021 and is taking a fresh term loan of Rs. 15 crore to partly fund the pending capex. This is likely to result in an increase in the debt repayment obligation (from Rs. 2.3 crore in FY2022 to Rs. 4.3 crore in FY2023 and Rs. 5.5 crore in FY2024). However, the expected improvement in VMS' cash flows from FY2023 and a high amount of free cash and liquid investments (around Rs. 32 crore as on March 31, 2021) are likely to support the society's liquidity.

## Rating sensitivities

**Positive factors** – A rating upgrade in the near term is unlikely. The outlook may be revised to Stable if the society’s revenues and cash accruals improve significantly with an increase in fees and student admission.

**Negative factors** – Pressure on VMS’ rating may arise if modest cash flows from operations on a sustained basis adversely impact its liquidity and/or if a large unanticipated debt-funded capex leads to a deterioration in the capital structure and debt coverage metrics of the entity. A sustained weakening of VMS’ total debt/OPBDITA to more than 2.3 times may also trigger a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology Higher Education</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the entity

## About the company

VMS was formed in 1950 by Mr. S. K. Birla and his family members for imparting education. The society offers primary and secondary education, undergraduate courses like B.Com, BBA, B.Sc in Human Development, Food & Nutrition, Interior Designing and Textile Science, Clothing & Fashion Studies. It offers post-graduate courses like M.Com, M.Sc and post graduate diploma in dietetics and applied nutrition. It has three schools and a college. The schools and the college are affiliated to the Central Board of Secondary Education and Jadavpur University, respectively. Birla High School - Moira Street and Sushila Birla Girls’ School are its flagship schools. The college, J.D. Birla Institute, came under VMS in 2017 through a gift deed from Sukriti Education Society. The society opened the third school (Birla High School - Mukundapur) at Mukundpur, Kolkata in the academic year 2018-19 and its construction is going on.

## Key financial indicators (audited)

VMS Standalone	FY2020	FY2021*
Operating Income (Rs. crore)	79.4	63.6
PAT (Rs. crore)	7.0	-2.1
OPBDIT/OI (%)	25.0%	18.9%
PAT/OI (%)	8.8%	-3.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.3
Total Debt/OPBDIT (times)	0.3	1.2
Interest Coverage (times)	52.7	13.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 06, 2021	Aug 25, 2021			
1	Term Loan	Long term	30.00	15.00	[ICRA]A- (Negative)	[ICRA]A- (Stable); ISSUER NOT COOPERATING	-	Feb 20, 2020	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based – Term Loans	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-1	May-2019	NA	Jun-2026	15.00	[ICRA]A- (Negative)
NA	Term Loan-2	Nov-2021	NA	Sep-2028	15.00	[ICRA]A- (Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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