

March 18, 2025

Children's Education Society: rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Non-fund based – Bank guarantee	12.88	7.69	[ICRA]A- (Stable); reaffirmed
Total	12.88	7.69	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation factors in Children's Education Society's (CES) estimated increase in revenue receipts, backed by expansion in student base across majority of streams, healthy operating margins and strong debt protection metrics, supported by nil external debt. ICRA expects CES' revenues to increase by 10-11% in FY2025 (PY: Rs. 254.6 crore) and further by 5-6% in FY2026, while maintaining operating margins at 50-51%. The student strength has improved to 15,800 as of November 2024 (against 15,200 students as of March 2024), which is further projected to grow by 5-6% in FY2026. Given that there is nil external debt as of January 2025, which is likely to sustain as of March 2025 and March 2026, the leverage and debt coverage metrics are expected to remain strong. The rating factors in CES' established track record in the education sector and the diversified portfolio of educational institutes across courses ranging from pre-nursery to post-graduation.

The rating, however, is constrained by CES' exposure to geographical concentration risk with all institutions located in Bengaluru, Karnataka and revenue concentration risk with a large part of its revenue (~46%) concentrated in medical colleges. Also, the society is exposed to execution risk associated with capex of Rs. 200-230 crore to be incurred over the next two-three years towards development of indoor stadium and speciality hospitals. The capex is expected to be met through internal accruals and existing on-balance sheet liquidity. The rating is further constrained by the regulatory risks inherent in the higher education sector, especially for medical colleges. Any regulatory action, which has sustained impact on the revenue profile, will be a credit negative.

The Stable outlook reflects ICRA's expectations that CES would benefit from its established track record leading to healthy revenue receipts and profitability and maintain comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Established market position and diversified portfolio of institutes – The society has been present in the education sector for more than 50 years. It operates 37 institutions under the brand, Oxford Group of Institutes, and enjoys a moderate brand recall among educational institutes in Bengaluru. It offers various courses ranging from pre-nursery to post-graduation, including specialised domains such as medicine, engineering, law and nursing. Among the several institutes under CES, engineering college, medical college, and the dental college have been the major revenue contributors over the last couple of years.

Expected improvement in revenue receipts and healthy operating margins – The revenue of CES is expected to increase by 10-11% in FY2025 (PY: Rs. 254.6 crore) and further by 5-6% in FY2026 while maintaining operating margins at 50-51%. Moreover, the student strength has improved to 15,800 as of November 2024 (against 15,200 students as of March 2024), which is further projected to grow by 5-6% in FY2026.

Strong debt protection metrics – Given that there is nil external debt as of January 2025, which is likely to sustain as of March 2025 and March 2026, the leverage and debt coverage metrics are expected to remain strong. Further, with no dependence

on external debt for operations and/or capital expenditure, CES' credit profile is estimated to remain comfortable on the back of stable earnings and adequate cash reserves held.

Credit challenges

Exposure to regulatory risks inherent in the higher education sector – The society is exposed to regulatory risks inherent in the higher education sector, especially for medical colleges. Any regulatory change that impacts the flexibility of the society to fix fees for the management quota seats may adversely impact the revenue profile and cash accruals. Though the society has received all the necessary approvals at present, any regulatory action, which has sustained impact on the revenue profile, will be a credit negative.

Geographical and revenue concentration risks – CES operates its 37 institutions under the brand, Oxford Group of Institutes, with all the institutions located in Bengaluru, Karnataka, exposing the society to geographical concentration risk. Further, a large part of its revenue (around 46%) is concentrated in medical colleges. ICRA, however, notes CES is looking to diversify its revenue by offering non-medical courses across engineering and management, which are likely to expand the revenue over the long term.

Exposed to execution risk – The society is required to incur regular capital expenditure to maintain its tax-free status. The society has incurred capex of Rs. 30 crore in FY2024 and around Rs. 29 crore in 7M FY2025, towards upgrading infrastructure including hostel building and development of existing infrastructure. It is further planning to incur a capex of Rs. 200-230 crore to be incurred over the next two-three years, towards development of indoor stadium and speciality hospitals. The capex is proposed to be funded through internal accruals and the strong existing on-balance sheet liquidity, thus exposing the society to execution risk.

Liquidity position: Strong

CES' liquidity position is expected to remain strong. Its cash flows are adequate to cover the operational expenses and capex requirements over the next 12 months. The liquidity profile is further strengthened by cash and liquid investment of around Rs. 480 crore as on January 31, 2025, which will enable CES to manage any short-term cash flow disruption. Moreover, it has no debt repayment obligations.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a significant increase in CES' revenue receipts and surplus, while maintaining its comfortable debt protection metrics and liquidity position on a sustained basis.

Negative factors – The rating may be downgraded if there is a sustained pressure/decline on revenue receipts and/or surplus and/or major debt-funded capex, adversely impacting the liquidity position and the capital structure. Specific metrics that may lead to a rating downgrade include return on capital employed of less than 15% on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Higher Education
Parent/Group support	Not applicable

About the company

Children's Education Society, established in 1974, was founded by Vidyashree S. Narasa Raju. The society has 37 educational institutes in Bengaluru, from pre-nursery to postgraduate and doctoral courses including medical, dental, engineering,

management, nursing, pharmacy, physiotherapy, education, life sciences and law. Most of the institutes are operated under the brand of Oxford Group of Educational Institutions.

Key financial indicators (audited)

CES	FY2023	FY2024
Operating income	218.6	254.6
PAT	100.7	127.3
OPBDIT/OI	51.9%	51.2%
PAT/OI	46.1%	50.0%
Total outside liabilities/Tangible net worth (times)	0.1	0.0
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	1335	1169

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA:

On March 18, 2024, Brickwork Ratings (BWR) has downgraded CES' long-term rating to BWR C from BWR B-(Stable) and reaffirmed the short-term rating at BWR A4 and continued the ratings in the Issuer Not Cooperating¹ category. As per the press release, despite best efforts of BWR to get at least the minimum required information for a review, CES has not provided the same. Further, the company is irregular in the submission of the monthly No Default Statements (NDS), in deviation from the extant guidelines. In the absence of adequate information from the company and a continued lack of cooperation, BWR is unable to assess the company's financial performance and its ability to service its debt and maintain a valid rating. Hence, based on the best available information, non-submission of NDS, continued lack of management cooperation, and in the terms of extant regulatory requirements, BWR has downgraded the long-term rating at BWR C and reaffirmed the short-term rating at BWR A4. The rating continues to remain in the ISSUER NOT COOPERATING category.

Any other information: None

Rating history for past three years

Current (FY2025)			Chronology of rating history for the past 3 years								
			FY2025		FY2024		FY2023		FY2022		
Instrument	Type	Amount rated (Rs. crore)	Mar 18, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Bank guarantee	Long term	7.69	[ICRA]A-(Stable)	Apr 26, 2024	[ICRA]A-(Stable); ISSUER NOT COOPERATING	Dec 21, 2023	[ICRA]A-(Stable)	Dec 26, 2022	[ICRA]BBB+(Stable)	Sep 29, 2021	[ICRA]BB+(Stable); ISSUER NOT COOPERATING
				Aug 06, 2024	[ICRA]A-(Stable)						
Term loans	Long term	-	-	-	-	-	-	-	-	Sep 29, 2021	[ICRA]BB+(Stable); ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – non-fund based – Bank guarantee	Very 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 analysing 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 are available on ICRA's website: [Click here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Bank guarantee	NA	NA	NA	7.69	[ICRA]A- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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