

June 29, 2022

Good Shepherd Educational Trust (Good Shepherd International School): Change in limits; Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based TL	50.00	10.00	[ICRA]A-(Stable); reaffirmed
Long-term – Fund based CC	10.00	10.25	[ICRA]A-(Stable); reaffirmed
Total	60.00	20.25	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to favourably factor in the established brand equity of Good Shepherd Educational Trust (GSET) through Good Shepherd International School, operating for more than four decades, and its focus on holistic student development by way of healthy student-teacher ratio along with premium academic and co-curricular infrastructure. The rating is also supported by the trust's comfortable financial profile, characterised by healthy operating margins and strong debt protection metrics, owing to higher accruals, low debt levels, track record of prepaying term loans and adequate liquidity. The rating also considers GSET's strong capital structure with a gearing of 0.05 times and Total Debt/OPBITDA of 0.5 times as on March 31, 2022. The trust has a robust interest coverage of 22 times in FY2022 and debt protection metrics are expected to remain healthy going forward as well.

However, the rating is constrained by a sharp decline in revenues in FY2021 and FY2022, amid low student enrolments in the academic year (AY) 2021 and 2022 due to the pandemic. The student enrolments have been relatively lower at 548 in AY2022 vis-à-vis 739 in AY2020. Nevertheless, the operating margins have remained healthy on the back of lower operating costs and cost-savings initiatives undertaken by the trust, which included downsizing of staff and reduction in salaries. The rating is also constrained by the high geographical concentration risk due to presence in a single region in Ooty, Tamil Nadu. Intense competition from other international schools also exposes the trust's margins to the increasing cost of employee retention and the ability to continuously hike fees.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that GSET will continue to leverage its strong operational profile, which will result in healthy profitability and debt protection metrics.

Key rating drivers and their description

Credit strengths

Strong brand equity supported by established presence of the school – Set up in 1977 by the founding trustees, Late P.C. Thomas (who passed away in June 2020) and his wife Mrs. Elsamma Thomas, GSIS has been in existence for over four decades and is among India's premium residential international schools. The established presence of the school and its alumni base resulted in strong brand recall for GSIS. It is one of the seven schools in India that have received joint accreditation by the Council of International Schools (CIS) and the New England Association of Schools and Colleges (NEASC), which helped in improving pedagogy and increasing its visibility. The school is now headed by its President, Mr. Jacob Thomas (son of Late P.C. Thomas), who has over 15 years of experience in the technological domain.

Holistic student development through healthy student-teacher ratio and premium infrastructure – GSIS focuses on the overall student development. The school has a healthy student-teacher ratio of 4.0:1 compared to other schools in India. The school also offers premium academic infrastructure like digital learning along with access to other co-curricular infrastructure like athletic tracks, riding grounds for equestrian sports, rifle range etc.

Comfortable financial profile – The trust's capital structure is characterised by lower debt levels, resulting in strong coverage indicators with a gearing of 0.05 times and Total Debt/OPBITDA of 0.5 times as on March 31, 2022. It had an interest coverage of 22 times in FY2022. With minimal debt-funded capex plan in FY2023 and FY2024, the debt protection metrics are expected to remain comfortable going forward as well.

Credit challenges

Sharp decline in revenues in FY2021 and FY2022, nevertheless, margins have remained healthy – In FY2021, the trust has reported a 48% decline in its revenues to Rs. 49.5 crore from Rs. 95.7 crore in FY2020. As the classes were conducted online, the Trust reduced the term fees by 50% for all grades, until offline classes resumed. Additionally, the number of students dropped to 600 in AY2021 from 739 in AY2020. In AY2022, the trust collected 65% of term fees. Despite the drop in the number of students to 548 in AY2022, the trust reported a YoY improvement in revenues by 14.5% to Rs. 66.1 crore.

Nevertheless, the operating margins have remained healthy, aided by lower operating costs (including mess, laundry and power expenses), and several cost-saving initiatives undertaken by the Trust, remaining at ~28% in FY2021 and FY2022.

High geographical concentration risk as school is operating in a single region – Till FY2020, GSET used to operate out of two campuses—Palada and Fernhill—in Ooty, Tamil Nadu. GSET has shifted all classes to the Palada campus and the Fernhill campus is closed and is expected to be monetised soon. Though the geographical concentration risk is likely to increase with the single campus operations, strong brand equity, wide faculty base, state-of-the-art infrastructure and increasing demand for the IB curriculum are expected to support fresh admissions in the medium term.

Vulnerability of margins to higher employee costs due to intense competition – The school is required to maintain high staff ratio due to various disciplines being offered under multiple curricula at the higher secondary level. While the staff are provided accommodation in the school campus, GSET pays competitive salary with a yearly hike of ~10% to retain the talent pool. Though the faculty attrition rate has been low in the last few years, with increasing number of international schools, the trust will have to pay competitively, exposing the margins to higher employee retention cost.

Liquidity position: Adequate

The trust's liquidity position is adequate with positive free cash flow from operations in FY2022. GSET has undrawn lines of credit of Rs. 10.25 crore as on date and had minimum working capital requirements during the year. The trust has capex plans worth Rs. 10.0 crore – Rs. 12.0 crore in FY2023 and FY2024, which are expected to be funded via internal accruals. GSET has also got a term loan sanctioned for Rs. 50.0 crore out of which only Rs. 25 crore has been drawn, and the outstanding for the same is Rs. 10 crore as on March 31, 2022. The trust does not intend to avail any term loans in the near future. GSET is expected to have term loan repayment commitments of Rs. 2.5 crore, Rs. 5.0 crore and Rs. 2.5 crore in FY2023, FY2024 and FY2025, respectively.

Rating sensitivities

Positive factors – ICRA could upgrade GSET's rating if there is a substantial growth in revenues and profitability, leading to healthy cash accruals.

Negative factors – Pressure on GSET's rating could arise if it is unable to improve student enrolments in AY2023, resulting in continued pressure on revenues and a deterioration in credit metrics. Any large debt-funded capital expenditure, resulting in stretched liquidity position could also lead to a downward revision in its credit rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the rated entity

About the company

Established in 1977, GSET runs GSIS, a fully residential international school at Ooty, Tamil Nadu. The school has over 700 students and provides education from Classes III to XII. The school curriculum is affiliated to the International General Certificate of Secondary Education (IGCSE) Board (under the Cambridge University, United Kingdom), the Indian Certificate of Secondary Education (ICSE) Board and the International Baccalaureate (IB). Till FY2020, GSET used to operate from two campuses: (i) Fernhill – located at the erstwhile Baroda summer palace, near the Ooty Lake and (ii) Palada – around five kilometres from the former. From FY2021, all the operations have been shifted to the Palada campus and the Fernhill campus has been closed.

GSET is run by its Managing Trustee, Mrs. Elsamma Thomas, co-Founder and Senior Vice President and Mr. Jacob Thomas, son of Late P.C. Thomas, co-Founder and the erstwhile Principal. Mr. Jacob Thomas has been inducted as a Lifetime Trustee and is the new President of the institution. In FY2022 (as per provisional financials), GSET reported a net surplus of Rs. 11.7 crore on revenue receipts of Rs. 66.1 crore compared to a net surplus of Rs. 9.7 crore on revenue receipts of Rs. 49.6 crore in the previous year.

Key financial indicators

GSET	FY2021 (Audited)	FY2022 (Provisional)
Operating Income (Rs. crore)	49.6	66.1
PAT (Rs. crore)	9.7	11.7
OPBDIT/OI (%)	34.66%	28.08%
PAT/OI (%)	19.51%	17.72%
Total Outside Liabilities/Tangible Net Worth (times)	0.16	0.14
Total Debt/OPBDIT (times)	0.59	0.54
Interest Coverage (times)	15.53	22.12

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2023)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding (March 31, 2022)	Current Rating		FY2022	FY2021	FY2020
					June 29, 2022	May 31, 2022			
1	Term loan	Long-Term	10	10	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Cash Credit	Long-Term	10.25	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Cash Credit	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

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	FY2018	NA	FY2025	10.00	[ICRA]A-(Stable)
NA	Cash Credit	NA	NA	NA	10.25	[ICRA]A-(Stable)

Source: GSET

Annexure-2: List of entities considered for consolidated analysis - NA

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