December 26, 2022

Children's Education Society: Ratings upgraded and removed from 'Issuer Not Cooperating' Category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/Term Loan	43.93	0.00	-
Long term – Non fund based /Bank Gaunrantee	10.20	12.88	[ICRA]BBB+ (Stable); upgraded from [ICRA]BB+ (Stable) and removed from 'Issuer Not Cooperating' Category
Total	**54.13**	**12.88**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade reflects an improvement in the performance of Children's Education Society (CES) with a healthy growth in revenues and margins in the previous two fiscals, leading to improved cash accruals of Rs.109 crore in FY2022. Besides, repayment of the entire debt led to continuous improvement in debt coverage metrics and liquidity position of CES with cash and equivalents of Rs.172 crore as of March 31, 2022. ICRA expects the society to maintain a comfortable financial risk profile, going forward. CES' revenues rose 4% in FY2022 (15% in FY2021), and the operating margins expanded to ~57%, aided by increased fee receipts from the medical college in the last three years. Moreover, the debt coverage indicators remained strong with TOL/TNW of 0.1 times in FY2022. The performance is likely to improve further in the current fiscal with an expected revenue growth of approximately 8% on the back of stable fee structure, with performance supported by favourable revenues in H1 FY2023. The ratings factor in the established track record of CES in the education sector and the diversified portfolio of educational institutes across courses ranging from pre-nursery to post-graduation.

The ratings, however, are constrained by CES' moderate scale of operations and modest occupancy level in fresh admission in some of the institutes, resulting in a decline in student strength in the past couple of years. The ratings are also constrained by the regulatory risks inherent in the higher education sector, especially for the medical college. Though the society has received all the necessary approvals, any such regulatory action, which has sustained impact on the revenue profile, will be a credit negative. Going forward, the scale and associated funding requirements of any significant committed capital expenditure, would be a key monitorable.

The Stable outlook reflects ICRA's expectations that CES would continue to benefit from its established position and would continue to maintain a healthy profitability, thereby maintaining a comfortable credit profile and a strong liquidity position.

Key rating drivers and their description

Credit strengths

Healthy performance improvement in previous two fiscals, likely to continue in FY2023 – The operating performance witnessed a healthy growth in the previous three fiscals. The same was aided by improved receipts from the medical college post the receipt of Medical Council of India (MCI) approval for MBBS intake from FY2020, coupled with stable growth from other institutions. The operating margin increased to ~60% and ~57% in FY2021 and FY2022, respectively, supported by lower operating expense during the pandemic, and a sharp growth in cash accruals. CES' financial profile remains comfortable, with its conservative capital structure and adequate coverage indicators. With no dependence on external debt and no major debt-funded capex planned, CES' credit profile is expected to remain comfortable on the back of stable earnings and adequate cash reserves held.

Established market position and diversified portfolio of institutes – The society has been present in the education sector for more than 40 years. It operates 37 institutions under the brand, Oxford Group of Institutes, and enjoys a moderate brand recall among educational institutes in Bangalore. CES, through its several institutes, offers a diversified portfolio of courses ranging from pre-nursery to post-graduation, including specialised domains such as medicine, engineering, law and nursing. Among the several institutes under CES, the college of engineering, the medical college, hospital and research centre and the dental college and hospital have been the major revenue contributors over the last couple of years.

Credit challenges

Moderate scale of operations on account of subdued demand for admissions – CES' scale of operations remains moderate, with revenues of ~Rs.180 crore in FY2022. Its operating income remained constrained in the last several years due to a decline in the student growth emanating from intense competition in schools and architecture courses in the last two years. The revenues were also impacted by competition from other established institutions in Bengaluru. Revenues are likely to improve going forward, with expected stable growth in revenues from medical, dental, and engineering institutes.

Regulatory risks inherent in the higher education sector – The society is exposed to regulatory risks inherent in the higher education sector, especially in the medical college. Any regulatory changes that impact 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.

Risks associated with any significant committed capital expenditure in future – At present, CES has plans for capital expenditure in the near-to-medium term towards development of infrastructure, hostel buildings for medical colleges and indoor stadium. Capex for the same is expected to be funded through internal accruals and healthy liquidity position. Going forward, the scale and associated funding requirements of any significant committed capital expenditure, would remain under focus.

Liquidity position: Strong

CES' liquidity position is expected to remain strong. Its operational cash flows are expected to be adequate to cover the operational expenses and capex requirements over the next 12 months. Absence of any committed capital expenditure in the near-to-medium term supports the liquidity profile of the society. CES' liquidity profile is further strengthened by bank balances of close to Rs.200 crore as of November 2022, which will enable CES to manage any short-term cash flow disruptions.

Rating sensitivities

Positive factors – The rating may be upgraded if the entity continues to report healthy scale of operations and earnings, while maintaining its comfortable debt protection metrics and liquidity position.

Negative factors – Pressure on the rating could arise if there is a significant delay in fee inflows or lower-than-expected earnings or any major debt-funded capex, which would adversely impact its capital structure and liquidity position. Specific metrics that may lead to a rating downgrade include core return on capital employed of less than 14% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Higher Education Sector
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity.

About the company

CES, established in 1974, was founded by Mr. S. Narasa Raju. The society has 37 educational institutes in Bengaluru, from pre-nursery to post-graduate 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	FY2021	FY2022
Operating Income (Rs. crore)	174.6	181.4
PAT (Rs. crore)	87.5	88.7
OPBDITA/OI	61.7%	57.3%
PAT/OI	50.1%	48.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDITA (times)	0.0	0.0
Interest Coverage (times)	34.1	11,537.7

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

Status of non-cooperation with previous CRA

On March 10, 2022, Brickwork Ratings (BWR) has revised the rating to BWR B-(Stable)/A4 and continued the ratings in the Issuer Not Cooperating* category. As per the press release, due to the continued lack of management cooperation and in the absence of adequate information from the trust, BWR is unable to assess the trust's financial performance and its ability to service its debt and maintain a valid rating. Hence, based on the best available information, Brickwork Ratings has revised the rating to BWR B-(Stable)/A4 and continued the ratings in the Issuer Not Cooperating* category.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2019
					Dec 26, 2022	Sept 29, 2021	June 19, 2020	Jan 25,2019
1	Term loans	Long-term	-	-	-	**[ICRA]BB+ (Stable); ISSUER NOT COOPERATING**	**[ICRA]BBB (Stable)**	**[ICRA]BBB- (Stable)**
2	Bank Guarantee	Long-term	12.88	12.88	**[ICRA]BBB+ (Stable)**	**[ICRA]BB+ (Stable); ISSUER NOT COOPERATING**	**[ICRA]BBB (Stable)**	-
3	Working capital facilities	Long term	-	-	-	-	-	**[ICRA]BBB- (Stable)**

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, is available on ICRA's website: click here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee	-	-	-	12.88	[ICRA]BBB+ (Stable)

Source: *Company*

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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