February 20, 2023

Vidya Mandir Society: Rating reaffirmed; outlook revised to Stable from 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-; Reaffirmed and outlook revised to Stable from Negative
Total	**30.00**	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook on the long-term rating for Vidya Mandir Society (VMS) to Stable from Negative considers the likely improvement in its cash accrual in the current fiscal and going forward, with an increase in fees and number of students. The fees discounts for students provided during the pandemic were discontinued in the second half of FY2022. However, the society's operating surplus declined significantly in FY2022 due to an increase in staff salaries. In the current fiscal, VMS' revenues and operating surplus are likely to improve with further fees increase and student additions, particularly in its new school (BHS – Mukundapur), which commenced operation in FY2019. The rating continues to draw comfort from VMS' established track record of running educational institutions and imparting quality education for a long time, favourable location of the institutes 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-à-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 lack of geographical diversification as all its institutes are in Kolkata. ICRA notes that the number of students in the college declined steadily in the recent years, though the overall student base is likely to grow going forward mainly due to student addition in the new school. Nevertheless, retention and development of talent along with student addition, particularly in the college, will continue to remain major challenges for VMS given the heightened competition in the education sector. The rating also considers the entity's exposure to regulatory risks inherent in the education sector and regular capital expenditure likely to be incurred by the society to maintain a tax-free status, encumbering its cash flows.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that VMS will continue to benefit from the reputation and favourable location of its institutes. An expected improvement in VMS' cash accruals and limited reliance on external borrowings are likely to keep its financial risk profile comfortable.

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 are 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 Kolkata for commerce courses (for women) and BBA course (co-ed).

Favourable location of the institutes – All the institutes run by the society are in favourable locations. The college (JDBI) and the older schools (SBGS and BHS – Moira Street) are in prime locations in South Kolkata, having very good connectivity. The new school (BHS – Mukundapur) is in Eastern Kolkata wherein the overall population has increased significantly in the recent years.

Diversified revenues across institutions – VMS' revenue is diversified across various institutions. In FY2022, 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 lower (14%) in FY2022 but is likely to increase 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. 17.8 crore as on March 31, 2022) vis-a-vis a healthy tangible net worth (Rs. 128.4 crore as on March 31, 2022) led to a low gearing (0.1 times as on March 31, 2022). Moreover, the society's sizeable liquid investments and free cash (Rs. 24.9 crore and Rs. 11.4 crore respectively, as on March 31, 2022) are likely to keep the net debt negative in the near-to-medium term.

Credit challenges

Small scale and geographically concentrated operations – VMS included the college in its portfolio in AY2017-18 and opened the new school (BHS - Mukundapur) in AY2018-19. Nevertheless, the society's overall scale of operation remains small compared to the large players in the school education and higher education segments having presence in multiple states. All the institutes run by the society are in Kolkata, reflecting geographical concentration risks. Its total student strength stood at 6,705 in AY2021-22, increasing at a modest compounded annual growth rate of only 3% since AY2017-18. The number of students in the new school has increased considerably since its opening but the enrolment in the college declined over the last four years.

Increasing competition, challenges for retention of quality faculties and regulatory risks inherent in the education sector – Increasing competition in the education sector from both organised and unorganised players poses significant challenge for addition of new students and teacher retention. The education sector in India remains regulated and the society's operations may be impacted in case of any adverse regulatory development.

Regular capital expenditure required to maintain a tax-free status – The society is required to incur regular capital expenditure to maintain its tax-free status. The construction of its new school (BHS-Mukundapur), which commenced operation in FY2019, is still going on. 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.

Liquidity position: Adequate

The society's liquidity is likely to remain **adequate**. The society's ongoing capital expenditure for BHS - Mukundapur is likely to entail a cash outlay of around Rs. 13-14 crore in FY2023. In addition, the society is likely to incur capex of around Rs. 6 crore for other institutes in the current fiscal. For BHS - Mukundapur, VMS had availed term loans of Rs. 20 crore till FY2022 out of the sanctioned limits of Rs. 30 crore. The entity will not avail the balance sanctioned term loan, hence its debt repayment obligation will be lower than what was previously envisaged. The society has made term loan prepayment of Rs. 1.5 crore in the current fiscal, while the scheduled term loan repayment stands at around Rs. 4 crore annually till FY2026. An expected improvement in cash flow from operations due to increase in fees for students and sizeable free cash and liquid investments (around Rs. 36 crore as on March 31, 2022) would support VMS' liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if the society's revenues and cash accruals improve significantly without any sizeable increase in its debt level.

Negative factors – Pressure on VMS' rating may arise if the cash flow from operations weaken on a sustained basis or if any large debt-funded capex leads to a deterioration in the capital structure and liquidity 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	Corporate Credit Rating Methodology Higher Education
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 and Nutrition, Interior Designing and Textile Science, Clothing and 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 Mukundapur, Kolkata in the academic year 2018-19 and its construction is going on.

Key financial indicators (audited)

VMS	FY2021	FY2022
Operating income	63.6	68.4
PAT	-1.4	-3.9
OPBDIT/OI	18.4%	12.3%
PAT/OI	-2.2%	-5.8%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	1.3	2.1
Interest coverage (times)	12.7	6.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

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 Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
				Feb 20, 2023	Dec 06, 2021	Aug 25, 2021	-	Feb 20, 2020
1 **Term Loan**	Long term	30.00	17.75	**[ICRA]A- (Stable)**	**[ICRA]A- (Negative)**	**[ICRA]A- (Stable); ISSUER NOT COOPERATING**	-	**[ICRA]A- (Stable)**

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 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	**Term Loan-1**	May-2019	NA	Jun-2026	15.00	[ICRA]A- (Stable)
NA	**Term Loan-2**	Nov-2021	NA	Sep-2028	15.00	[ICRA]A- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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