

March 31, 2023

Graphic Era Educational Society: [ICRA]BBB+ (Stable)/[ICRA]A2; assigned

Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------------|-------------------------------------|------------------------------|
| Long-term– Term loan | 626.47 | [ICRA]BBB+(Stable); assigned |
| Long -term – Fund-based | 60.00 | [ICRA]BBB+(Stable); assigned |
| Short -term – Non-fund based | 5.00 | [ICRA]A2; assigned |
| Long -term – Unallocated | 108.53 | [ICRA]BBB+(Stable); assigned |
| Total | 800.00 | |

*Instrument details are provided in Annexure-1

Rationale

The ratings assigned to Graphic Era Educational Society (GEES or the Society) considers the long track record of the society and its founding members, who have more than two decades of experience in the education sector. The ratings also take into account the healthy financial profile of the society, characterised by a steady growth in revenue receipts, driven by increasing student base, healthy operating surplus and comfortable debt coverage indicators with an interest coverage of 14.7 times and total debt/operating surplus of 1.5 times as on March 31, 2022, supported by moderate debt repayment obligations vis-à-vis cash accruals. While the debt metrics are comfortable, being a non-profit society, it is required to reinvest ~85% of its revenue receipts to maintain its tax-free status. As a result, the society continues to undertake large debt-funded capital expenditure towards infrastructure improvement, limiting reduction in debt levels.

The ratings are, however, constrained by GEES' ongoing capital expenditure towards a 515-bedded hospital, a medical college with an initial intake capacity of 150 MBBS seats in Dehradun in Phase-1 and increasing the hospital capacity by 300 beds in Phase-II. The total cost of the project is estimated at Rs.767 crore, funded through debt to equity mix of 60:40. The society has already commissioned 240 beds in December 2022. The hospital is expected to be operationalised by September 2023 with 515 beds. Apart from the hospital and medical college, GEES is also incurring capex towards facilities including hostels, extension of the existing campus, academic blocks and auditorium blocks among others. Given the same, the coverage metrics and capital structure are expected to moderate over the medium term and the DSCR is expected to remain at moderate level as well. The ratings are further constrained on account of geographical concentration risks as all the campuses are in Uttarakhand, which can pose operational risks. There was a decline in admissions observed in AY2013-14, when the state experienced floods. The ratings are also constrained by the regulatory risks inherent in the higher education sector as well as intense competition from other institutes and hospitals. Moreover, regular need for capital expenditure and challenges in retaining quality teachers also remain key constraints.

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

Key rating drivers and their description

Credit strengths

Established market position and diversified portfolio of institutes – The society has been present for more than 25 years in the education sector. At present, it runs Graphic Era Deemed to be University (GEU) and Graphic Era Hill University (GEHU). They enjoy healthy brand recall among educational institutes in Dehradun, supported by its experienced members. GEES,

through its institutes, offers a diversified portfolio of courses across Engineering, Management, Commerce, Hospitality, Computer Application, Humanities and Life Sciences.

Healthy improvement in performance likely to continue in current year – The operating performance witnessed a healthy growth in the last three fiscals. The same was aided by an improvement in student strength, coupled with increased fee. This coupled with a steady margin, led to a healthy operating surplus of Rs.120.3 crore and Rs.167.2 crore in FY2021 and FY2022, respectively. Revenue receipts continue to be supported by the steady growth in admissions. The same was witnessed from revenues worth Rs.670 crore in 11M FY2023. For the full year, revenues are expected to be more than Rs.700 crore.

Comfortable financial profile characterised by healthy coverage indicators and capital structure – GEES' financial profile remains comfortable with its conservative capital structure and adequate coverage indicators. The society's dependence on external debt has increased in the recent past, driven by the ongoing debt-funded capex. Going forward, GEES' credit profile is likely to moderate with an expected debt/operating surplus of 2.2 times and an interest coverage of 9.4 times in FY2023. Nevertheless, the same are likely to remain comfortable on the back of relatively stable earnings and adequate cash accruals despite debt-funded capex.

Credit challenges

Significant debt-funded capex to increase leverage and expose trust to execution risks – GEES is incurring significant capex of more than Rs.700 crore towards setting up the hospital and medical college. GEES is also incurring debt-funded capex worth Rs.340 crore (debt is ~Rs.250 crore) for hostels, extension of the existing campus, school project, academic blocks and auditorium blocks among others. Any major time or cost overrun in the ongoing capex would adversely impact the capital structure and liquidity position of the society.

Regulatory risk inherent in higher education sector– The society is exposed to regulatory risks inherent in the higher education sector, especially in the forthcoming hospital and 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 necessary approvals, any regulatory action which has any sustained impact on the revenue profile, will be a credit negative.

Exposed to intense competition – The revenues would also be impacted by the competition from other established institutions in Uttarakhand and nearby states. Nevertheless, the revenues are likely to improve, going forward, with expected stable growth in admissions and a likely increase in the hospital income.

Liquidity position: Adequate

The society's liquidity position has been supported by increased earnings. GEES has free cash and bank balances of around Rs.23 crore as on March 31, 2022, and Rs.4 crore as on February 28, 2023. The society has repayment obligations of Rs.28 crore in FY2024 and Rs.46.6 crore in FY2025. The society's accruals from operations are expected to be comfortable at ~Rs.200 crore per annum in the medium term, supported by healthy revenues and earnings. The average utilisation of fund-based limits stood at 89% of the sanctioned limits for the last 12 months ending in February 2023. The operating surplus is expected to be adequate to meet the debt repayment obligations and ongoing capex requirements.

Rating sensitivities

Positive factors – The ratings may be upgraded if the entity registers a sustained growth in revenues and earnings by timely ramping up the hospital and medical college, while maintaining its comfortable debt protection metrics and liquidity position.

Negative factors – The ratings could be downgraded if there is sustained pressure on the operating performance including significant delays in fee inflows or lower-than-expected earnings. Moreover, major time or cost overruns in the ongoing capex

which would adversely impact its capital structure and liquidity position would also be a negative trigger. Specific metrics for the downgrade will be a DSCR of less than 2 times 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

Graphic Era Educational Society (GEES) was established in 1996 in Uttarakhand. The society runs Graphic Era Deemed to be University (GEU) and Graphic Era Hill University (GEHU). The society is setting up a medical college and hospital in the name of Graphic Era Institute of Medical Sciences (GEIMS) with 815 beds (Phase-1: 515 beds) and a target intake of 150 students annually in Dehradun, which is under construction. The hospital is partially operational with 240 beds from December 2022. The society also runs a K+12 school called Graphic Era Global School.

Key financial indicators (audited)

| GEES | FY2021 | FY2022 |
|--|--------|--------|
| Operating Income (Rs. crore) | 326.1 | 510.0 |
| PAT (Rs. crore) | 89.8 | 141.1 |
| OPBDITA/OI (%) | 36.9% | 32.8% |
| PAT (%) | 27.5% | 27.7% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.6 | 0.5 |
| Total Debt/OPBDITA (times) | 1.8 | 1.5 |
| Interest Coverage (times) | 8.2 | 14.7 |
| DSCR | 2.8 | 2.1 |

Source: GEES

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: Return on Capital Employed; DSCR: Debt Service Coverage Ratio

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 | Amount Outstanding as on March 31,2022 | Date & Rating in | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | March 31, 2023 | - | - | December 05, 2019 |
| 1 Term Loan | Long Term | 626.47 | 183.29 | [ICRA]BBB+ (Stable) | - | - | [ICRA]BB+ (Stable) ISSUER NOT COOPERATING; Withdrawn |
| 2 Overdraft | Long Term | 60.00 | - | [ICRA]BBB+ (Stable) | - | - | ICRA]BB+ (Stable) ISSUER NOT COOPERATING; Withdrawn |
| 3 Short Term – Non-Fund Based | Short Term | 5.00 | - | [ICRA]A2 | - | - | - |
| 4 Unallocated | Long Term | 108.53 | - | [ICRA]BBB+ (Stable) | | | ICRA]BB+ (Stable) ISSUER NOT COOPERATING; Withdrawn |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|-------------------------------------|----------------------|
| Long-term– Term Loan | Simple |
| Long -term – Fund Based – Overdraft | Simple |
| Short -term –Non-Fund Based | Very Simple |
| Long Term- Unallocated | Not Applicable |

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-1: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|---------------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Term Loan | FY2018-FY2023 | NA | FY2023-FY2035 | 626.47 | [ICRA]BBB+ (Stable) |
| NA | Overdraft | - | NA | - | 60.00 | [ICRA]BBB+ (Stable) |
| NA | Short term Non-Fund based | - | NA | - | 5.00 | [ICRA]A2 |
| NA | Unallocated | - | - | - | 108.53 | [ICRA]BBB+ (Stable) |

Source: GEES

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Gaurav Singla

+91 12 4454 5366

gaurav.singla@icraindia.com

Kaushik Das

+91 33 7150 1100

kaushikd@icraindia.com

Vilasagaram Nandakishore

+91 40 4547 4829

vilasagaram.nandakishore@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.