

June 28, 2024

## Graphic Era Educational Society: Ratings reaffirmed and Outlook revised to Negative from Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	626.47	626.47	[ICRA]BBB+ (Negative); reaffirmed and outlook revised to Negative from Stable
Long-term – Fund-based – Overdraft	60.00	60.00	[ICRA]BBB+ (Negative); reaffirmed and outlook revised to Negative from Stable
Short-term – Non-fund based – Bank guarantee	5.00	5.00	[ICRA]A2; reaffirmed
Long-term – Unallocated	108.53	108.53	[ICRA]BBB+ (Negative); reaffirmed and outlook revised to Negative from Stable
<b>Total</b>	<b>800.00</b>	<b>800.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in outlook to Negative factors in ICRA's expectation that Graphic Era Education Society's (GEES/Society) liquidity would remain under pressure in the near to medium term, in the backdrop of its ongoing capital expenditure and loss funding in the hospital. The society has recently undertaken significantly higher-than-expected capex, which was funded by fresh term loans resulting in increased debt level. Consequently, the society's liquidity is stretched due to additional funding from its accruals and almost full utilisation of the working capital limits with frequent instances of using adhoc limits to meet the fund requirements in the months when fee inflow is relatively low. Moreover, the medical institution is incurring operating losses owing to the initial stage of the hospital's operations and pending approval for the medical college, which has impacted the society's operating margins.

The ratings take into consideration the established track record of the society and its founding members, who have more than two decades of experience in the education sector. The ratings also consider the above average financial profile of the society, characterised by a steady growth in revenue receipts, driven by increasing student base, healthy operating surplus (though reduced in comparison to previous years) and comfortable debt coverage indicators with an interest coverage of 6.2 times and DSCR of 3.7 times as on March 31, 2024 (Provisional). ICRA notes that construction of the medical college is already complete and once it gets the approval for medical college, both the scale and profitability of GEES would improve. 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, thereby keeping the overall cash flows under check and limiting reduction in debt levels.

The ratings are, however, constrained by GEES' recent significant capital expenditure towards an 817-bedded hospital and medical college with an initial intake capacity of 150 MBBS seats in Dehradun in Phase-1 and further plan of increasing the hospital capacity by 250 beds and commencing the oncology department in Phase-2. The total cost of Phase-1 rose by Rs. 238 crore majorly owing to change in criteria for approval of medical college, which resulted in increasing the general beds number to 660 from the planned 330. The hospital is already operational with 817 beds. Nevertheless, approval for the medical college is pending and it is expected to commence from the current academic session post which it should support cash flows going forward. Due to rise in project cost and additional funding from the accruals of the society, the liquidity position remains stretched, as reflected in reliance on adhoc short-term funding to support cash flow mismatches. Its margins would moderate in the medium term, given the longer break-even period of the society's hospital (around five years on a standalone basis and three years on a consolidated basis for both the hospital and the medical college). The overall project cost of Phase-2 is

estimated at Rs. 800 crore, which is planned to be funded through debt to equity mix of ~80:20%. Apart from the hospital and medical college, GEES is also incurring capex towards facilities including hostels, residential blocks and academic blocks among others. Given the same, the coverage metrics, capital structure and DSCR are expected to remain moderate over the medium. 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, challenges in retaining quality teachers also remain key constraints.

## Key rating drivers and their description

### Credit strengths

**Established market position; diversified presence across multiple streams** – 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). The universities enjoy healthy brand recall among the 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. Also, the society has diversified its portfolio with fully operational hospital of 817 beds and recently constructed medical college, which is expected to receive intake approval for 150 MBBS seats for commencement of its operations from the current academic session.

**Moderate leverage; comfortable coverage metrics** – The operating income of the society witnessed a healthy growth in the last five fiscals during FY2020 to FY2024 with a CAGR of 29%. The same was aided by an improvement in student strength, coupled with increased fee and additional revenue from the hospital in FY2024. GEES' coverage metrics remains comfortable on account of adequate profits and generation of cash flows from operations of more than Rs. 150 crore. The society's dependence on external debt has increased in the recent past, driven by the ongoing debt-funded capex resulting in moderation in total debt/operating surplus of 3.1 times and an interest coverage of 6.2 times in FY2024 (Provisionals) against 2.1 times and 13.5 times, respectively, in FY2023. Nevertheless, the same are likely to remain at moderate levels on the back of relatively stable earnings and adequate cash accruals despite debt-funded capex.

### Credit challenges

**Delays in commencement of medical college straining liquidity; cash flows remain under check owing to ongoing capex** – GEES recently incurred a significant capex of ~ Rs.750 crore towards setting up a medical college along with a hospital. The total cost of the Phase-1 project increased by Rs. 238 crore majorly due to an increase in the number of beds to 660 from 330 planned earlier. The increase in the beds was necessitated owing to a change in the requirement for approval of a medical college by the National Medical Commission (NMC). Consequently, the escalation in the project cost resulted in incremental debt, high working capital utilisation and depletion in the free balances, leading to a stretch in the society's liquidity. Moreover, due to seasonal nature of the society's fee inflows and consistent monthly payouts including debt service obligations, it availed adhoc limits to cover the cash flow mismatch in FY2024. Additionally, GEES plans to undertake further capex with an estimated cost of Rs. 800 crore over a period of four years majorly funded by fresh debt towards expansion of the hospital, building residential blocks for medical students and staff among others. With the expected increase in annual debt repayment obligation and lower cashflows in the second half of the financial year, the society's utilisation of fund-based limits is likely to remain high in the near-to-medium term. While the annual cash flow from operations are sufficient to cover the annual debt obligations in FY2025 and FY2026, there could be temporary cash-flow mismatches in the interim thereby exposing the society to rely on short term borrowings to bridge the gap. The society's ability to maintain an adequate buffer in the undrawn working capital facility and free balances remains crucial to tide over any short-term cash flow mismatches.

**Regulatory risk inherent in higher education sector; exposed to intense competition** – The society is exposed to regulatory risks inherent in the higher education sector, especially in the recently commenced hospital and medical college, which is yet

to receive an approval. Any regulatory changes affecting the flexibility of the society to fix fees for the management quota seats may adversely impact the revenue profile and cash accruals. Moreover, any further delay in approval for commencement of GEES' medical college impacting its cash flows and liquidity position would be a credit negative. The revenues would also be affected by the competition from other established institutions in Uttarakhand and nearby states. Nevertheless, the revenues are anticipated to improve, going forward, with expected stable growth in admissions, likely increase in the hospital income and additional revenue from the medical college.

### Liquidity Position – Stretched

GEES' liquidity position remains stretched, as reflected in almost full utilisation of its working capital limits in certain months and dependency on adhoc limits to tide over interim cash flow mismatches. Given the seasonality associated with cash inflows of an education society, with limited inflows during the second half of the fiscal, the society's utilisation of fund-based limits is expected to remain high in the near to medium term, which leaves a limited buffer for managing the cash flow mismatch in an adverse event. The society's ability to maintain adequate liquidity buffer in fund-based facilities and prudent management of working capital remain important for improvement in liquidity position and overall credit profile.

### Rating sensitivities

**Positive factors** – The outlook can be revised to Stable if the society demonstrates a material improvement in its liquidity position and commencement of its medical college, while sustaining healthy enrolment level and comfortable debt protection metrics.

**Negative factors** – The ratings could be downgraded if there is any unanticipated significant debt-funded capex, which would adversely impact its capital structure and liquidity. Further the ratings could be downgraded if there is sustained pressure on the society's operating performance including significant delays in fee inflows or lower-than-expected student enrolments. Moreover, any further delay in commencement of its medical college impacting its cash flows and liquidity position would be a credit negative. Specific credit metrics that could result in a rating downgrade includes DSCR of less than 2 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Higher Education</a>
Parent/Group Support	Not Applicable.
Consolidation/Standalone	The rating is based on the standalone financial profile of the Society.

### 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) with overall student strength of more than 40,000 in the current academic session. The society has recently set up a medical college and hospital in the name of Graphic Era Institute of Medical Sciences (GEIMS), which has already been constructed. GEIMS has 817 beds and it has applied for an approval of student intake of 150 for the MBBS programme. The hospital is fully operational since March 2024. The society also runs a K+12 school called Graphic Era Global School.

### Key financial indicators (audited)

GEES	FY2022	FY2023	FY2024*
Operating income	510.4	772.7	990.6
PAT	141.1	208.2	148.6
OPBDIT/OI	33.1%	32.4%	23.8%
PAT/OI	27.7%	26.9%	15.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.7	0.9
Total debt/OPBDIT (times)	1.5	2.1	3.1
Interest coverage (times)	14.9	13.5	6.2

PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore; \*Provisional financials  
Source: Company; ICRA Research

### Status of non-cooperation with previous CRA

CRA	Status	Date of Release
Brickwork Ratings	BWR BB+/ Stable (ISSUER NOT COOPERATING)/BWR A4+ (ISSUER NOT COOPERATING)	Feb 13, 2024

Source: Brickwork

### Any other information: None

### Rating history for past three years

Instrument	Type	Current Rating (FY2025)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (crore) as on Mar 31, 2024	Date and Rating in FY2025	Date and Rating in		
				June 28, 2024	FY2024	FY2023	FY2022
					-	Mar 31, 2023	-
1 Fund-based – Term loan	Long-term	626.47	620.26	[ICRA]BBB+ (Negative)	-	[ICRA]BBB+ (Stable)	-
2 Fund-based – Overdraft	Long-term	60.00	-	[ICRA]BBB+ (Negative)	-	[ICRA]BBB+ (Stable)	-
3 Non-fund based – Bank guarantee	Short-term	5.00	-	[ICRA]A2	-	[ICRA]A2	-
4 Unallocated	Long-term	108.53	-	[ICRA]BBB+ (Negative)	-	[ICRA]BBB+ (Stable)	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund-based – Overdraft	Simple
Short-term – Non-fund based – Bank guarantee	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	Long-term – Fund-based – Term loan	FY2018- FY2023	NA	FY2023- FY2035	626.47	[ICRA]BBB+ (Negative)
NA	Long-term – Fund-based – Overdraft	NA	NA	NA	60.00	[ICRA]BBB+ (Negative)
NA	Short-term – Non-fund based – Bank guarantee	NA	NA	NA	5.00	[ICRA]A2
NA	Long-term – Unallocated	NA	NA	NA	108.53	[ICRA]BBB+ (Negative)

Source: Company

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

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