

September 16 2020

S. K. S. Educational and Social Trust: Ratings reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	-	19.57	[ICRA]BBB+ (Stable); reaffirmed
Fund Based – OD against IP limit	4.00	4.00	[ICRA]BBB+ (Stable); reaffirmed
Fund Based – ODTCs	15.00	15.00	[ICRA]BBB+ (Stable); reaffirmed
Unallocated Limit	16.00	1.43	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed
Total	35.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings continues to factor in the established track record of S. K. S. Educational and Social Trust (SKS) in imparting quality education with its diverse presence across the education spectrum through established schools and colleges offering various diploma, graduation and post-graduation courses. The ratings also draw comfort from the experience of the trustees in the field of education and a strong financial profile characterised by healthy profitability, conservative capital structure and comfortable debt coverage indicators.

The ratings, however, are constrained by a considerable decline in admission in engineering courses in the recent years due to weak placement and competition from other colleges though the impact of the same on SKS' revenue is mitigated to an extent by the trust's diversified revenue stream. ICRA notes that the fee structure for the degree courses is entirely regulated by the state government, restricting its flexibility to revise fees. Moreover, regular capital expenditure incurred by the trust to maintain a tax-free status also encumbers its cash flows.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that SKS' business profile will remain comfortable, going forward, aided by an increase in revenues from schools, notwithstanding a declining trend in revenues from engineering colleges. However, the overall performance of the trust in the current fiscal is likely to be affected by the Covid-19 pandemic, to some extent.

Key rating drivers and their description

Credit strengths

Established track record of the society in imparting quality education and experience of the trustees in the field of education – The trust (SKS) was formed in 2001. It has an established track record in the higher education sector, with diversified presence across the education spectrum. The founders of the trust are also members of another society running educational institutes in Mathura, Uttar Pradesh.

Diverse presence across the education spectrum through established schools and colleges offering various diploma, graduation and post-graduation courses – SKS had initially started Bengal College of Engineering and Technology (BCET) in Durgapur and S.K.S. Public School in Raniganj in West Bengal. Gradually, the trust increased its presence in the education sector by offering various courses through five colleges and three schools. The trust offers primary and secondary education, undergraduate courses like B Tech, BCA, BBA, B Pharma, diploma courses in engineering, diploma in elementary education and pharmacy, Bachelor of Education courses (B Ed) and post-

graduate courses like MBA and M Pharma. A diversified presence in schools and various higher education courses strengthens the business profile of SKS. The combined current strength of all the schools and colleges together was over 11,700 students in the academic year 2019-20. The engineering courses are approved by The All India Council for Technological Education (AICTE) and the respective institutes are affiliated to the Maulana Abdul Kalam Azad University of Technology (MAKAUT). The schools are affiliated to the Central Board of Secondary Education (CBSE).

Strong financial profile characterised by healthy profitability, conservative capital structure and strong debt coverage indicators; the pandemic likely to affect the current year performance to some extent – The trust's operating income witnessed a consistent growth during the last five years (to Rs. 70.28 crore in FY2020 from Rs. 55.87 crore in FY2016) on account of an increase in the overall student intake, despite a drop in admission in engineering courses in the recent years. The trust's operating margin and net margin stood at 53.50% and 37.11%, respectively in FY2020 (provisional) vis-a-vis 50.66% and 38.26%, in FY2019. The profits at an absolute level and net cash accrual also remained healthy and improved consistently in the recent years, strengthening its financial profile. SKS' capital structure remained comfortable with a gearing of 0.08 times as on March 31, 2020 due to limited borrowing (despite an increase in recent years) and healthy accretion to the trust's reserves consistently over the past few years, leading to a high tangible net worth. Given the healthy profitability and the conservative capital structure, the trust's debt coverage indicators remained strong, as reflected by interest coverage, total debt relative to OPBDITA, and net cash accrual relative to total debt of 31.94 times, 0.71 times and 138%, respectively in FY2020. However, the performance of the trust in the current fiscal is likely to be negatively impacted by the pandemic, to some extent, due to delay in fresh admission, closure of hostel, discontinuation of transportation facility for students etc.

Credit challenges

Low admission in engineering courses, however, the trust's diversified revenue stream renders comfort – The level of student admission in the engineering courses offered by the colleges deteriorated in the recent years because of a slowdown in the job market, as reflected by low placement, and increased competition from other colleges. The reduced level of student admission is likely to negatively impact the revenues from the engineering colleges managed by the trust. However, due to the trust's diversified revenue stream, a decline in revenue from B. Tech courses is likely to be offset by an increase in revenue from other courses and schools, which renders comfort to an extent. In FY2020 (provisional), the trust's operating income increased to Rs. 70.28 crore from Rs. 65.70 crore in FY2019 despite a decline in admission in engineering courses. SKS is in the process of increasing the number of schools, which is likely to support its revenue growth, going forward.

Fee structure for degree courses is entirely regulated by the state government, restricting flexibility to revise fees – The fee structure of the courses offered by the colleges is in accordance with the norms fixed by the state Government, thus limiting the flexibility of SKS in fixing the fees. However, the school fees and hostel fees are decided by the trust.

Regular capital expenditure requirement to maintain tax-free status – The trust is required to incur regular capital expenditure to maintain a tax-free status. The trust plans to open four new schools (two in Noida, one in Durgapur and Ghaziabad each) by the academic year 2022-23. The total cost of setting up these four schools has been estimated at around Rs. 188 crore of which around Rs. 127 crore was incurred till August 2020 and the balance cost is expected to be incurred in the next two years. The ongoing capital expenditure is being funded partially by term loans (around Rs. 18 crore fresh term loans availed) and the balance from internal accruals.

Liquidity position: Adequate

SKS' liquidity is **adequate** with a moderate level of free cash (Rs. 6.34 crore as on March 31, 2020) and healthy cash flow from operations (around Rs. 36 crore in FY2020). The trust's long-term debt-servicing obligations in the near to medium term has increased to some extent due to new term loans availed in the recent past. However, the overall debt repayment obligation still remains at a modest level. Nevertheless, the average utilisation of the overdraft limit remained high at around 89% between August 2019 and July 2020, with full/overutilisation on a few occasions. A significant capital expenditure incurred on a regular basis exerts pressure on SKS' liquidity. In the current fiscal, delays in fee receipts and a decline in income from hostel and transportation due to the pandemic are likely to exert pressure on the entity's cash flows, to some extent. However, SKS availed moratorium due to the pandemic for a part of the facilities and has received a Covid loan (Guaranteed Emergency Credit Line) of Rs. 1.57 crore, which is likely to support its liquidity.

Rating sensitivities

Positive triggers – ICRA may upgrade SKS' ratings if its revenue grow significantly and its liquidity improves on a sustained basis.

Negative triggers – Pressure on the ratings may arise if there is a significant deterioration in revenue due to a fall in admission rates and/ or if SKS undertakes higher-than-anticipated debt-funded capital expenditure.

Analytical approach

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

About the company

SKS was formed in 2001 by Mr. Satish Kumar Sharma and the members of his family for imparting education. The trust offers primary and secondary education, undergraduate courses like B.Tech, BCA, BBA and B.Pharm, diploma courses in engineering and pharmacy, diploma in elementary education and Bachelor of Education courses (B.Ed) and post-graduate courses like MBA and M.Pharm through its five colleges and three schools. SKS is in the process of opening four new schools within the next two years. Bengal College of Engineering and Technology is the flagship college of the trust, which started operation in 2001. The combined strength of all the schools and colleges managed by the trust was over 11,700 students in the academic year 2019-20.

Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	65.70	70.28
PAT (Rs. crore)	25.14	26.08
OPBDIT/OI (%)	50.66%	53.50%
PAT/OI (%)	38.26%	37.11%
Total Outside Liabilities/Tangible Net Worth (times)	0.17	0.21
Total Debt/OPBDIT (times)	0.40	0.71
Interest Coverage (times)	37.50	31.94

Source: S. K. S. Educational and Social Trust

Status of non-cooperation with previous CRA

CRA	Status of non-cooperation	Date of Press Release
	CRISIL BB+/Stable (ISSUER NOT COOPERATING; Migrated from 'CRISIL CRISIL Limited BBB+/Stable'); Issuer did not cooperate; based on best-available information	September 25, 2019

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020		FY2019	FY2018
					16-Sep-2020	25-Oct-2019	14-Aug-2019	16-Oct-2018	19-Apr-2017
1	Term Loan	Long Term	19.57	7.83 (March 2020)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB (Stable) ISSUER NOT COOPERATING; Withdrawn	[ICRA]BBB (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB (Stable)
2	OD Against IP Limit	Long Term	4.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
3	ODTCS	Long Term	15.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
4	Unallocated Limit	Long Term / Short Term	1.43	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-
5	Overdraft Facility	Long Term	-	-	-	-	[ICRA]BBB (Stable) ISSUER NOT COOPERATING; Withdrawn	[ICRA]BBB (Stable) ISSUER NOT COOPERATING*	[ICRA]BBB (Stable)

*due to non-submission of NDS; Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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 1	15-Oct-2019	NA	FY2025	10.00	[ICRA]BBB+ (Stable)
NA	Term Loan 2	9-Oct-2019	NA	FY2031	6.50	[ICRA]BBB+ (Stable)
NA	Term Loan 3	22-Nov-2019	NA	FY2031	1.50	[ICRA]BBB+ (Stable)
NA	Term Loan (under GECL)	14-Aug-2020	NA	FY2025	1.57	[ICRA]BBB+ (Stable)
NA	OD Against IP Limit	NA	NA	NA	4.00	[ICRA]BBB+ (Stable)
NA	ODTCS	NA	NA	NA	15.00	[ICRA]BBB+ (Stable)
NA	Unallocated Limit	NA	NA	NA	1.43	[ICRA]BBB+ (Stable)/ [ICRA]A2

Source: S. K. S. Educational and Social Trust

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

Analyst Contacts

K. Ravichandran

+91 33 7150 1100

ravichandran@icraindia.com

Sujoy Saha

+91 33 7150 1184

sujoy.saha@icraindia.com

Sovanlal Biswas

+91 33 7150 1181

sovanlal.biswas@icraindia.com

Priyanka Sancheti

+91 33 7150 1188

priyanka.sancheti@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

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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