

July 18, 2022

The Kandivli Education Society: Rating reaffirmed

Summary of rating action

| Instrument [^] | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|-----------------------------------|----------------------------------|--------------------------------|
| Long-term - Fund-based Term Loans | 40.83 | 35.38 | [ICRA]BB+ (Stable); reaffirmed |
| Long-term - Fund-based Overdraft Facility | 5.00 | 5.00 | [ICRA]BB+ (Stable); reaffirmed |
| Long-term - Unallocated Limits | 1.17 | 6.62 | [ICRA]BB+ (Stable); reaffirmed |
| Total | 47.00 | 47.00 | |

[^]Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation favourably factors in the extensive track record of TKES spanning over eight decades in the education sector, the experience of its trustees in this sector, and the diversification of revenues across eight institutions offering pre-school to post-graduate courses. The rating also derives comfort from the stable cash flows generated by the older institutes under the Trust and their high occupancy levels, driven by the established position of TKES in the Kandivali region of Mumbai. The Trust's financial profile also remains satisfactory at present aided by healthy profitability, though the same is expected to moderate, amid the initial gestation of the new school. The same will however, remain commensurate with the rating category.

The rating remains constrained due to the Trust's modest scale of operations and high geographical concentration, with all the institutes operating in Mumbai. ICRA also notes the expected cash losses on account of the modest admissions at the recently commenced ICSE-affiliated school. The Trust's ability to profitably ramp-up the operations of the school will be a key rating monitorable. The rating also factors in the highly regulated nature of the education sector in the state (Maharashtra) and intense competition in the sector.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that TKES' credit profile will continue to benefit from its diversified presence across various courses in the education sector.

Key rating drivers and their description

Credit strengths

Extensive track record and experienced management – The Trust has presence of over 80 years in the education sector. It operates eight educational institutes in Mumbai, Maharashtra. Though the Trust is managed by a Managing Committee, the trustees are actively involved in the operations of all the eight institutions. Among the eight institutes under TKES, the oldest institute viz. Sardar Vallabhbhai Patel Vividhlakshi Vidyalaya was established in 1936 and offers primary education from Class 1 to 10. In 1967, the pre-primary school was established. In 1976, the junior college of science was set up, while the Sangeet Mahavidyalaya was established in 1984. Further, in 1989, the junior college for arts and commerce and the undergraduate college for arts and commerce commenced operations. The remaining institutes were established in or after 2009.

Diversified course offerings – TKES, through its institutes, offers courses ranging from pre-nursery to post-graduation. Among the eight institutes operating under TKES, the degree college for commerce and arts (B. K. Shroff College of Arts and M. H. Shroff College of Commerce), the junior college for courses in science, arts and commerce (T.P. Bhatia Junior College of Science and KES Shroff Junior College of Arts & Commerce) and the school (Sardar Vallabhbhai Patel Vividhlakshi Vidyalaya) for primary and secondary education, have been the major revenue contributors over the last five years. Further, B. K. Shroff College of Arts & M. H. Shroff College of Commerce is affiliated to the University of Mumbai and has an A-grade accreditation from the National Assessment and Accreditation Council (NAAC). Further, B. K. Shroff College of Arts & M. H. Shroff College of Commerce has obtained GOLD RANKING from the globally acclaimed university ranking body "Quacquarelli Symonds (QS)"

Stable cash flows underpinned by healthy occupancy levels in Trust's older institutes – Most of the institutes under TKES have been operational for over 30 years and have achieved stability in terms of operations, revenue-generating ability and operating surplus. The occupancy levels across key courses and institutes have remained healthy in the range of 85-90%, which supports the revenue growth of the Trust. At an absolute level, the overall student strength increased to 20,138 in AY2021-2022 from 18,678 in AY2020-2021. The occupancy levels continue to be high across the top institutes of the Trust. Although, there was a decline in the occupancy level of the top revenue generating institute i.e., KES Shroff College of Arts & Commerce to 72% in AY2021-2022 from 76% in AY2020-2021 and 88% in AY2019-2020, the same is attributed to the huge increase in the sanctioned intake. The established position of TKES in the Kandivli area of Mumbai and favourable demand outlook for primary and secondary education are likely to keep the overall occupancy levels high.

Healthy financial profile aided by comfortable operating profitability – The Trust's revenues expanded consistently during the last three years (Rs. 56.8 crore in FY2022 from Rs. 49.9 crore in FY2020) at a CAGR of 7.0%, supported by an increase in the overall student strength and upward revision in fees. The Trust's operating profit margin has remained comfortable in the past few years. However, the OPM decreased to 26.5% in FY2022 against 30.7% in FY2021 owing to increase in employee costs led by increase in teaching staff and some normalisation of overhead expenses post-resumption of classes at campuses. The Trust's financial profile also remained satisfactory aided by healthy profitability, evident in interest cover of 6.3 times in FY2022, total debt vis-a-vis operating profit before depreciation and interest of 1.9 times, and net cash accrual vis-a-vis total debt of 49%, in FY2022. Going forward, the coverage indicators are expected to moderate due to the initial gestation period of its school. However, the overall financial risk profile is expected to remain comfortable.

Credit challenges

New ICSE school presently incurring cash losses - The Trust commenced the operations of a new school in June 2022. This school is affiliated to ICSE and houses classes from nursery to sixth standard. The school building has seven floors, of which three floors are occupied by the current operational standards. TKES will complete the finishing work of the remaining floors over the next three years. The total project cost is estimated at Rs. 51.1 crore which is to be funded by term loan of Rs. 35.4 crore and the balance from internal accruals. Phase 1 was completed in April 2022. Till May 2022, the Trust incurred a total cost of Rs. 54 crore, which includes Rs. 3.00 crore towards Phase 2's installation of fire safety equipment, paint and other installations. The construction of Phase 1 was completed in April 2022. Due to the pandemic-related disruptions and delays in completion of the project, initial admissions remained low at around 35 students. The school has around 25 teachers, including coordinator and principal. Given the modest admissions, the school shall be incurring cash losses in FY2023. The school estimates to admit 300 students next year. The Trust's ability to ramp-up operations of the school in a timely and profitable manner remains a key rating sensitivity.

Modest scale of operations with presence in single location – While the Trust's revenues have consistently grown in the last seven fiscals; the scale of operations remains modest at Rs. 56.8 crore, as the average fees charged by the institutes are nominal. Moreover, 31% of the total student strength is towards aided courses, for which no fee is charged (except for computer and other miscellaneous fees). Further, as TKES' operations are concentrated in Mumbai, it remains exposed to any adverse regional developments, which may impact its operations.

Revenues vulnerable to timely receipt of grants from Government – While the Trust's revenue profile is supported by Government grants for its aided courses, timely receipt of the same would be critical. Any changes in the regulatory policies towards granting such aids may also adversely impact the Trust's operations. TKES receives grants from the Municipal Corporation of Greater Mumbai (MCGM) for the primary section, the State Government for the secondary section, the Central Government for the degree section and from the University Grants Commission (UGC). These grants are purely a Salary Grant which is 100% paid to aided teaching staff.

Presence in highly regulated and competitive education sector – Like other players in the education sector, TKES is exposed to regulatory risks owing to the highly regulated nature of the sector in India. Any adverse Government regulations may impact the Trust’s operations, revenues and cash flows. Besides, the Trust also faces competition from other established institutes in the K-12 and higher education segments in Mumbai. TKES also receives grants from the Municipal Corporation of Greater Mumbai (MCGM) for the primary section, the state government for the secondary section, the Central Government for the degree section, and from the University Grants Commission (UGC). The same are used for payment of salaries for aided courses.

Liquidity position: Adequate

The liquidity position of TKES is adequate, underpinned by healthy, stable cash flows and unencumbered cash and liquid balances of Rs. 14.3 crore as on March 31, 2022. TKES had external term loans of Rs. 26.4 crore as on March 31, 2022, with annual repayments of Rs. 0.8 crore in FY2023 and 1.2 crore in FY2024. With the ballooning repayment structure of the loan undertaken for the ICSE school, the repayment burden is gradually going to increase. The cash flow generation from operations is expected to remain strong, given the healthy occupancy for its school and colleges with regular increase in student strength. The overdraft facility of Rs. 5 crore also remains largely unutilised. Further, the Trust had Rs. 14.3 crore in the form of FDs and bank balances (completely unencumbered) as on March 31, 2022.

Rating sensitivities

Positive factors – ICRA could upgrade TKES’ rating if it profitably ramps up operations of the ICSE school in a timely manner. A substantial growth in revenues and profitability, which improves the overall financial risk profile would also be positive factors.

Negative factors – Pressure on TKES’ rating could arise if any decline in revenues and/or profitability leads to a deterioration in the financial risk profile. Further, if interest coverage ratio 2.5 times, on a sustained basis, could also lead to a downgrade

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Higher Education Sector Corporate Credit Rating Methodology |
| Parent/Group Support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the standalone financials of TKES. |

About the company

TKES was founded in 1936 by Mr. Jamanadas Adukia, Mr. Gokaldas Ranchoddas, Mr. Lavji Meghjiand and others to offer primary and secondary education in Mumbai. It is an educational trust registered under the Societies Registration Act, 1860 in 1947 and the Bombay Public Trust Act, 1950 in 1953 for operating educational institutions.

The Trust has eight operational educational institutes in Mumbai, which provide pre-nursery to post-graduate courses, including courses in commerce, arts, science, law, paramedical and nursing. The schools and colleges are recognised by the Maharashtra State Board of Secondary & Higher Secondary Education, All India Council of Technical Education, the Bar Council of India and other regulatory boards. The Trust had around 20,138 students enrolled in its various courses in AY2021-22.

Key financial indicators (Audited)

| | FY2021(A) | FY2022(Prov.) |
|--|-----------|---------------|
| Operating Income (Rs. crore) | 51.1 | 56.8 |
| PAT (Rs. crore) | 9.4 | 9.7 |
| OPBDIT/OI (%) | 30.7% | 26.5% |
| PAT/OI (%) | 18.5% | 17.0% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.5 | 0.5 |
| Total Debt/OPBDIT (times) | 1.5 | 1.9 |
| Interest Coverage (times) | 6.8 | 6.3 |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); Source: Company, ICRA research; All ratios as per ICRA calculations; A: Audited; Prov.: Provisional

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 (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2021 | Date & Rating in FY2021 | | Date & Rating in FY2020 |
| | | | | | 18-Jul-2022 | 5-July-2021 | 25-Jan-2021 | 07-Apr-2020 | - |
| 2 | Term Loan II | Long-term | 29.14 | 29.14 | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) | - |
| 3 | Proposed Term Loan | Long-term | 6.24 | - | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | - | - | - |
| 4 | Overdraft Facility | Long-term | 5.00 | - | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) | - |
| 5 | Unallocated | Long-term | 6.62 | - | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | [ICRA]BBB- (Stable) | [ICRA]BBB- (Stable) | - |

Amount in Rs. Crore

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|----------------------|
| Long-term - Fund-based Term Loan | Simple |
| Long-term Fund-based – Overdraft Facility | 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: www.icra.in

Annexure-1: Instrument details

| ISIN No. | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|----------|--------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Term Loan II | FY2020 | 9.50% | FY2029 | 29.14 | [ICRA]BB+(Stable) |
| NA | Proposed Term Loan | NA | - | - | 6.24 | [ICRA]BB+(Stable) |
| NA | Overdraft | NA | 9.50% | NA | 5.00 | [ICRA]BB+(Stable) |
| NA | Unallocated | NA | NA | NA | 6.62 | [ICRA]BB+(Stable) |

Source: TKES

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

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

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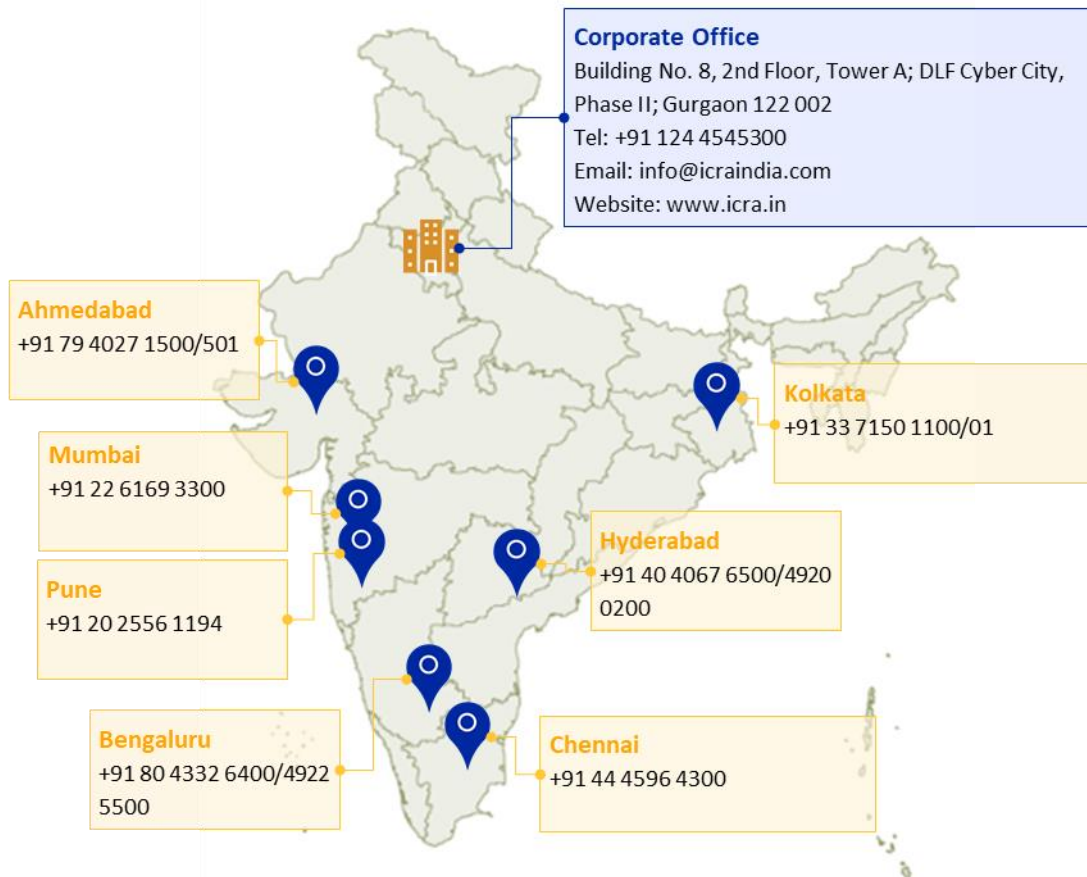
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