

St. George's Education Society

January 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/TL	75.0	75.0	[ICRA]BBB- (Stable); reaffirmed
Total	75.0	75.0	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BBB- (pronounced ICRA triple B minus) for the bank facilities of St. George's Education Society (SGES). The outlook on the long-term rating is Stable.

Rationale

The rating reaffirmation continues to favourably factor in the society being a part of the Muthoot Group, which has a diversified presence in sectors like financial services, hospitality, healthcare, education and the regular funding support provided by the promoters in the form of unsecured loans. This apart the ratings positively factor in the personal involvement of the Muthoot family in the operations of the society. The ratings however continue to remain constrained by the society's year-on-year operating loss, though the same has reduced over the years thereby resulting in weak credit metrics. The society had undertaken capex for the new school Paul George Global School PGGs) which saw a satisfactory increase in the occupancy over FY2015 to FY2017; however with Phase II of the capex yet to be undertaken, the society remains exposed to execution risk. This apart, the schools remain exposed to significant competition from various schools in the vicinity.

Going forward, SGES's ability to improve the occupancy of PGGs which should support the operating profitability, reduce its dependency on external funding and improve credit metrics would be the key rating sensitivity going.

Outlook: Stable

ICRA notes the society being a part of a stronger group with improving operating metrics year-on-year. The society will continue to benefit from the extensive experience of its promoters and their personal involvement. The outlook may be revised to 'Positive' if the society is able to significantly improve its operating metrics along with a better profitability. The outlook may be revised to 'Negative' if the society faces weak occupancy or if the capital structure deteriorates.

Key rating drivers

Credit strengths

Established presence of Muthoot Group – ICRA draws comfort from the good franchise and market position of the Muthoot Group having diversified revenue streams and long standing experience; the key promoters including the Chairman and his wife are personally involved with the school providing comfort in terms of operations as well as funding support. The education segment is carried out with philanthropic purpose and the trustees offer various grants and scholarships to deserving or under privileged students.

Strong year-on-year improvement in revenue receipts – The society has seen a strong increase in the revenue receipts on the back of regular increase in the occupancy in the new school with student strength increasing from 37 in AY2016 to 313 in AY2018. The older two schools continue to have close to full occupancy.

Established position of the school – The older schools St. George's, Alaknanda and St. George's, Defence Colony have a track record of more than two decades having an established position in the catchment area. The same is evident from the high occupancy levels as well irrespective of the competition in the vicinity.

Regular support from the Muthoot family – The promoters have regularly supported the society through development fund and unsecured loans. Over the years, the promoters have infused in Rs. 52.36 crore of funds till FY2017 while considering the unsecured loans from promoters, the adjusted net worth stood at Rs. 14.8 crore as on March 31, 2017.

Credit challenges

Operating losses on the back of heavy scholarships – Given the philanthropic nature, the society has kept the fee structure at minimal levels. The society has faced operating losses over the years on the back of heavy scholarships and grants provided to the financially weaker students. The high interest cost on the loans further results in heavy net losses. Further, given the sizeable repayments pursuant to the debt funded capex, the society is dependent on the liquidity support from the promoters pending ramp up in returns from the new school.

Regulatory risks prevail; tough competition from multiple players: The schools face regulatory risks with respect to setting up of fees, implementation of seats etc. The society also faces tough competition from various schools in the vicinity especially for PGGs which is a newly established school catering to a different target market as compared to SGS.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the society:

The St. George's Education Society was founded in 1962 and started the St. George's School in the same year; the school is affiliated to the Central Board of Secondary Education (CBSE) and is recognized by the Directorate of Education. The school was later on adopted by the Muthoot Group in 1982. Mr. M.G. George Muthoot, the Chairman of the Muthoot group, is the Chairman of the society, its trustees include Mr. Alexander Muthoot, Mr M.G. George Muthoot while Dr. Sara George Muthoot, wife of Mr. M.G. George Muthoot, is the Principal of the existing school. The school is a K-12 institution located on a 4 acre land, focusing primarily on the financially weaker sections of the society. The school is classified as a minority institution and works as a nonprofit organization for the Muthoot Group. The society also has a primary school in Defence Colony, Delhi along with a recently opened school Paul George Global School (PGGS).

In FY2017, the society reported a net loss of Rs. 15.8 crore on an operating income (OI) of Rs. 19.7 crore compared with a net loss of Rs. 16.3 crore on an OI of Rs. 16.3 crore in the previous year.

Key financial indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	16.3	19.7
PAT (Rs. crore)	-16.3	-15.8
OPBDIT/ OI (%)	-6.2%	-0.3%
RoCE (%)	-22.3%	-10.3%
Total Debt/ TNW (times)	-32.1	-4.9
Total Debt/ OPBDIT (times)	-76.4	-1505.3
Interest Coverage (times)	0.2	0.0
NWC/ OI (%)	9.9%	4.2%

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2018	Date & Rating in FY2017 July 2016	-	-
1 Term Loan	Long Term	75.0	73.6	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund Based	April 2016	-	April 2026	75.0	[ICRA]BBB- (Stable)

Source: SGES

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