

Saket Education Society

March 01, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	41.83	41.83	[ICRA]A-(stable); Reaffirmed
Fund-based Limits	4.00	4.00	[ICRA]A-(stable); Reaffirmed
Total	45.83	45.83	

Rating action

ICRA has reaffirmed the long-term rating for the Rs. 41.83-crore¹ term loans and Rs. 4.00 crore fund-based limits of Saket Education Society (SES) at [ICRA]A- (pronounced ICRA A minus)². The rating carries stable outlook³.

Rationale

The rating reaffirmation factors in healthy profitability and consistent growth in revenues of SES, supported by robust enrolments as at its schools in Indirapuram (Ghaziabad, Uttar Pradesh) and growing enrolments at its school in Raj Nagar Extension in Ghaziabad. That, coupled with SES' low debt, led to comfortable debt protection indicators- interest coverage ratio stood at ~5.1 times, Total Debt/OPBITDA stood at 0.94 times and Net Cash Accruals/Total Debt stood at ~60% in FY2017. The rating continues to draw comfort from SES' strong promoters (part of Pacific group), SES' long track record in the field of education, good reputation of its flagship DPS school in Indirapuram in Ghaziabad (Uttar Pradesh) region and association with Delhi Public School Society, a renowned brand in education sector. The rating favourably factors in the strong school management and widely experienced faculty which have allowed the school to establish itself as one of the top schools in the region. ICRA notes that while DPS Indirapuram has been operating at full capacity in recent years, the occupancy remains low at its second school, DPS Raj Nagar Extension (Uttar Pradesh), which has started operations from AY2015-16.

The rating is however, constrained by significant support extended to other societies of the group in the form of donation, which has impacted its free cash flows; the quantum of such donations would remain key rating sensitivity going forward. Rating is also constrained by highly regulated nature of the education industry and high dependence of SES on a risk single school for a large part of its revenues. Further the satisfactory performance of newly established school and subsequent improvement in occupancy is yet to be demonstrated which will be important given the high fixed costs. ICRA notes that the heightened competition in the education sector, retention and development of talent will continue to remain a major challenge for SES.

¹ 100 lakh = 1 crore = 10 million

³ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook

The entity has two operational schools in Ghaziabad and is likely to report steadily growing accruals over foreseeable future. Though operational cash flows have been healthy, large donations made to sister concerns have weighed on the free cash flows. The outlook may be changed to positive or the rating may be upgraded in case of better-than-expected accruals, lower-than-projected donations to other societies and moderate capex, largely commensurate with quantum of internal cash generation. Conversely, the rating may be downgraded or outlook may be changed to negative in case the accruals are lower than expected, donations to other societies are higher-than-projected and the company incurs large debt-funded capex.

Key Rating Drivers

Credit Strength

Comfortable debt protection indicators on the back of strong operational cash flows- SES' strong financial performance with healthy profitability and consistent growth in revenues has led to comfortable debt protection indicators- interest coverage ratio stood at 5.1 times, total debt/OPBIDTA stood at 0.98 times and Net Cash Accruals/Total Debt stood at ~60% in FY2017

Established track record- SES has a long track record in the field of education and has established reputation of its flagship DPS school in Indirapuram in Ghaziabad (Uttar Pradesh). The school has consistently being ranked among the top schools in Ghaziabad region and as a result the school continues to witness healthy occupancy levels for last few years. The school has experienced faculty with almost 90% of the faculty having more than 5 years of experience.

Durability of operational cash flows- SES' Indirapuram school has been operational for more than a decade and has been implementing regular fee hikes while continuing to maintain high occupancy levels. This reflects positively on the school's ability to consistently report healthy cash flows

Strong promoter group: Strong promoters with SES being part of Pacific group (flagship entity Pacific Development Corporation Limited rated [ICRA]A(stable)/[ICRA]A1)

Credit Weakness

Significant outflows towards donations: Regular donations to other societies/trusts in the group has adversely impacted free cash flows; the extent of donations in future would be a key rating sensitivity

Marketing risk for new school: Company started admissions at its new school in Raj Nagar Extension (Ghaziabad) in AY2015-16. The occupancy is currently ramping up and any slippage in fresh enrolments may impact the cash flows, given the high fixed costs in operating a school

Modest scale of operations and concentration risks: Majority of the cash flows of the society are currently coming from DPS School in Indirapuram; this exposes the society to concentration risks. Also, modest scale of operations may restrict the entity's ability to tide over adverse operating environment

Regulatory risks: Education sector is a highly regulated and is SES, like other players in the sector, is exposed to changes in regulations

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

Links to applicable criteria:

[Corporate Credit Ratings: A Note on Methodology](#)

About the company:

Saket Education Society (SES) was formed in 2001, under the leadership of Mr Sudershan Kumar Bansal. SES is associated with Pacific group which is an established real estate developer and has developed multiple commercial, retail, hospitality and residential projects in North India. The society operates two schools in Uttar Pradesh; DPS Indirapuram (operational AY 2003-04 onwards) and DPS Raj Nagar Extension (operational AY 2015-16 onwards). Both the schools are affiliated to CBSE (Central Board of Secondary Education); while DPS Indirapuram provides education from Nursery to XII standard, the recently operational DPS Raj Nagar Extension provides education from Nursery to VI standard. The society has a total student base of more than 6700 students with most of the students being part of established school, DPS Indirapuram which is likely to increase as enrolments for DPS Raj Nagar Extension would increase once it expands its operations by adding remaining classes.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	71.11	82.72
PAT (Rs. crore)	16.63	10.90
OPBDIT/ OI (%)	35.25%	35.75%
RoCE (%)	20.56%	15.05%
Total Debt/ TNW (times)	0.46	0.31
Total Debt/ OPBDIT (times)	1.44	0.94
Interest coverage (times)	5.93	5.10
NWC/ OI (%)	-24%	-21%

Source: SES, ICRA estimates

Status of non-cooperation with previous CRA: Credit Analysis and Research Limited suspended ratings on bank facilities of the society in November 2016 as the trust did not furnish the information required by CARE for monitoring of the rating(s).

Any other information: None

Rating history for last three years:

S. No.	Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating March 2018	Date & Rating in FY18 April 2017	Date & Rating in FY17 April 2016	Date & Rating in FY15 ---
1	Term Loans	Long Term	41.83	41.83	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	--
2	Fund-based Limits	Long Term	4.00	4.00	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(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
NA	Term Loan	Jun-14	-	Jan-18	4.7	[ICRA]A- (stable)
NA	Term Loan	Jun-14	-	Jul-23	14.46	[ICRA]A- (stable)
NA	Term Loan	Feb-17	-	Feb-24	3	[ICRA]A- (stable)
NA	Term Loan	Mar-17	-	Feb-24	3	[ICRA]A- (stable)
NA	Term Loan	Dec-15	-	Nov-22	3.27	[ICRA]A- (stable)
NA	Term Loan	Jul-16	-	Jul-28	13.4	[ICRA]A- (stable)
NA	Fund-based Limits	--	-	--	4	[ICRA]A- (stable)

Source: Saket Education Society

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