

## Saket Education Society

April 04, 2019

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Term Loans	41.83	13.00	[ICRA]A-(stable); Rating Reaffirmed
Fund-based Limits	4.00	-	-
<b>Total</b>	<b>45.83</b>	<b>13.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation factors in healthy growth in revenues and accruals of Saket Education Society (SES), supported by high occupancy at its school in Indirapuram (Ghaziabad, Uttar Pradesh) and satisfactory ramp-up in enrolments at its new school in Raj Nagar Extension in Ghaziabad. These, coupled with the decline in debt, led to strong provisional debt protection indicators in 9M FY2019. Its interest coverage ratio stood at 11.3 times, total debt/OPBITDA stood at 0.5 times and net cash accruals/total debt stood at 197% on a provisional basis in 9M FY2019. The rating continues to draw comfort from SES' experienced promoters, its long track record in the field of education, good reputation of its flagship DPS school in Indirapuram in the Ghaziabad region and association with Delhi Public School Society, a renowned brand in the 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 educational institutes in the region. ICRA notes that DPS Indirapuram has been operating at full capacity in the recent years, but the occupancy remains low at DPS Raj Nagar Extension (Uttar Pradesh), which started operations from AY2015-16 and is currently in being ramped up.

The rating, however, is constrained by the significant support extended to other societies of the Group in the form of donations in FY2017 and FY2018, which has adversely impacted the society's profitability as well as free cash flows. The operating profitability margin stood at 35.2% in FY2016, but dropped sharply to 13.1% in FY2017 and then to 10.0% in FY2018 due to high donations. As per provisional numbers for 9M FY2019, the operating profitability margin stood at 30.8% due to a reduction in donations. The quantum of such donations and that of the capex incurred on the expansion of the operations of the society would remain the key rating sensitivities going forward. The rating is also constrained by the highly regulated nature of the education industry and the high dependence of SES on a single school for a large part of its revenues. Further, the satisfactory performance of the newly established school and the subsequent improvement in its occupancy are yet to be demonstrated, which will be important given the high fixed costs. ICRA notes that given the heightened competition in the education sector, retention and development of talent will continue to remain a major challenge for SES. Further, the State Government of Uttar Pradesh has placed several restrictions on the annual hike of fees by certain categories of independently funded schools in Uttar Pradesh, which are likely to cap the growth in SES' revenues going forward.

### Outlook: Stable

The entity has two operational schools in Ghaziabad and is likely to report steadily growing accruals over the medium to long term, despite certain regulatory restrictions placed on the annual hike of fees recently. Though operational cash flows have been healthy, large donations made to another society involved in similar business has 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 the quantum of internal cash generation. Conversely, the rating may be downgraded or the 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 strengths

**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. Its interest coverage ratio stood at 11.3 times, total debt/OPBIDTA stood at 0.5 times and net cash accruals/total debt stood at 197% in 9M FY2019 on a provisional basis

**Established track record** - SES has a long track record in the field of education and benefits from the strong reputation of its flagship DPS school in Indirapuram in Ghaziabad (Uttar Pradesh). The school has consistently been ranked among the top schools in the Ghaziabad region and has consistently reported healthy occupancy levels in the last few years. A majority of the school's faculty has more than five 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 alongside maintaining high occupancy levels. This reflects positively on the school's ability to consistently report healthy cash flows.

**Strong promoter group** - Strong promoters, with SES as part of the Pacific Group (flagship entity Pacific Development Corporation Limited rated [ICRA]A(Positive)/[ICRA]A1).

### Credit challenges

**Weak profitability and significant outflows towards donations** - SES posted weak profitability in FY2017 and FY2018 owing to significant outflows towards donations to other societies/trusts in the Group. This adversely impacted free cash flows as well.

**Marketing risk for new school** – The company started admissions at its new school in Raj Nagar Extension (Ghaziabad) in AY2015-16. The occupancy is currently being ramped 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**- A majority of the cash flows of the society currently come from the DPS school in Indirapuram. This exposes the society to concentration risks. Also, the modest scale of operations may restrict the entity's ability to tide over an adverse operating environment.

**Regulatory risks** – The education sector is a highly regulated one. The State Government of Uttar Pradesh has placed several restrictions on annual hike of fees by certain categories of independently funded schools in the state, which is likely to cap the growth in SES' revenues going forward. The company will remain exposed to any further changes in regulations in the future.

### Liquidity position

The company has strong internal cash flow generation, which are sufficient to meet all funding requirements for operational and expansion needs. Also, it has low term debt outstanding of Rs. 14.4 crore and strong debt protection indicators which provide substantial financial flexibility to raise funds, as and when required.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

## About the company

Saket Education Society (SES) was formed in 2001, under the leadership of Mr. Sudershan Kumar Bansal. It is associated with the 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 the Central Board of Secondary Education (CBSE). While DPS Indirapuram provides education from Nursery to standard XII, the recently operational DPS Raj Nagar Extension provides education from Nursery to standard VIII. The society has a total student base of more than 6,700 students with most of the students as part of the established, DPS school at Indirapuram. The enrolments in the DPS school at Raj Nagar Extension would increase once it expands its operations by adding the remaining classes.

## Key financial indicators (audited)

	FY2017	FY2018	9MFY2019 (provisional)
Operating Income (Rs. crore)	78.9	86.8	74.4
PAT (Rs. crore)	2.1	0.9	16.9
OPBDIT/OI (%)	13.1%	10.0%	30.8%
RoCE (%)	5.4%	4.2%	24.5%
Total Debt/TNW (times)	0.5	0.5	0.2
Total Debt/OPBDITA (times)	4.0	4.0	0.5
Interest Coverage (times)	2.5	2.3	11.3

**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

		Current Rating (FY2020)		Chronology of Rating History for the Past 3 Years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in		Date & Rating in	Date & Rating in
				April 2019	March 2018	April 2017	April 2016	FY2016
1	Term Loan	13.0	13.0	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-
2	Fund-based Limits	-	-	[ICRA]A-(Stable)	[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](http://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
-	Term Loan	June 2016	-	July 2028	13.0	[ICRA]A- (Stable)

Source: Saket Education Society

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

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