

October 29, 2020

Gramaudyogik Shikshan Mandal: Rating reaffirmed, limits enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Term Loan	49.66	52.66	[ICRA]BBB+ (Stable); Assigned/ Reaffirmed
Long term – fund based/overdraft	-	3.00	[ICRA]BBB+ (Stable); Assigned

*Instrument details are provided in Annexure-1

Rationale

The reaffirmed rating continues to consider the extensive track record of Gramaudyogik Shikshan Mandal (GSM or the trust) and its eminent governing council members in the field of education. The technical recognitions achieved by some of its institutes accredited by the agencies of the Government of India (GoI) adds to its repute and marketability. The rating also factors in GSM's comfortable capital structure and liquidity position, backed by a strong net worth base and a sizeable liquid cash balance.

The rating, however, remain constrained by GSM's elongated debtors' receivable cycle emanating from the delayed fee collection from students due to the pandemic induced disruption and continued decline in the number of students. The rating further considers the moderate placement track record of the key institutes under the GSM trust mainly because of heightened competition in the education sector. Further, the rating remains constrained by the fluctuation in profitability and weak return indicators of the trust during the last five years ended FY2020. ICRA also notes the sizeable debt-funded capital expenditure (capex) undertaken by the trust and its vulnerability to time and cost overruns as a considerable capex is yet to incurred. High repayment obligations will arise from the same in the medium term.

The trust is expected to demonstrate a moderate operating performance over the medium to long term, given its decent recognition, particularly in the engineering and various diploma courses in Maharashtra.

Key rating drivers and their description

Credit strengths

Vast experience and reputation of the management in the education sector – GSM was established in 1975 to encourage educational activities in Maharashtra, particularly in Aurangabad and its nearby areas. Over the last four decades, GSM has established 25 institutes in different fields of education and industrial training. Dr. Yadnavir Anandrao Kawade (President), an M.E. and a Ph.D., is a founding member of GSM and has been associated with the education and training sector for more than 50 years. Besides, Prof. Munish Rattanlal Sharma (General Secretary) and several other well-educated trustees, with a vast experience of two to four decades in the education space, are the key management personnel of the trust.

Diversified presence across the education spectrum through established schools and colleges offering various undergraduate and postgraduate courses – At present, GSM has around 12,000 students enrolled across its 25 institutes, ranging from primary schools to post-graduate courses as well as targeted vocational training programmes. GSM, through its premier institutes, referred to as the MIT Group of Institutes, offers a wide range of undergraduate and postgraduate courses. The undergraduate programmes include courses for engineering, architecture, food processing technology, agricultural science, health science and nursing. The postgraduate programmes include courses for

engineering, food processing technology and architecture. The MIT Group also offers several job-specific technical programmes through diploma and industrial skill development courses.

Well recognised technical institutes that have achieved recognition of Gol agencies – Several technical institutes within GSM have achieved recognition from the Government agencies, resulting in healthy visibility within the student community. The Bureau of Energy Efficiency (BEE), set up by the Gol, has awarded the Energy Service Company status (ESCO status) to The Marathwada Institute of Technology, Aurangabad. The MIT Robotic Centre of Excellence (RCOE) has been recognised as an anchoring institute under the Unant Maharashtra Abhiyan (UMA) of the Maharashtra Government. RCOE has also achieved the status of Scientific and Industrial Research Organisation (SIRO) from the Gol. Besides, the MIT Centre for Analytical & Research Studies (CARS), with the support and registration from the Department of Agriculture, the Government of Maharashtra, houses a variety of analytical instruments that issue soil health certificates to the farmers all over Maharashtra. This laboratory was approved by the Natural Mission for Sustainable Agriculture, Gol, as well as by the Life Science Sector Skills Council of the Gol. Moreover, the Group has received approval from the Ministry of Micro, Small and Medium Enterprises (MSME) as an incubation centre for encouraging students towards innovation and entrepreneurship. In addition, the trust has also established Centres of Excellence (COEs) under the Group institutes, providing research and development (R&D) platforms for its students, which facilitates research, experimentation and training. The COEs are specialised in areas of computer-aided engineering (CAE), metallurgy and material engineering, process instrumentation, automation and mechatronics, and biofuels. Along with several other achievements of the MIT institutes, this provides a strong base for the future growth of the technical institutes of the trust.

Comfortable capital structure and liquidity position – A strong net worth level of the trust led to a comfortable capital structure, as represented by a low gearing level of 0.23 times as on March 31, 2020. Though the trust has undertaken a debt-funded capex with a project gearing of ~2.00 times, the capital structure is expected to remain comfortable in the near-to-medium-term due to its strong net worth base. Besides, considerable amount of free cash and liquid investments and unutilised bank facilities as on September 28, 2020 as well as the recently sanctioned additional facilities, provide comfort to the liquidity position of the trust.

Credit challenges

Elongated receivables on the back of delays in fee collection from students due to pandemic induced disruption – The trust cannot compel its students to pay fees on a timely manner due to social obligations. This resulted in slow debtors' realisation. However, the receivables are considered good as the degree certificates are issued only after full clearance of fees. The average debtors period increased to 246 days as on March 31, 2020 from 185 days as on March 31, 2019 due to delay in receipt of fees from students on the back of the Covid-19 impact. The total debtors' outstanding increased to Rs. 56.69 crore as on March 31, 2020 from Rs. 45.18 crore as on March 31, 2019. However, the same has improved marginally to ~Rs. 48.07 crore as on June 30, 2020 and to ~Rs. 46.80 crore as on September 28, 2020. A continued elongated debtors' receivable will adversely impact the liquidity profile of the trust and thus remains a key monitorable.

Decline in number of students at various institutes under GSM trust – The trust has a total authorised capacity of ~10,000 students across all the courses offered by it at its key MIT institutes, which contribute the major portion to the revenues. The total number of students at MIT institutes decreased to 6,063 in FY2020 (i.e. 61% of the total authorised capacity) from 7,180 students (68%) in the previous year. This was primarily because of a decline in fresh enrolments and a fall in the overall number of students at the Marathawada Institute of Technology, Aurangabad and the Maharashtra Institute of Technology, Aurangabad which together contributed ~80-85% to the total revenues from fees and fines in the last two years.

Moderate placement track record of its key engineering institutes – The Marathawada Institute of Technology, (Aurangabad) and the Maharashtra Institute of Technology (Aurangabad), which offer several undergraduate and postgraduate courses in engineering along with architecture, MCA and MBA courses, are the key institutes of the Group. The institutes achieved a moderate placement of ~19% and ~20%, respectively in 2018-2019. The same is expected to remain lower in 2019-2020 as recruitment has been affected due to the Covid-19 pandemic. Weak placement scenarios will weaken the growth prospects and the future development plans of the trust. However, ICRA notes that key

corporates like Tata Consultancy Services, JLL Digital Solutions, Infosys, Capgemini, Cosmo Films Ltd, Mahindra & Mahindra Limited, BYJUS, Reliance Industries, Hexaware Technologies Limited, Dhoot Transmission Pvt. Ltd, Wipro Technologies Ltd, Bombay Municipal Corporation, Maharashtra State Electricity Distribution Company among others have approached the key institutes under the trust for campus recruitment.

Fluctuating profitability and weak return indicators – The profitability of the trust remained moderate and fluctuated during the last five years ended FY2020. The profitability, as represented by OPM, decreased to 12.63% in FY2019 from 19.98% in FY2018 owing to an increase in employee expenses as well as operational and administrative expenses. However, with a decrease in the expenses of running the hospital, repairs of plant and machinery and other general and administrative expenses, the OPM of the trust increased marginally to 14.21% in FY2020 from 12.63% in FY2019. The return indicator, as represented by RoCE, remained low and further declined to 3.83% in FY2020 against 4.11% in FY2019.

Delay in project execution, vulnerability to time and cost overruns as a considerable capex is yet to be incurred – The trust has an ongoing capex plan of Rs. 79.04 crore (revised from Rs. 74.5 crore), to be funded through Rs. 52.66-crore (revised from Rs. 49.66 crore) term loans (67%), which has been tied up with HDFC Bank, and Rs. 26.38-crore own funds (33%). The scope of the capex plan includes an incubation centre, additional facility at its MIT hospital, women’s hostel and other additional classroom facilities to accommodate the fresh intake of students in various courses, which are to be set up in the next few years. The trust has incurred a total capex of Rs. 50.59 crore (64% of the total estimated cost) till March 2020. Almost 67% of the same has been funded through term loans and the rest through internal accruals. The pending project cost of Rs. 28.45 crore is expected to be incurred by June 2021 (revised from December 2020). As a considerable capex is yet to be incurred, the project remains exposed to the risks of time and cost overruns to an extent.

Intense competition from several well-established institutes – The institutes operating under the trust are exposed to stiff competition from several institutes that operate in Maharashtra, particularly in Mumbai and Pune. The total authorised intake capacity across the courses in the MIT Group stands at ~3170+ students. Against the same, fresh enrolments declined to ~42% in FY2020 from ~61% in FY2018 due to stiff competition and weakening of demand for engineering courses. This has been due to weaker demand within the engineering segment as well as stiff competitions from other institutes located in metro cities like Mumbai and Pune in Maharashtra.

Liquidity position - Adequate

The trust has an outstanding term loans of ~Rs. 31.76 crore as on March 31, 2020. Further, it is expected to avail its undrawn term loans of ~Rs. 18.93 crore in FY2021 for its ongoing capital expenditure plan. The total term loans are expected to be repaid via quarterly instalments aggregating to ~Rs. 4.19 crore in FY2021 followed by ~Rs. 8.38 crore in FY2022 and FY2023 each. The trust has availed moratorium on interest and principal repayments on term loans during March-August 2020 due to operational disruption caused by the Covid-19 pandemic. As a result, the repayments obligations in FY2021 remain lower. The trust has working capital facilities of Rs. 38.95 crore (Rs. 3.83 crore from Bandhan Bank, Rs. 13.22 crore from SBI and Rs. 21.90 crore from HDFC Bank), which are largely against fixed deposits with the bank. Against the same, the trust has unutilised limits of Rs. 7.49 crore as on September 28, 2020. Also, the trust has free cash and liquid investments of Rs. 15.59 crore as on September 28, 2020. This apart, the trust has recently received an additional sanction of dropline overdraft facility of Rs. 10.00 crore from SBI and is also expected to avail an additional overdraft facility of Rs. 5.00 crore from the other bank in the near term. Thus, the liquidity profiles of the trust remain adequate.

Rating sensitivities

Positive triggers – The rating could be upgraded in case of a considerable growth in revenue receipts with sustained improvement in profitability and ROCE, coupled with an improvement in fresh enrolments.

Negative triggers – Pressure on the rating could emerge in case of continued elongated receivable position, which will adversely impact the liquidity position of the trust, or a decline in the scale or profitability, resulting in a decline in cash accruals position, or a continued drop in new enrolments at key institutes under the GSM trust.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Rating Methodology Rating Methodology for Entities in the Higher Education Sector
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the Trust

About the Trust

Gramaudyogik Shikshan Mandal was established in 1975 to encourage education in Maharashtra, particularly in Aurangabad. GSM is the parent trust of the MIT Group of Institutes (MIT), offering a wide range programmes. GSM is present in Maharashtra, Delhi and Uttar Pradesh. At present, around 12,000 students are enrolled across various campuses of the trust.

The Maharashtra Institute of Technology – Aurangabad, the Marathawada Institute of Technology – Aurangabad, the Marathawada Institute of Technology (Polytechnic) – Aurangabad, the Marathawada Institute of Technology (Polytechnic) – Rotegaon, the Marathawada Institute of Technology – CIDCO, Aurangabad, the MIT College of Nursing – Aurangabad, and the MIT College of Food Technology – Aurangabad are the key institutes of the Group. Further, the trust also houses the MIT Hospital in Aurangabad.

The trust recorded a net profit of Rs. 7.59 crore on an operating income of Rs. 89.34 crore in the year ended March 31, 2020 against a net profit of Rs. 9.11 crore on an operating income of Rs. 94.32 crore in the previous year.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	97.79	94.32	89.34
PAT (Rs. crore)	12.60	9.11	7.59
OPBDIT/OI (%)	19.98%	12.63%	14.21%
RoCE (%)	6.27%	4.11%	3.83%
Total Outside Liabilities/Tangible Net Worth (times)	0.19	0.25	0.32
Total Debt/OPBDIT (times)	0.99	2.89	4.52
Interest Coverage (times)	31.01	8.37	3.61
DSCR	12.30	8.18	3.11

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Sr. No.	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	
					Oct - 29 - 2020	Oct - 07 - 2020	May - 31 - 2019	April - 05 - 2019		-	Jan - 04 - 2018
1	Term loan	Long term	52.66	31.76	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
2	Overdraft	Long term	3.00	-	[ICRA]BBB+ (Stable)	-	-	-	-	-	-
3	Unallocated limits	Long term	-	-	-	-	-	-	-	[ICRA]BBB+ (Stable)	-
4	Issuer rating	Long term	-	-	-	-	[ICRA]BBB+ (Stable); Withdrawn	[ICRA]BBB+ (Stable); Put on notice of withdrawal	-	-	[ICRA]BBB+ (Stable)

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan - 1	June 2018	-	July 2026	49.66	[ICRA]BBB+ (Stable)
NA	Term loan - 2	November 2019	-	March 2027	3.00	[ICRA]BBB+ (Stable)
NA	Overdraft	-	-	-	3.00	[ICRA]BBB+ (Stable)

Source: Gramaudyogik Shikshan Mandal

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

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