

Press Release**Guru Nanak Educational Society****March 14, 2019****Rating**

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loan	23.00	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Long Term Bank Facilities – Cash Credit	7.00	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Total	30.00		

Details of Facilities are in Annexure 1**Detailed Rationale**

The aforesaid rating derives comfort from its experienced Board of Trustee, satisfactory infrastructure and enrolment rates in educational institutes, diversified income profile and comfortable debt protection parameters. However, the rating is constrained by decline in profitability in FY18, limited brand image and susceptibility to regulatory risks. Compliance of regulatory directives, growth in operation and profitability and gearing level are the key rating sensitivities.

List of Key Rating Drivers with Detailed Description**Key Rating Strengths****Experienced Board of Trustee**

GNES was established in 1998 under the Chairmanship of Philanthropist Sardar Tavinder Singh Kohli who has over 18 years of experience in the education sector. He looks after the day to day affairs of the Trust along with his wife Mrs. Surinder Kaur Kohli and son, Mr. Gagandeep Singh Kohli who also have considerable experience in the sector. The major decisions regarding the courses and the infrastructure are taken by the Trustees.

Satisfactory infrastructure coupled with experienced faculties

GNES has the privilege of having a number of experienced faculty members, which is essential in building a strong brand name and attracting quality students. Further, all the institutes under

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GNES have modern infrastructure including furnished hostels for boys and girls, transportation & canteen facilities and latest tools & technologies.



Satisfactory enrolment rates in educational institute

Enrolment rate depends upon available infrastructural facilities, composition of experienced faculties, placement records and brand image of the institution. GNES has maintained a satisfactory enrollment rate over the past years ranging between 90 to 95%.

Comfortable leverage and debt protection parameters

GNES has a comfortable long term debt-equity ratio of 0.53x and a moderate overall gearing ratio at 0.75x as on March 31, 2018. The debt protection metrics for the company are comfortable in FY18 with the interest coverage ratio of 4.04x and Total Debt to Gross Cash Accruals of 3.53x.

Diversified income profile

GNES has a diversified income profile backed by various courses offered at its institutes. Further, it also derives income by providing hostel and bus facilities to the students. Diversified income profile reduces business risk to an extent.

Key Rating Weaknesses

Decline in profitability in FY18

Although the EBITDA margin in the education sector has been perennially high, the EBITDA margin of GNES witnessed a decline from 19.06% in FY17 to 16.73% in FY18 due to increase in staff salary and other maintenance cost. However, there was an increase in PBT Margin from 4.47% in FY17 to 5.33% in FY18 due to fall in capital charge arising out of decline in depreciation provision in FY18 as compared to FY17 since major additions in Fixed Assets took place during the last quarter of FY16 due to which depreciation was higher in FY17. The depreciation provision again normalized from FY18 onwards.

Limited brand image

All the Institutes under GNES offer a variety of courses and moderate placement opportunities; still it has a limited brand image unlike other more renowned universities, due to which its ability is limited in attracting students on pan-India basis.

Susceptibility to regulatory risks

The education sector is highly regulated and compliance with specific operational and infrastructure norms set by regulatory bodies are important. Thus, regular investment in the workforce and infrastructure is needed to conduct the operations efficiently.

Intense competition

GNES faces intense competition from reputed public and private institutes in the nearby states. This puts pressure on attracting / retaining talented students and faculty.

Analytical Approach & Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Default Recognition and Post-Default Curing Period

Liquidity

GNES is earning a moderate level of GCA and the same is expected to increase gradually with increase in enrolment rate in the Institutes, occupancy rates in hostels and increase in course fees, while the long term debt is likely to reduce indicating lower debt servicing obligations. Trustees have financially supported in the form of unsecured loans as and when required and the same is expected to be so going forward. All these factors indicate a moderate degree of liquidity support to the Society in meeting its near-term debt obligations.

About the Company

Guru Nanak Educational Society (GNES), registered under Andhra Pradesh Public Societies Registration Act was established in 1998 under the Chairmanship of Philanthropist Sardar Tavinder Singh Kohli. GNES founded the Guru Nanak Institutions Technical Campus (GNITC) in 2001. The campus is constructed on 30.23 acres of land situated in Ibrahimpatnam, RR District, Telangana. GNES is currently having 7,000+ students currently enrolled in various programs of studies including Engineering and Technology, Pharmacy, Business Management and Dental Science. The institute is approved by AICTE and affiliated to Jawaharlal Nehru Technological University, Hyderabad. Further, the society has received NAAC (National Assessment and Accreditation Council) A+ accreditation for its campus on October, 2017.

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Financials (Standalone):



(Rs. crore)

For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	76.09	80.74
EBITDA	14.51	13.50
PAT	3.40	4.30
Total Debt	22.17	35.85
Tangible Net worth	43.72	48.02
EBITDA Margin (%)	19.06	16.73
PAT Margin (%)	4.47	5.33
Overall Gearing Ratio (x)	0.51	0.75

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: The entity was moved into Issuer Not Cooperating category by CARE Ratings vide their press release dated January 23, 2019 on account of non payment of surveillance fees.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits – Term Loan	Long Term	23.00	IVR BBB- / Stable Outlook	-	-	-
2.	Long Term Fund Based Limits – Cash Credit	Long Term	7.00	IVR BBB- / Stable Outlook	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Didwania

Tel: (033) 46022266

Email: hdidwania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	9.70%	2021-22	9.00	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Term Loan	-	9.70%	2024-25	14.00	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Cash Credit	-	9.50%	On demand	7.00	IVR BBB- / Stable Outlook