



Press Release

Guru Nanak Educational Society

May 05, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loan	47.77* (Enhanced from Rs.23.00 crore)	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Reaffirmed
Long Term Bank Facilities – Cash Credit	18.00 (Enhanced from Rs.7.00 crore)	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Reaffirmed
Total	65.77		

**O/s as on March 31, 2020.*

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Guru Nanak Educational Society (GNES) continues to derive comfort from its experienced board of trustees, satisfactory infrastructure with experienced faculties, satisfactory enrolment ratio with diversified income profile. Further, its satisfactory financial performance in FY19 and 9MFY20 along with comfortable leverage and debt protection metrics adds to the rating strength. However, these rating strengths are partially offset by intense competition, limited brand image, susceptibility to regulatory risks and project execution risk with respect to the ongoing project.

Key Rating Sensitivities:

Upward factors

- Improvement in enrolment ratio leading to improvement in the operating income and profitability
- Improvement in the capital structure and debt protection metrics
- Sustenance of capital structure

Downward factors

- Dip in operating income and/or profitability due to decline in enrolment ratio impacting the debt protection metrics



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- Withdrawal of subordinated unsecured loan amounting to Rs.15.04 crore treated as quasi-equity and/or more than expected deterioration in the capital structure and any impairment in liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Board of Trustee

GNES was established in 1998 under the Chairmanship of Sardar Tavinder Singh Kohli who has over two decades 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 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 enrolment rate over the past years ranging between 90 to 95%.

Comfortable leverage and debt protection parameters

The capital structure remained comfortable with long term debt equity ratio of 0.43x and overall gearing ratio of 0.62x as on March 31, 2019 as against long term debt equity ratio of 0.41x and overall gearing ratio of 0.58x as on March 31, 2018. Total indebtedness of the society also remained comfortable at 1.13x as on March 31, 2019. To arrive at the net worth Infomerics has considered unsecured loans aggregating to Rs.15.04 crore as quasi equity as the same is subordinated to the bank facilities. Interest coverage ratio also continued to remain comfortable at 3.87x in FY19 (4.09x in FY18) and total debt to GCA remained moderate at 3.52x in FY19 (3.53x in FY18). However, the capital structure is expected to be



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moderated in the near term due to long term debt availed for its ongoing capex. However, Infomerics expects that the capital structure will continue to remain satisfactory despite moderation with satisfactory debt protection metrics.

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.

Satisfactory financial performance in FY19 and 9MFY20

Total operating income increased at a y-o-y growth of 2.50% in FY19 over FY18 on account of increase in enrolment ratio and hostel revenue. The EBITDA margin improved significantly from 16.96% in FY18 to 20.19% in FY19 primarily due to decline in salary expenses of faculty members owing to decline in number of faculties. This is due to the change in AICTE norms which requires one staff per twenty students from FY19 onwards as against one staff per fifteen students till FY18. However, due to increase in depreciation and interest cost, PAT margin improved slightly from 5.33% in FY18 to 5.70% in FY19.

During 9MFY20, GNES achieved a total operating income of Rs.90.10 crore.

Key Rating Weaknesses

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.



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Project execution risk with respect to the ongoing project

The trust is setting up an independent university in the name of Guru Nanak University (GNU) within its existing campus which will offer courses like hospitality, architecture, interior design and other management courses. The society is constructing a new building at a total cost of Rs.18.00 crore funded through debt of Rs.15.00 crore and balance through internal accruals. Entire term loan has been disbursed and the company has incurred Rs.16.47 crore till March 31, 2020. The construction will be completed by August, 2020 and the university will start operations from academic year 2020-21. GNU has got LOI from Government of Telangana, Higher Education Department. Timely completion of the project along with its operational performance is critical from rating perspective.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity of the society is expected to remain adequate marked by its available cash and cash equivalents of Rs.2.46 crore as on March 31, 2020 and matching cash accruals vis-à-vis its repayment obligations. Further, the working capital limits are utilized to the extent of ~44 % in the past 12 months ended March, 2020 indicating a satisfactory liquidity buffer. Moreover, the trustees have financially supported in the form of unsecured loans as and when required and the same is expected to be so going forward.

About the Society

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 Guru Nanak Institutions Technical Campus (GNITC) in 2001. The campus is constructed on 30.23 acres of land situated in Ibrahimpatnam, RR District, Andhra Pradesh. GNES is currently having 6,000+ 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



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NAAC (National Assessment and Accreditation Council) A+ accreditation for its campus (valid till October, 2022). The trust is also setting up an independent university in the name of Guru Nanak University (GNU) within its existing campus which will offer courses like hospitality, architecture, interior design and other management courses. Existing campus will provide 3 present buildings to GNU. Further, the society is constructing a new building at a total cost of Rs.18.00 crore funded through debt of Rs.15.00 crore and balance through internal accruals. Entire term loan has been disbursed and the company has incurred Rs.16.47 crore till March 31, 2020. The construction will be completed by August, 2020 and the university will start operations from academic year 2020-21. GNU has got LOI from Government of Telangana, Higher Education Department.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	80.74	82.75
EBITDA	13.69	16.71
PAT	4.30	4.71
Total Debt	35.85	42.05
Tangible Net worth	48.02	52.73
Adjusted Net worth	62.32	67.77
EBITDA Margin (%)	16.96	20.19
PAT Margin (%)	5.33	5.70
Overall Gearing Ratio (x)	0.58	0.62

*As per Infomerics' Standard

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	47.77 * (Enhanced from Rs.23.00 crore)	IVR BBB-/ Stable Outlook	-	IVR BBB-/ Stable Outlook (March 14, 2019)	-



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
2.	Cash Credit	Long Term	18.00 (Enhanced from Rs.7.00 crore)	IVR BBB-/ Stable Outlook	-	IVR BBB-/ Stable Outlook (March 14, 2019)	-

*outstanding as on March 31, 2020

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.

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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 I	-	-	August, 2021	6.10	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Term Loan II	-	-	August, 2024	11.67	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Term Loan III	-	-	June, 2022	15.00	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Term Loan IV	-	-	December, 2025	15.00	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	18.00	IVR BBB- / Stable Outlook