



Press Release

Guru Nanak Educational Society

July 23, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loan	34.43 * (Reduced from Rs.47.77 crore)	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Long Term Bank Facilities – Cash Credit	18.00	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed
Total	52.43		

**Outstanding as on March 31, 2021.*

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of 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 FY21 (Provisional) along with comfortable capital structure adds to the rating strength. However, these rating strengths are partially offset by intense competition, limited brand image, susceptibility of operation to regulatory risks and delay in commencement of operations of Guru Nanak University (GNU).

Key Rating Sensitivities:

Upward factors

- Improvement in enrolment ratio leading to improvement in the operating income and profitability on a sustained basis
- Improvement in capital structure and debt protection metrics
- Timely commencement of operations of GNU with satisfactory intake in the number of students

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.15.84 crore as on March 31, 2021 (Prov.) treated as a part of adjusted TNW and/or more than expected deterioration in the capital structure with overall gearing deteriorated below 1.5x and any impairment in liquidity position
- Prolonged delays in the start of operations of GNU

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 capital structure

The capital structure improved and remained comfortable with long term debt equity ratio of 0.45x and overall gearing ratio of 0.65x as on March 31, 2021 (Prov.) as against a long-term debt equity ratio of 0.78x and overall gearing ratio of 0.88x as on March 31, 2020. Interest coverage ratio though moderated marginally from 3.26x in FY20 to 2.81x in FY21 (Prov.), on account of increase in interest cost, yet remained comfortable. Total debt to GCA also improved from 4.94x in FY20 to 4.05x in FY21 (Prov.). Total indebtedness of the company as reflected by TOL/ANW remained comfortable at 1.24x as on March 31, 2021 (Prov.). To arrive at the net worth, Infomerics has considered unsecured loans aggregating to Rs.15.84 crore



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as on March 31, 2021 (Prov.) as a part of Adjusted TNW as the same is sub-ordinated to the bank facilities. Further, the promoters had infused unsecured loans to the extent of Rs.6.18 crore in FY21.

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.

Stable financial performance in FY21 (Provisional)

Total operating income witnessed a marginal decline from Rs.84.81 crore in FY20 to Rs.79.72 crore in FY21 (Provisional) primarily due to decrease in hostel and bus fee owing to the sudden outbreak of COVID 19 pandemic and ensuing lockdown from March 22, 2020, onwards resulting in online education from home with students not availing these facilities. In spite of the decrease in TOI in FY21 (Prov.), EBITDA level and EBITDA margin witnessed improvement driven by decrease in operational and administrative overheads like electricity cost, housekeeping expenses, etc. consequent to the outbreak of COVID 19 pandemic. With improved EBITDA, PAT margin also improved 7.78% in FY21 (Prov.).

During Q1FY22, GNES achieved a total operating income of Rs.14.94 crore (Rs.12.76 crore during Q1FY21) with PBT of Rs.1.91 crore (Rs.1.08 crore during Q1FY21).

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.

Delay in commencement of operations of Guru Nanak University (GNU)



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The trust has set 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. The construction of the building and the necessary infrastructure is complete at a total cost of Rs.18.00 crore funded through debt of Rs.15.00 crore and balance through internal accruals. The university was earlier expected to commence operations from academic year 2020-21. However, due to the sudden outbreak of COVID 19 pandemic and the ensuing lockdown from March 22, 2020, onwards, approval from the State Cabinet of Telangana is pending to be received. The same is expected to be received by August 2021 and session will start from October 2021 onwards subject to ease of lockdown restrictions. GNU has got LOI from Government of Telangana, Higher Education Department. Timely commencement of operations with satisfactory intake in the number of students will remain a key rating monitorable.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity of the trust is expected to remain adequate marked by matching cash accruals vis-à-vis its repayment obligations. The capital structure remained comfortable with overall gearing of 0.65x as on March 31, 2021 (Prov.) indicating satisfactory gearing headroom. Further, the average working capital utilisation remained moderate at ~82% for the last twelve months ended May 2021 indicating a moderate liquidity buffer. Moreover, the trustees have financially supported in the form of unsecured loans as and when required in the past and the same is expected to be so going forward. GNES also had modest free cash and cash equivalent of Rs.0.72 crore as on May 31, 2021.

About the Trust

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



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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 (valid till October 2022).

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	84.81	79.72
Total Income	84.81	79.72
EBITDA	17.66	19.95
PAT	5.06	6.20
Total Debt	59.33	52.04
Tangible Net worth	57.80	64.00
EBITDA Margin (%)	20.83	25.03
PAT Margin (%)	5.97	7.78
Overall Gearing Ratio (x)	0.88	0.65

*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 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	34.43 * (Reduced from Rs.47.77 crore)	IVR BBB- / Stable Outlook	IVR BBB - / Stable Outlook (May 05, 2020)	-	IVR BBB -/Stable Outlook (March 14, 2019)
2.	Cash Credit	Long Term	18.00	IVR BBB- / Stable	IVR BBB - / Stable Outlook	-	IVR BBB -/Stable Outlook



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
				Outlook	(May 05, 2020)		(March 14, 2019)

*Outstanding as on March 31, 2021.

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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



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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	-	-	Varied. Last repayment falling due on December, 2024	34.43 * (Reduced from Rs.47.77 crore)	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	18.00	IVR BBB- / Stable Outlook

**Outstanding as on April 30, 2021.*

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/GNES-lenders-23july21.pdf>

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Term Loan	Simple
2.	Cash Credit	Simple

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.