Rating Rationale

Gayatri Educational Development Society

2 Jul 2018

Brickwork Ratings reaffirms 'BWR BB-' for the Bank Loan Facilities of Rs.12.40 Crs of Gayatri Educational Development Society ("GEDS" or the "Society")

Particulars

Facility	Amount(Rs. Crs)		Tenure	Rating *	
	Previous	Present #		Previous	Present
Fund Based			Long Term	**BWR BB-** **Outlook:Stable**	**BWR BB-** *(Pronounced as BWR Double B Minus)* Outlook:Stable
Dropline Overdraft	4.00	4.00			
Term Loans	9.11	8.40**			**Reaffirmed**
Total	**13.11**	**12.40**	**Rupees Twelve Crores Forty Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Annexure I shows the detailed facilities; **Outstanding

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the Society upto FY17, provisional financial results for FY18, projections upto FY19, publicly available information and information/clarifications provided by the management.

The rating continues to draw strength from the experienced management and diversified courses offered by the Society. However, the rating remains constrained by the modest scale of operations, low profitability, regulatory risks associated with education sector, competition from other established educational institutes in Guntur region and continuous need for capital investment in infrastructure.

Going forward, the ability of the Society to increase its students enrolment, retain qualified and experienced faculty, expand its infrastructure appropriately and improve its overall credit risk profile would be the key rating sensitivities.

Analytical approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale)

Key Rating drivers
Credit strengths

- **Experienced management and diversified courses offered by the Society**

  The founder has around five decades' experience in managing industries and educational institutes. In addition to this, the management team of GDES consists of well qualified personnel with long experience in the educational sector. GDES operates three institutes to offer various technical, management and pharmaceutical courses.

Credit Weaknesses

- **Modest scale of operations, low profitability and modest debt coverage metrics**

  The Society reported Total Operating Income (TOI) of Rs.31.70 Crs in FY17 as compared to TOI of Rs.30.76 Crs in FY16. Further, in FY18, on provisional basis, the Society has reported TOI of around Rs.35 Crs. Due to incremental employee expenditure, the operating Surplus margin of the Society has decreased to 9.71% for FY18 (prov.) as against 12.19% in FY17. In addition to this, GDES' Surplus after Tax (SAT) margin for FY18 (prov.) has decreased to 0.07% as against 0.70% in FY17. As a result, the Society's RoCE has remained low at 1.57% for FY18 (prov.) as compared to 2.58% for FY17 and its ISCR & DSCR for FY18 (prov.) continued to be moderate at 2.71 times and 1.30 times respectively as against 2.97 times and 1.30 times for FY17.

- **Susceptibility to regulatory changes and intense competition in the education sector**

  GDES remains susceptible to adverse regulatory changes and intense competition in the education sector. The education sector is one of the highly regulated sectors in India. Furthermore, GDES faces intense competition from other engineering and management colleges located in the Guntur region.

Society Background:
Gayatri Educational Development Society (GDES) was established as an education society in 1997 with its registered office at Narasaraopet, Andhra Pradesh. The Society is engaged in providing education services and presently it operates three educational institutions viz. Narasaraopeta Engineering College (as an autonomous institution permanently affiliated to JNTU, Kakinada), Narasaraopeta Institute of Technology (affiliated to JNTU Kakinada) and Narasaraopeta Institute of Pharmaceutical Sciences at Narasaraopet,

Andhra Pradesh. The institutions are approved by AICTE & Govt. of Andhra Pradesh. The various courses offered by the society are Engineering, Management & Pharmacy with total sanctioned intake of 2006 students. GDES has a group concern in the name of Mittapalli Spinners Ltd. (Rated BWR BB/4; May 2018), which is is engaged in cotton spinning business.

Financial Performance

During FY17, GDES reported TOI of Rs.30.76 Crs and SAT of Rs.0.21 Crs as against TOI of Rs.27.71 Crs and SAT of Rs.0.23 Crs in FY16. In FY18, on provisional basis, the Society has reported TOI of around Rs.35 Crs and SAT of Rs.0.02 Crs. Corpus Funds as on March 31, 2017 was Rs.20.69 Crs.

Key financial indicators are furnished in Annexure II.

Rating History for the last three years:

Sl. No.	Facility		Current Rating (June 2018)		Rating History		
	Fund Based- Long Term		**Amount (Rs. Crs)**	**Rating**	**07/07/2017#**	**2016**	**2015**
1	Dropline Overdraft Term Loans		4.00 8.40*	**BWR BB-** (Outlook:Stable) **Reaffirmed**	**BWR BB-** (Outlook:Stable) **Assigned**	Not Rated	Not Rated
			12.40	**INR Twelve Crores Forty Lakhs Only**			

*outstanding

#Amount Rated: Rs.13.11 Crs

Status of Non cooperation with other CRA : Not applicable

Any other information : Not applicable

Hyperlink/Reference to applicable Criteria

- General Criteria
- Services Sector
- Approach to Financial Ratios

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Gayatri Educational Development Society

Annexure I
Details of Rated Bank Facilities

Bank	Facilities	Amount (Rs. Crs)
State Bank of India, Narasaraopet Branch, Andhra Pradesh	Dropline Overdraft	4.00
	Term Loan -I	2.84*
	Term Loan-II	4.61*
	Term Loan- III	0.95*
	Total	**12.40**

*Outstanding

Annexure II
Key Financial Indicators

	31/Mar/2016 (Audited)	31/Mar/2017 (Audited)
Total operating income (Rs. Cr)	30.76	31.70
SBITDA (Rs. Cr)	3.24	3.75
SAT (Rs. Cr)	0.23	0.71
Corpus (Rs. Cr)	20.48	20.69
Total Debt:Corpus (Times)	0.71	0.65
Current Ratio (Times)	2.66	2.87

For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.

DISCLAIMER

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