



Rating Rationale

24 Feb 2022

K. C. Montessori Educational Society

Brickwork Ratings assigns the ratings for the Proposed Bank Loan Facilities of ₹. 100.00 Crores of K. C. Montessori Educational Society.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based (Proposed)	100.00	Long Term	BWR BB+ (Assignment) Outlook Stable
Total	100.00	INR One Hundred Crores Only	

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

RATING ACTION/OUTLOOK

The rating assigned to the proposed bank facilities of K. C. Montessori Educational Society (“KCMES” or the “Society”) is constrained by fluctuating scale of operations with capital intensive project execution and stabilization risk, fluctuating profitability, and impact of Covid -19 pandemic. Rating is further constrained by regulatory guidelines and geographical concentration of revenue, and timely completion of its hospital project. The rating, however, draws comfort from the long track record of promoters of the society, experienced management, goodwill of the society and rising demand for healthcare facilities.

Key Rating Drivers

Credit Strengths:-

Current Low Debt and Strong Credit Ratios: KCMES is yet to undertake debt of Rs.165.92 Crs for its capital expenditure. The Society derives comfort from its strong debt servicing coverage ratios (DSCR) of 13.58 times, interest servicing coverage ratio (ISCR) of 28.64 times and ROCE of 2.73 times for FY 21.

Long Track record of Promoters: Management of KCMES has extensive experience in the field of education and has been associated with different streams of education for several years. All the members of the society are well qualified by education and hold experience of educational activities for more than three decades through their continued association with the institutes since inception. Further, the promoters of the trust possess adequate experience in setting up and management of educational institutions and Medical Colleges with Teaching Hospital namely Kothiwal Dental College & Hospital and a multispecialty hospital namely Sahu Rameshwar Saran Kothiwal Hospital & Heart Care Centre. KCMES also has experienced faculty, doctors



and advisors from the medical fraternity to guide the implementation team with regards to the proposed hospital project.

Rising demand for Healthcare facilities: Healthcare has become one of India's largest sectors both in terms of revenue and employability together with the growing need of world class health care facilities. The industry is growing at tremendous pace owing to its strengthening coverage, services and increasing expenditure by public as well as private players. According to a WHO report, India needs to add 80000 hospital beds each year for the next 5 years to meet the demands of its population.

Credit Risks:-

Fluctuating scale of operations with Capital Intensive Project Execution and stabilization risk

:The operations of KCMES as marked by TOI stood fluctuating owing to variation in seats filled versus seats available in schools and colleges. The same is evident by TOI of Rs. 45.46 Crs in FY21 as against Rs. 43.49 Crs in FY20 and Rs. 42.58 Crs in FY19. Further, the society proposes to undertake a high capital intensive project with a total cost of Rs.221.23 Crs to be funded with a term loan of Rs. 165.92 Crs and promoters fund of Rs. 49.85 Crs, however the financial closure of the term loan has not been achieved yet and hence, currently nothing on the proposed project has been incurred as on date. The commercial operations are projected to start in FY24. Consequently, execution of the project within envisaged time and cost remains a threat. Additionally, the capital structure is expected to remain leveraged due to debt funded capex undertaken.

Regulatory guidelines and geographical concentration of revenue: As the society runs schools, engineering institutes, hospitals and dental college business is subject to various regulatory requirements, limited control over fee hike & admission intake which limits the scale to an extent and geographical concentration of revenue are some of the challenges for the business.

Fluctuating profitability The profitability of the society stood fluctuating in absolute numbers as the society has reported PAT of Rs. 3.30 Crs in FY21 and reported net loss in FY20 and FY19 of Rs.-15.64 Crs and -13.87 Crs respectively on account of lower occupancy in engineering courses of Kothiwal Institute of Technology and Professional Studies. This resulted in high occurrence of cost with respect to faculty and other fixed costs and consequently had to be absorbed over lower numbers of students.

Impact of Covid -19 Pandemic

The ongoing Covid pandemic and the related disruptions have resulted in delays in commencement of offline classes and delays in admission for AY 21-22. Further, the delay in receipt of fees by the students due to the pandemic which resulted in stretched receivables of Rs.10.75 Crs outstanding as on March 31, 2021.



Timely Completion of the Project: KCMES plans refurbish the existing engineering college building as per hospital specification. All the approvals are to be applied and quotations are yet to procure which take time for the size of the proposed project. Timely completion of the proposed project and grant of the MCI's approval will remain a key monitorable factor.

Rating sensitivities

Positive: BWR may upgrade its rating on KCMES if there is an improvement on scale of operation. A sustained growth in revenues and profitability of KCMES, leading to a sustained improvement in its cash flows, along with an improvement in the overall financial risk profile.

Negative: The ratings on KCMES may be downgraded if any higher than expected debt funded capex, or delays in receipt of fees leading to stretch in receivables and deterioration in the liquidity profile.

Analytical Approach

BWR has factored in the standalone business parameters and financial risk profile of the Society to arrive at the rating. Reference may be made to the detailed Rating Criteria hyperlinked below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **K. C. Montessori Educational Society** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement along with its improvement in overall financial risk profile. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures or deterioration in the liquidity profile of the society..

Liquidity Indicator: Adequate

The liquidity position of KCMES is adequate as characterized by sufficient cushion in accruals of Rs. 5.49 Crs in FY21 vis-à-vis no pending repayment obligations for FY22. The working capital cycle is moderate as supported by current ratio 11.39 in FY21. Cash and Cash equivalents in FY 21 includes Rs. 4.94 Crs of cash at bank and Rs. 0.50 Crs cash in hand. The society proposes to incur a capex of Rs.221.23 Crs for the Hospital project through the term loan of Rs.165.92 Crs (which is yet to be sanctioned) and remaining from promoters fund. Further, the Society will have a future debt obligation of Rs.13.95 crores in FY25 which is anticipated to be comfortably serviced by the expected generation of cash accruals of Rs. 16.26 Crores from the hospital project.

About the Company

K. C. Montessori Educational Society was started in 1977 under the guidance of Late Shri Rameshwar Saran Kothiwala. KCMES runs multiple institutions providing education and medical services within Moradabad City. It has successfully diversified its profile from operating



schools to higher education institutes as well as opening a hospital and health care center in 2009. Presently KCMES runs 3 schools (10+2, CBSE), 1 dental college, a hospital and a Professional studies college. KCMES has 35 years of experience in educational activities. KCMES has established a well known name in Moradabad city and successfully runs educational institutes. KCMES has sanctioned an intake of 9840 students in its school and other institutes. KCMES offers various professional courses through its dental college such as BDS, MDS, DH. Engineering courses offered by the society are Computer Science , Civil engineering, Electronics & Communication, Information Technology and Mechanical Engineering.

KCMES has proposed to establish an institute with a capacity of 150 students per year along with a 400 bedded teaching hospital adjoining the institute. The society plans to open a hospital on a land admeasuring 38.52 acres.

Company Financial Performance

Key Financial Indicators

Key Parameters	Units	2021	2020
Result Type		Audited	Audited
Operating Revenue	₹ Cr	45.59	43.56
EBITDA	₹ Cr	5.40	(3.00)
PAT	₹ Cr	1.51	(6.81)
Tangible Net worth	₹ Cr	52.42	50.88
Total Debt/Tangible Net worth	Times	0.00	0.01
Current Ratio	Times	11.39	1.70
DSCR	Times	30.10	-84.72
ISCR	Times	28.64	-92.13

ANY OTHER INFORMATION-
NA



Rating History for Previous three years (including withdrawal and suspended)

S. No	Instrument /Facility	Current Rating (2022)			2022 (History)		2021		2020		2019	
		Tenure	Amount (₹ Crs)	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
1.	Fund Based (Proposed)	Long Term	100.00	BWR BB+	NA	NA	NA	NA	NA	NA	NA	NA
2.	Non Fund Based	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total			100.00	₹ One Hundred Crores Only								

Non-cooperation with previous CRA - CARE Ratings, CARE BB-/Stable; ISSUER NOT COOPERATING

COMPLEXITY LEVELS OF THE INSTRUMENTS - NA

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf).

Investors queries can be sent to info@brickworkratings.com.

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Education Sector](#)
- [Short Term Debt](#)

Analytical Contacts	
<p>Supriya Kumari Rating Analyst Board : +91 11 2341 2232 supriya.k@brickworkratings.com</p>	<p>Tanu Sharma Director - Ratings Board : +91 11 2341 2232 tanusharma@brickworkratings.com</p>
1-860-425-2742	media@brickworkratings.com



ANNEXURE I
Details of Bank Facilities rated by BWR

S. No.	Name of Bank/Lender	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1.	State Bank of India	Term Loan (Proposed)	50.00	-	50.00
2.	Indian Bank	Term Loan (Proposed)	30.00	-	30.00
3.	Yes Bank	Term Loan (Proposed)	20.00	-	20.00
	Total				100.00
	Rupees One Hundred Crores Only				

For print and digital media The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings

Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. 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.

DISCLAIMER : Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report &



other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.