



## Rating Rationale

22 Dec 2020

### Srimathi Sundaravalli Memorial Educational Trust

Brickwork Ratings assigns ratings for the Bank Loan Facilities of Rs. 100 Crs of Srimathi Sundaravalli Memorial Educational Trust (hereafter referred to as 'SSMET' or 'the trust').

#### Particulars:

Facility	Amount (Rs Cr)	Tenure	Rating*
<b>Fund Based</b>			
Proposed long term loans	100.0	Long Term	<b>BWR BB+/Stable</b> <b>Assigned</b>
<b>Total</b>	<b>100.0</b>	<b>Rupees One hundred crores Only</b>	

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings; Details of Bank loan facilities are provided in Annexure-I.

#### Rating Action

BWR has assigned its '**BWR BB+/Stable**' rating for the proposed long term facilities of SSMET. Assigned ratings reflect established brand name and extensive experience of the promoter. The rating also factors healthy operating profitability of the trust. Ratings are however constrained by impact of Covid-19 on the fee collection.

#### Rating Outlook

BWR believes that SSMET's 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 of sustained improvement in operating performance and reduction of debt. The rating outlook may be revised to 'Negative' if there is a drop in revenue or profit or on account of higher than expected debt.

#### Key Rating Drivers

#### Credit Strengths:

- **Established brand name and extensive experience of the promoter:** Promoter Mr. K Santhanam, founded SSMET in 1985 and has extensive experience of over three decades in running various educational institutions and also developed SSM Nagar, a large gated community in Chennai. Trust operates three schools. School one in Chrompet has been operating since 1985 and has improved its student strength from 343 in 1986-87 to 2274 in 2020-21. School two in Perungalathur has been operating since 2012 and has improved its student strength from 2201 in 2012-13 to 7228 in 2020-21. School three in Gopalapuram



has been operating since 1976 and has a student strength of 735. Extensive experience of the promoter has resulted in consistent admissions over the years and the trust currently has over 10000 students. SSMET also runs an Elite Senior citizen home which has around 250 resident senior citizens.

- **Healthy Operating profitability:** Trust has been achieving a healthy operating margin of over 15% in the recent three years. Trust provides a comprehensive package to students which includes fees for transportation, food and uniform. In spite of the impact of Covid-19, trust is estimated to report a margin of over 15% in the ongoing financial year.

### **Credit Concerns**

- **Impact of Covid-19 on the fee collection:** Government guidelines and delay in the reopening of schools is expected to impact the operating performance of the trust, particularly its operating revenue. School fee for FY 2021 is estimated to be lower by 40% from the previous year. The trust has undertaken several cost cutting measures in order to have minimum impact on profitability. Though the trust undertakes several cost cutting measures, BWR estimates the operating profit to come down from Rs. 23.2 Crores in FY 2020 to Rs.16 Crores in FY 2021. Lower operating profit is expected to have impact on gearing and debt servicing indicators for FY 2021, however the same is expected to be stabilised in FY 2022 with reopening and resume of school activities in full fledged manner.

### **Analytical approach And Applicable Rating Criteria**

For arriving at its ratings, Brickwork Ratings has adopted a standalone approach and applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

### **Rating Sensitivities**

#### **Positive:**

- Timely collection of school fees and reopening of schools
- Reduction in external debt and improved gearing

#### **Negative:**

- Significant drop in revenue or profits.
- Higher than expected debt or further funding support to group entity.

**Liquidity Position: Stretched**

SSM Trust currently does not have any working capital facility. Given the current situation, the cash accruals in FY 2021 are expected to be inadequate to meet the repayment obligations. The trust is in advanced stages of transferring the loan facility to another bank with enhanced limits, in which case the repayments are expected to ease and the liquidity position is expected to improve. Though the revenues are projected at Rs. 58.04 crore for FY 2021 (as against Rs.93.8 crore in FY 2020) the trust plans to collect the balance fee collection and the same is expected to improve cash flow position.

**About the Trust**

Chennai based, Srimathi Sundaravalli Memorial Educational Trust was incorporated in 1985. Trust Currently runs three schools (SSM Chrompet, SSM Perungalathur and SSM Gopalapuram) in Chennai apart from Senior Citizen facility (SSM residency). Combined student strength is around 10000 and staff strength (teaching and non-teaching) is around 1350. All the schools are affiliated to the Central Board of Secondary Education (CBSE), New Delhi.

**Financial Performance**

Key Parameters	Units	FY19	FY20
Result Type		Audited	Prov
Operating Revenue	Rs. Cr.	95.5	93.8
EBITDA	Rs. Cr.	24.3	23.2
Net Profit	Rs. Cr.	10.6	5.6
Tangible Net Worth	Rs. Cr.	33.6	39.6
Total Debt : Tangible Net Worth	Times	1.9	1.9
Current Ratio	Times	0.10	0.11

**Status of non-cooperation with previous CRA - No**

**Rating History For The Previous Three Years [including withdrawal and suspended]**

Facilities	Current Rating (Dec 2020)			Rating History#		
	Amount (Rs Cr)	Tenure	Rating	2019	2018	2017
<b>Fund Based</b>						
Proposed long term loans	100.0	Long Term	<b>BWR BB+/Stable Assigned</b>	-	-	-
<b>Total</b>	<b>100</b>	<b>Rupees One hundred crores Only</b>				

**Complexity Levels of the Instruments**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to Applicable Criteria**

• <u><a href="#">General Criteria</a></u>	• <u><a href="#">Manufacturing Companies</a></u>
• <u><a href="#">Approach to Financial Ratios</a></u>	• <u><a href="#">Short Term Debt</a></u>

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**Srimathi Sundaravalli Memorial Educational Trust**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>Sl. No.</b>	<b>Name of the Bank</b>	<b>Type of Facilities</b>	<b>Long Term (Rs Cr)</b>	<b>Short Term (Rs Cr)</b>	<b>Total (Rs Cr)</b>
1	-	Proposed long term loans	100		100
<b>Rupees One hundred crores Only</b>					<b>100</b>

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