

**RATING RATIONALE**

**STG Educational & Cultural Charitable Trust**

**Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of Rs. 11.74 Crores of STG Educational & Cultural Charitable Trust (or ‘the Trust’)**

**Particulars:**

Facility**	Amount (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (May 2020)	Present
Fund Based	10.50	11.74	Long Term	BWR C ISSUER NOT COOPERATING*	BWR B-/Stable (Upgraded)
<b>Total</b>	<b>10.50</b>	<b>11.74</b>	<b>Rupees Eleven Crores and Seventy Four Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

**Rating Action/Outlook**

The long term rating revision has factored the enhanced revenue scale of the Trust due to an increase in overall student base with addition of two more colleges in its offering resulting in increased fee collection. The rating also continues to derive comfort from the financial and managerial support from the Trustees, and satisfactory infrastructure. The rating, however, is constrained by the small scale of operations, low corpus fund of the trust resulting in high gearing, moderate debt protection metrics, decline in overall student enrollment to its increased intake capacity and exposure to regulatory risks.

The rating has been assigned a ‘Stable’ outlook as BWR expects that the business risk profile of the Trust will be maintained over the medium term.

**Key Rating Drivers**

BWR has principally relied upon the audited financial results up to FY20, provisional figure of 10MFY21, publicly available information and information/clarification provided by the concern’s management.

**Credit Strengths:**

- **Experienced Board of Trustee:** The trust commenced its operations in 2016 by establishing a school named SGT Public School to provide pre-primary, primary and secondary education. Further, two more colleges, a PU college and a degree college, were started named STG PU College and STG First Grade College, respectively. The entire operation of the Trust is looked after by Mr. Shivaraju C P, having seven years of experience in the organization with required support from other experienced trust members.

- **Enhanced scale of operations:** Upon stabilisation of operations after commencing in 2016, the Trust has shown growth in its net receipts. The growth is attributable to an increase in overall student base from 990 students during AY 2016-17 to 1668 students in AY 2019-20 due to addition of two more institutions and revision in fees, resulting in increase in collection of net receipts. The net receipts has increased from Rs. 4.68 Cr in FY18 to Rs. 10.22 Cr in FY19 to Rs. 13.88 Cr in FY20. However, the total receipt has declined to Rs. 4.00 in 10MFY21 (provisional figure) on account of declined revenue from tuition fees and revenue loss in the form of transportation, hostel and other fees due to disruption caused by Covid outbreak.

### **Credit Risks:**

- **Small scale of operations and declined student enrollment:** The scale of operations of the Trust, though improved over the past two financial years, continues to be small. Further, though the overall intake capacity increased from initially 1300 students in AY 2016-17 to 3300 students in AY 2019-20, the enrollment ratio has declined from 75% to 50% in the same period. Further, the Trust faces uncertainty in achieving revenue and enrollment targets in the near future, on account of the Covid impact on educational institutions.
- **Leveraged capital structure:** With low corpus fund of Rs. 4.43 Cr as of 31st March 2020, the overall gearing of the Trust stood at 3.94 times in FY20. Further, the net cash accruals to total debt stood low at 0.16 times in FY20 resulting in moderate debt coverage indicators with an ISCR of 2.64 times and DSCR of 1.18 times in FY20. The debt profile of the Trust comprises term loans, working capital facility and unsecured loans from promoters and the related parties.
- **Regulatory risk and competition in the industry:** The education sector is highly regulated by the government. Any change in the existing regulatory framework/environment may have adverse effects on the revenue and finances of the Trust. Also, the Trust faces intense competition from other reputed institutions in the vicinity.

### **Analytical Approach and Applicable Rating Criteria**

For arriving at its ratings, BWR has considered the standalone performance of STG Educational & Cultural Charitable Trust and has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

### **Rating Sensitivities**

**Positive:** The rating would be upgraded if the Trust is able to increase its student enrollment ratio and thereby retain its revenue scale which would result in improvement in overall financials risk profile.

**Negative:** The rating would be negatively revised if there is further decline in student enrollment affecting adversely the financial position of the Trust.

### Liquidity Position

The trust has tight liquidity as indicated by enhancement in its working capital limit and 100% utilization of the same (Banker Feedback). The net cash accruals of Rs. 2.74 Cr in FY20 is adequate for repayment of its installment obligation of Rs. 1.61 Cr approximately. However, with net receipt of about Rs. 4.00 Cr as of January 2021, the trust may not be able to generate the adequate cash accruals for the installment obligations in the near term.

### Profile of the Trust

STG Educational and Cultural Charitable Trust (STGECCT), located in Mandya (Karnataka), is a charitable trust registered in the year 2013. The board of the trust has 5 trustees. C S Puttaraju, aged 50 years, is the president of the trust. STG stands for Mr. Sanna Thamme Gowda – Father of Mr. C S Puttaraju. The trust has started its operations in 2016 by establishing a school to provide babysitting, pre-primary, primary and secondary education. Presently, it is operating a school, a PU college and a first grade college. The trust has an intake capacity of 3300 students across all its institutions and has enrolled 1668 students overall for the Academic Year (AY) 2019-20. It has employed 83 teaching staff & 15 non teaching staff presently.

### Key Financial Indicators

Key Parameters	Units	FY19	FY20
Result Type		Audited	Audited
Total Operating Income	Rs Crs	10.22	13.88
EBITDA	Rs Crs	4.63	4.39
PAT	Rs Crs	0.05	0.35
Tangible Net worth	Rs Crs	4.08	4.43
Total Debt/Tangible Net worth	Times	3.99	3.94
Current Ratio	Times	0.32	2.12

**Key Covenants Of The Instrument/Facility Rated: None**

**Non-cooperation With Previous Rating Agency: None**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

Facilities	Current Rating (2021)			Rating History		
	Tenure	Amount (Rs Crs)	Rating	30.05.2020	22.02.2019	2018
Fund Based	Long Term	11.74	<b>BWR B-/Stable</b>	BWR C ISSUER NOT COOPERATING	BWR B/Stable	-
<b>Total</b>		<b>11.74</b>	<b>Rupees Eleven Crores and Seventy Four Lakhs Only</b>			

*Note: The Trust was initially rated in Dec 2016 with a long term rating of BWR B/Stable. The rating was moved under 'Rating Not Reviewed' in Aug 2018 and Feb 2020.*

**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**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)

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**STG Educational & Cultural Charitable Trust**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

<b>S. No.</b>	<b>Type of Facilities</b>	<b>Long Term (Rs Crs)</b>	<b>Short Term (Rs Crs)</b>	<b>Total (Rs Crs)</b>
1.	Overdraft	2.50	-	2.50
2.	Term Loan 1	3.42	-	3.42
3.	Term Loan 2	2.19	-	2.19
4.	Term Loan 3	1.89	-	1.89
5.	WCTL	1.74	-	1.74
<b>TOTAL</b>				<b>11.74</b>

**Total Rupees Eleven Crores and Seventy Four Lakhs Only**

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