

## Rating Rationale

9 Feb 2021

### SWARNA ACADEMY OF SCIENCES

**Brickwork Ratings Downgrades the rating for the bank loan facilities of Rs. 6.18 Crore of Swarna Academy of Sciences ('Society')**

#### Particulars

Facilities#	Amount (Rs. Crs)		Tenure	Rating <sup>1</sup>	
	Previous	Present		Previous <sup>^</sup>	Present
<b>Fund Based</b>					
Overdraft	4.50	4.50	Long	<b>BWR C Downgraded</b>	<b>BWR D Downgrade</b>
Term Loans	1.68	1.68	Term		
<b>Total</b>	<b>6.18</b>	<b>Rs. 6.18 Crore (Rupees Six Crore and Eighteen Lakhs Only)</b>			

*\*Issuer Not Cooperating: Based on best available information*

<sup>^</sup> Not Reviewed the outstanding rating of BWR B (Stable) on 17<sup>th</sup> July 2019;

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

Note: Details of Bank facilities are provided in Annexure I

#### Ratings Action/Outlook

The rating downgrades is on account stressed liquidity position, small scale of receipts and moderate students strength, presence in highly competitive industry, susceptibility of regulatory changes, coronavirus outbreak may also constrain/difficult to run the institutions and retain the students and faculty and working capital intensive nature of operations. However, rating is supported by experienced members in the education sector, established operational track record and moderate credit profile.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Swarna Academy of Sciences'** business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if the entity records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to 'Negative' if the entity reports significantly lower than expected performance, resulting in lower than estimated coverage indicators, and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the rating.

## **Key Rating Drivers**

### **Credit Strengths:**

- **Long track record of the trust and experienced members:** Long track record of the society coupled with extensive experience of the members in the field of education sector.
- **Moderate credit profile:** Moderate credit profile marked by corpus fund and gearing, coupled with debt service coverage metrics. Corpus fund, gearing, debt services coverage ratio and interest service coverage ratio were around Rs.7.38 Crs, 0.84 times, 1.93 times and 1.94 times respectively as on 31<sup>st</sup> March 2019.

### **Credit Challenges:**

- **Small scale of revenue receipts and moderate students strength:** Revenue remains low and total receipts of the society marginally increased to Rs.6.72 Crs in FY9 against Rs.6.58 Crs in FY18. On a provisional basis, the society has reported total receipts of around Rs.6.41 Crs for 11MFY20. Despite being present in the highly competitive education sector, the student strength of SAS's is at moderate levels.
- **Susceptibility of regulatory changes:** SAS remains susceptible to adverse regulatory changes and intense competition in the education sector. These factors have significant bearing on the revenues and surplus levels of SAS institutions.
- **Intense competition in the education sector:** The education sector is one of the highly regulated sectors in India. Furthermore, the colleges face intense competition from other colleges located in the region.

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

As it is an entity, a standalone approach has been adopted and BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **Rating Sensitivities**

The ability of the entity to increase revenues, improve its profitability margins, strengthen its credit risk profile and manage its working capital efficiently would remain the key rating sensitivities.

### **Positive:**

- Sustained improvement in revenue receipts with improved profitability margins, capital structure and improvement in the liquidity position.
- Specific credit metrics that could lead to an upgrade of SAS's rating include (1) Total Debt/Corpus fund below 1.0 time on a continuous basis, (2) DSCR and ISCR greater than 3.0 times on a continuous basis.

### **Negative:**

- Specific credit metrics that could lead to a downgrade if there is a decline in revenue receipts profitability margins, Total Debt/corpus fund exceeding 2.0 times and weakening in debt protection metrics with DSCR and ISCR declining below 1.00 times.
- Coronavirus outbreak may also constrain for timely starting the classes and retaining the students and faculty.

### Liquidity Position: Stressed

- The current ratio was inadequate at 0.90 times as on 31st March 2019. Stressed liquidity position marked by delayed realisation of bills resulted in delays in servicing its debt obligations on time. Presently the account is in SMA category.

### About the Society

Swarna Academy of Sciences (SAS) was founded by Mr. M. Srinivasa Babu in 2007 at Vijayawada, Andhra Pradesh. In 2008, SAS started an engineering college in the name of “MVR College of Engineering and Technology” (MCET - Engineering and Technology and Management), Vijayawada, Krishna District, Andhra Pradesh, the flagship institute of SAS. It is a technical institute which is approved by AICTE, New Delhi. NAAC with 'A' grade; affiliated to JNTUK Kakinada, ranked as “A” grade by the government of Andhra Pradesh. In June 2020, MCET received a one year academic extension approval for FY20-21 from the AICTE. The society provides hostel accommodation facilities for their students. Annual hostel fee and transportation. For Engineering, MCET is collecting an annual tuition fee of Rs.55,000/- per student (Rs. 35,000/- is received from the Government by 4 parts and remaining the amount of Rs.20,000/- received quarterly from the student). For management, MCET is collecting an annual tuition fee of Rs. 65,000/- per student (Rs. 35,000/- is received from the Government by 4 parts).

### Key Financial Indicators

Key Parameters	Units	31 Mar 2018	31 Mar 2019
		Audited	Audited
Operating Receipts	Rs. Cr	6.58	6.72
SBITDA	Rs. Cr	0.47	1.30
Surplus After Tax	Rs. Cr	0.01	0.34
Corpus Fund	Rs. Cr	7.04	7.38
Total Debt/Corpus Fund	Times	0.78	0.84
Current Ratio	Times	1.06	0.90

**Key Covenants of the facility rated:** The terms of sanction include standard covenants normally stipulated for such facilities.

**Status of non-cooperation with previous CRA –CRISIL** has downgraded the rating to CRISIL D and continued to Issuer Not Cooperating Category for the bank loan facilities of Rs.8.00 Crs on 19th January 2021.

**Rating History for the last three years (Including Withdrawn/Suspended)**

Sl. No	Facilities	Current Rating (2021)			Ratings History		
		Type	Amount (Rs. Cr)	Rating	2020 [Jul 16, 2020]	2019 [21 Nov, 2019]	2018 [17 Jul, 2018]
1 2	Fund Based Overdraft Term Loans	Long Term	4.50 1.68	BWR D Downgrade	BWR C Negative Reaffirmed	BWR B/Negative Issuer Not Cooperating* Reaffirmed	BWR B/Stable Assigned
<b>Total</b>		<b>Rs. 6.18 Crore (Rupees Six Crores and Eighteen Lakhs Only)</b>					

^ Not Reviewed the outstanding rating of BWR B (Stable) on 17<sup>th</sup> July 2019;

**Existing Rating From any other CRA:** CRISIL has downgraded the rating to CRISIL D and continued to Issuer Not Cooperating Category for the bank loan facilities of Rs.8.00 Crs on 19th January 2021.

**Complexity Levels of the Instruments:**

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

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

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**Swarna Academy of Sciences**  
**ANNEXURE I**  
**Details of Bank Facilities rated 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.	<b>Central Bank of India</b>	Overdraft Term Loan Term Loan	4.50 1.23 0.45	- - -	4.50 1.23 0.45
<b>TOTAL - Rupees Six Crores and Eighteen Lakhs Only</b>					<b>6.18</b>

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