RATING RATIONALE

03 Feb 2020

Sri Durga Malleswari Educational Society

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹. 10.43 Crores of Sri Durga malleswari Educational Society.

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Sep, 2018)	Present
Fund Based	8.00	10.43	Long Term	BWR BB-/Stable	BWR B-/Stable (Downgrade)
Total	8.00	10.43	INR Ten Crores and Forty Three lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings has downgraded the rating of Sri Durga Malleswari Educational Society to BWR B-/Stable to the bank loan facilities of Rs.10.43Crs.

The rating downgraded has basically factored the liquidity stress of the society resulting in irregularities in repayment of its debt obligations. The rating is further constrained on account of competition from other established educational institutes in the region, regulatory risks associated with the education sector, elongated receivable period and uneven cash flows associated with educational Institutes.
The rating weaknesses are partially offset by the established operational track record of the society and experienced management in the educational sector and moderate financial risk profile.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that Sri Durga Malleswari Educational Society's business risk profile will be maintained over the medium term.

KEY RATING DRIVERS

Brickwork Ratings has essentially relied upon the audited financials upto FY19, provisionals upto Sep 2019, projection of FY20 & FY21, publicly available information and information/clarifications provided by the society's management.

Credit Strengths:

- Established track record as the society is in existence since 2007 and trustee members have extensive experience in the education industry spanning almost more than 15 years
- Moderate financial risk profile reflected by debt to corpus funds at 0.82 times coupled with improved corpus funds of Rs. 22.26 Crs in FY19 with comfortable debt protection metrics indicated by DSCR at 2.06 times and ISCR at 3.86 times in FY19 respectively. The margins are also moderate maked by operating margin of 28.18% for FY19. The gross enrollment ratio has around 93.19% in AY2018-19 marginally increased to 93.95% in AY 2019-20. Furthermore, the current ratio stood at 1.36x as on March 31, 2019, indicating a comfortable liquidity position mainly on account of high receivables.

Credit Risks:

- The society faced the liquidity stress resulting in irregularities in repayment of its debt obligations
- **Highly regulated:** The education industry faces regulatory challenges as the institutions are bound by the regulations pertaining to fee structure, number of seats and changes in curriculum laid down by the regulators and any adverse changes in them will also impact the society's performance
- **Elongated receivable period:** The receivable days stood at 142 days during FY19 mainly on account of delay in receipt amount.
- **Uneven cash flows associated with educational Institutes:** The revenue stream of society is skewed towards the beginning of the academic year (normally between June-August) when the bulk of the tuition fees, hostel fees and other related income is collected whereas the society incurs regular stream of payments for meeting staff salary, maintenance activities, interest expenses amongst others
- **Exposure to intense competition:** Education institutes face stiff competition from other educational institutions in and around the region and also other institutions in neighbouring districts. Enrolment level of courses are primarily dependent on the placement track record coupled with the quality of recruiters

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of **Sri Durga Malleswari Educational Society.** BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Going forward, the ability of the society to further increase student enrollments, ensure the availability of adequate infrastructure, success in providing ample placement opportunities to the students, attract new

talents to improve pedagogy system, manage its working capital efficiently and timely servicing of debt obligations will be the key rating sensitivities

Positive: Substantial increase in receipts coupled with improvement in enrollment ratio and increase in corpus fund
Negative: Further deterioration in financial position and enrollment ratio affecting the receipts and coverage metrics.

LIQUIDITY POSITION
The society has a comfortable liquidity profile, driven by current ratio of 1.36 times in FY19. The society on a combined basis reported cash & cash equivalents of Rs.0.59 crore as on March 31, 2019.

ABOUT THE SOCIETY:
Sri Durga Malleswari Educational Society (SDMES) was established in the year 2007 in Vijayawada, Andhra Pradesh. The management committee of the society has 11 members and is headed by Dr. Ravi Venkata Rao, a Chairman of the Society. Mrs. Kommuru Lakshmi is the Vice Chairman, Mr.Kommuru Sreedhar is the secretary of the society. All the members are well qualified and experienced. The society operates two colleges and one school namely; NRI College of Pharmacy (NRICP), NRI Institute of Technology (NRIIT) and NRI International School. NRICP was established in 2007, offers B. and M. Pharma courses. NRIIT was established in 2008, offers undergraduate and postgraduate engineering courses. NRI international school offers LKG to Xth class. The society is affiliated to Jawaharlal Nehru Technological University, Kakinada and approved by AICTE, New Delhi. SDMES has experienced and well qualified faculty and engineering and science laboratories. It has a good record of placement and students have been placed in companies like IBM, Tech Mahindra, Syntel, TCS, Infosys, Virtusa, Hexaware, Cadsys, Netafim, LG Soft etc.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	**Units**	**FY18**	**FY19**
Result Type		**Audited**	**Audited**
Net Receipts	Rs In Crores	23.55	23.85
OSBDIT	Rs In Crores	7.16	6.72
SAT	Rs In Crores	1.97	1.70
Corpus Funds	Rs In Crores	20.57	22.26
Total Debt/Tangible Net-worth	In Times	0.83	0.82
Current Ratio	In Times	1.22	1.36

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA
NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY

Facilities	Current Rating			Rating History		
	Tenure	Amount (₹ Cr)	Rating	13.8.2019	12.9.2018	7.8.2018
Fund Based	Long Term	10.43	**BWR B-/Stable (Downgrade)**	Rating Not Reviewed	BWR BB-/Stable	Rating Not Reviewed
Total		**10.43**	**INR Ten Crores and Forty Three lakhs Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Services Sector**

Analytical Contacts	Investor and Media Relations
Lakshmi V Tamada **Rating Analyst** Board: +91 80 4040 9940 Ext:326 lakshmi.t@brickworkratings.com **A P Kamath** **Senior Director - Ratings** Board:+91 80 4040 9940 apkamath@brickworkratings.com	Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com

Sri Durga Malleswari Educational Society

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Bank of Baroda	Overdraft	7.45	-	7.45
2		Term Loans*	2.98	-	2.98
TOTAL					**10.43**

Total Rupees Ten Crores and Forty Three Lakhs only.

Note: * Term Loan outstanding amount as on 21.1.2020

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 SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter 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 (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.