ICRA

March 31, 2022

# C.E.O.A Educational Society: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund Based Limits | 7.50 | 7.50 | [ICRA]BB+ (Stable); reaffirmed |
| **Total** | **7.50** | **7.50** | |

**Instrument details are provided in Annexure-1*

## Rationale

The reaffirmation of the rating continues to factor in the established track record of C.E.O.A Educational Society (CEOA) for over 25 years and extensive experience of the management committee members in the field of education. The rating factors in the diversified presence of the society in several tier-II cities viz. Madurai, Kariapatti, Melur and Sattur to impart education to students hailing from semi-urban areas. Moreover, the society has arranged for transportation facilities across its institutions for convenient connectivity to encourage healthy enrolment from remote areas. Recruitment of experienced and qualified faculty members, besides adequate student-teacher ratio, provides additional comfort. Implementation of various cost-cutting strategies during the pandemic and better working capital management, thereby reducing its reliance on overdraft facilities, led to an improvement in the liquidity profile. The entity's liquidity profile is also supported by the surplus cash and bank balances that it has been maintaining following the rollout of the above mentioned measures. The rating also favourably factors in the entity's healthy financial profile, characterised by the decline in external long-term borrowings, resulting in comfortable debt protection metrics.

The rating, however, is constrained by the moderation in the society's revenue and profitability in FY2021 and 11M FY2022 largely owing to a steady decline in student strength notwithstanding the fee concession provided for the academic year 2020-21 across its institutions due to pandemic related distress. Additionally, fee concessions provided to students because of the pandemic in FY2021 and FY2022 and consequent reduced earnings have accentuated the risk of cash flow mismatches emanating from the irregular nature of fee realisation and monthly repayment structure of its debt facilities. Moreover, ICRA observes that the student strength of the society's flagship school in Madurai has been steadily declining from FY2019 as the NEET coaching classes have been hived off to a separate entity as well as higher competition from other institutions. The rating also factors in the highly regulated nature of the education sector in the state, low occupancy levels of the society's college at Kariapatti, and intense competition from schools and colleges in the vicinity. However, the established brand presence of the society and the proven track record mitigate the risk to a certain extent.

The Stable outlook reflects ICRA's expectation that the operational and financial performances of the society will continue to benefit from its established track record and brand presence, which are expected to gradually increase enrolment levels following a moderation of pandemic-related risks due to mass vaccination.

## Key rating drivers and their description

### Credit strengths

**Established track record and brand presence in the education sector –** The society has an established track record of more than 25 years in the school education sector. It has a wide regional presence with four schools and one arts and science college in different tier-II cities of Tamil Nadu. The society has established good brand name and reputation by delivering consistent performance. It has secured several state and district-level ranks in the board exams.

**Financial profile characterised by healthy capital structure –** Despite availing Covid-19 Emergency Credit Line in FY2021, and a drop in earnings in FY2021 and FY2022, the society has been able to reduce its long-term external borrowing in the current fiscal, supported by prudent working capital management. The society's capital structure remains comfortable with a moderate gearing of 0.3 times and a TOL/TNW of 0.4 times in 11M FY2022. In the next fiscal, it is expected to incur capex for acquiring the Benedict Matriculation School at Theni (located in the outskirts of Madurai) entirely through internal accruals, which is expected to keep the leverage at comfortable levels going forward.

**Revenue diversification across institutions** – The society operates five schools, one arts and science college (two schools being operated at Madurai). Although the schools from Madurai and Melur contribute the major share of the operating income (~82% in the current academic year), the share of contribution of income from other two schools and the arts and science college has been growing fast, leading to better cash flow diversification.

**Periodic fee revisions, well-equipped infrastructure and good connectivity** – The society charges fees across all its institutions at competitive rates and undertakes fee revision regularly based on the expected course expenses and growth prospects. That said, fees charged by schools at Kariapatti, Melur and Sattur are lower to attract potential students. It has adequate infrastructural strength in terms of well-equipped classrooms, playgrounds, laboratories, etc. It has deployed more than 100 buses to establish good connectivity to encourage healthy enrolment from remote areas.

## Credit challenges

**Steady decline in student strength; adverse impact of pandemic** – The decrease in the society's revenue and profitability in FY2021 and 11M FY2022 can be attributed primarily to the decline in student strength. However, the Madurai schools witnessed a steady decline in student strength since the academic year 2018-19 as the NEET coaching classes were hived off to a separate entity apart from intense competition from other institutions. However, healthy enrolment is expected in all the institutions going forward as it has resumed offline classes in the current academic year.

**Risk of cash flow mismatch** – The schools under the society follow a tri-annual fees collection framework, where the tuition fees are collected term wise, while other components of fees such as amenities fees, transportation and hostel fees are collected at the commencement of the academic year. This results in cash flow mismatch as the society has to make payments towards all operational expenses and debt repayments regularly. Although the presence of an OD facility limits this challenge to an extent, the management has adopted a relaxed fees collection policy in the current year, wherein it has allowed additional time to pay the fees, resulting in delay in cash inflows and high utilisation of the OD limits. The pandemic fee concessions provided to students in FY2021 and FY2022 and the consequent reduced earnings have accentuated the risks of cash-flows mismatches. This delayed fee collection is likely to be a one-time event due to the Covid-19 pandemic. However, the risk of lumpiness in cash flow will continue.

**Competitive nature of education sector** – The institutions operated by the society face stiff competition from other reputed institutions in the vicinity, which limits the society's potential to attract new students. However, the same is mitigated to an extent as the society has an established brand presence and its students have achieved consistent academic performance at the district and state levels.

**Very low occupancy at Kariapatti college –** Since the acquisition of the college at Kariapatti in 2017, the management had introduced various courses and the response for only a few courses have been encouraging. Although the pandemic played a crucial factor in lower occupancy levels in the academic year 2021-22 and 2020-21 at 35% and 45%, respectively, the occupancy level remained subdued in the range of 35-57% even prior to the pandemic. This has resulted in low profitability from operating the college as it has to incur certain fixed overheads irrespective of the occupancy levels.

## Liquidity position: Adequate

CEOA has several external term loans of Rs. 19.4 crore outstanding as on February 28, 2022. Its average working capital utilisation stood at 57% during the 12-month period ended February 2022. It had cash and liquid investment of Rs. 4.4 crore as of February 28, 2022, strengthening the liquidity profile. ICRA notes that despite subdued earnings, low dependency on the overdraft facility in the current fiscal due to prudent working capital management has improved its liquidity. The society is unlikely to take any additional term loan or undertake debt-funded capital expenditures in the near term. Therefore, the society's liquidity has been assessed as adequate.

## Rating sensitivities

**Positive factors –** The rating may be upgraded if the society is able to improve its profitability and maintain adequate liquidity on a sustained basis.

**Negative factors –** The rating maybe downgraded if the liquidity profile and/or the capital structure deteriorates significantly. Specific credit metrics that could lead to a rating downgrade include Total Debt/ OPBITDA of more than 4.0 times on a sustained basis.

# Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | Standalone financial statements of the issuer. |

# About the Company

The institution was started in 1995 under the leadership of Mr. Raja Climax, along with a team of central excise officers, as CEOA Matriculation School with 43 students in a rented building in Mahatma Gandhi Nagar, Madurai. By 2000-2001, the school had two branches - one at Kosakulam and the other at Officers Town, both functioning in owned buildings. In both the campuses, the school has grown, and now provides education to more than 6,500 students, 275 teachers and 200 non-teaching staff. The society, in addition, took over three other schools, one arts and science college in 2017 and expanded its footprint.

## Key financial indicators

| CEOA | FY2020 (Audited) | FY2021 (Audited) | 11M FY2022 (Provisional) |
|---|---|---|---|
| Operating Income (Rs. crore) | 49.2 | 32.4 | 32.4 |
| PAT (Rs. crore) | 1.9 | 0.8 | 4.9** |
| OPBDIT/OI (%) | 23.9% | 28.3% | 20.1% |
| RoCE (%) | 5.8% | 3.6% | 7.1%** |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.5 | 0.5 | 0.4** |
| Total Debt/OPBDIT (times) | 2.4 | 3.1 | 3.2 |
| Interest Coverage (times) | 3.8 | 3.6 | 3.7 |
| DSCR (times) | 1.5 | 1.1 | 1.1 |

**Source: Company data, **the society has not taken provision for depreciation in 11M FY2022*

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)*

**Status of non-cooperation with previous CRA:** NA

**Any other information: None**

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Feb 28, 2022 (Rs. crore) | Date & Rating | Date & Rating in FY2020 | Date & Rating in FY2019 | Date & Rating in FY2018 |
| | | | | | 31-Mar-2022 | 2-Dec-2020 | - | - |
| 1 | Fund Based Limits | Long Term | 7.5 | 7.3 | [ICRA]BB+ (Stable) | [ICRA]BB+ (Stable) | - | - |

*Amount in Rs. crore*

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Fund Based Limits | Simple |

The complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate* | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Fund Based Limits | NA | NA | NA | 7.50 | [ICRA]BB+(Stable) |

***Source:*** *Company data; NA*

### Annexure-2: List of entities considered for consolidated analysis

| Company Name | Ownership | Consolidation Approach |
|---|---|---|
| NA | | |

***Source:*** *Company data*

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## ICRA Limited

### Registered Office

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