GSR and KKR Educational Society

December 16, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	21.00	CARE B; Stable (Single B; Outlook: Stable)	Assigned
Total Bank Facilities	**21.00 (₹ Twenty-One Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of GSR and KKR Educational Society (GKES) are tempered by moderate gross enrolment ratio, high reliance on working capital borrowing, stringent regulatory framework for the educational sector in India, stretched operating cycle due to high collection period, leveraged capital structure with moderate debt coverage indicators, geographical concentration with presence in a single region and high competition, uneven cash flows with educations institutes. The ratings, however, derive strength from Experienced and resourceful promoter members, moderate SBID (Surplus before interest and depreciation) margin, adequate infrastructural facilities and statutory approvals from the All-India Council for Technical Education (AICTE).

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Consistent increase in the society's gross receipts by more than Rs.25 crores
- Improvement in the surplus margin above 30% on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in the gross enrolment ratio below 70% on a sustained basis.
- Deterioration in the profitability margins as marked by surplus before interest and depreciation margin below 15.00% on a sustained basis.

Detailed description of the key rating drivers

Key rating weaknesses

Moderate enrolment ratio during the review period albeit a declining trend in PG courses: The overall enrolment ratio of society remained moderate though improved from 81% in AY19 to 92% in AY22 due to a rise in enrolment in UG courses. Most of the UG courses recorded close to 100% enrolment whereas the enrolment in PG courses declined from 18% in AY19 to 11% in AY22 as management stopped taking admissions for MBA.

Stretched operating cycle due to high collection period: The State Government of Andhra Pradesh regulates the education sector and there is a fee reimbursement scheme in place for backward and economically backward sections of the state. The funds are released to educational institutions in three different phases. Around 70% of the total students in KITS are eligible under the aforementioned scheme, resulting in higher debtors for society. The fee collection was projected to be Rs. 7 crores by September 30, 2022. However, due to delay in commencement of academic year, society was able to collect only Rs. 4.40 crore. The collection period stood at 343 days for FY22. Nevertheless, the liquidity position of the society was moderate with a free cash balance of Rs.1.31 crore for FY22.

Leveraged capital structure with moderate debt coverage indicators: The capital structure of the society is leveraged marked by the overall gearing ratio remained leveraged at 5.02x as on March 31, 2022, as against 6.41x as on March 31, 2021. Despite marginal improvement in the gearing ratio, the same continues to remain on the higher side due to higher debt levels. The Total debt/GCA of the society remained vulnerable and remained at 8.01x as of March 31, 2022 due to higher debt levels and lower GCA levels. The ratio didn't see a major change as pf September 30, 2022 as it stood at 8x. Whereas the interest coverage ratio remained satisfactory at above 1.60x. In FY22, the interest coverage ratio stood at 2.16x compared to 1.79x in FY21. In H1FY23, the interest coverage ratio further improved to 3.05x. The society saw a significant rise in the surplus and that resulted in a GCA of Rs.3.10 crore in H1FY23.

Highly regulated nature of the education industry: The higher education sector is one of the highly regulated sectors with both state and central governments regulating the industry directly and/or indirectly through various bodies including UGC (University Grants Commission) and AICTE (All India Council for Technical Education). The education sector offers immense potential as there is a growing demand for the services offered, driven by the increasing propensity of the middle class to spend on education and India's increasing population. New colleges being added every year along with already established colleges

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

result in a high competition level in the state. Also, the fees for various courses are presently fixed by the regulatory authority, which confines the revenue growth to a certain extent.

Susceptibility to intense competition among other Colleges/schools: The Education sector is highly fragmented as there are large numbers of small and large private institutes which offers similar kind of courses in south India. There exists favourable proximity of competitive institutions, in a radius of around 100 km which benefits the trust in attracting the students of that particular area. This could pave way for better enrolment prospects for GKES. Nonetheless, the unfavourable demand-supply scenario and intense competition continued to affect the trust's ability to further strengthen student-base, while maintaining quality

Uneven cash flows associated with educational Institutes: The revenue stream of the 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 a regular stream of payments for meeting staff salary, maintenance activities, interest expenses amongst others.

Geographical concentration with presence in a single region and high competition: KKR and KSR Institute of Technologies and Sciences is the only institution under GKES located in Guntur, Andhra Pradesh. Hence, the entire revenue of the society is dependent upon the business/ education potential in Andhra Pradesh. The education sector is highly fragmented with the presence of a large number of small and big institutions due to high growth opportunities and the government's thrust on education for all. Therefore, the players in this industry are exposed to competition-induced pressures on student enrolments and overall student strength.

Key rating strengths

Experienced and resourceful promoter members: The chairman, Mr Koya Subba Rao has been in the education sector for more than two decades. He started his career as a lecturer at JKC College and later worked as Executive GSR and KKR Educational Society director for GSR Educational institutions. He is also supported by Mr Koya Koteshwara Rao (Vice Chairman) and Mr Koya Sekhar (Secretary) who has vast experience in educational institutions. The promoter members have also been providing financial support to the society to expand and upgrade the infrastructural requirement of KKR & KSR Institute of Technology & Sciences as and when required.

Moderate SBILDT and SAT margins in FY22 and H1FY23: The SBILDT margin of society remained satisfactory although a marginal drop to 26.62% in FY22 from 28.65% in FY21. The SAT margin of the society improved significantly by 352 bps from 1.75% in FY21 to 5.27% in FY22 due to an improvement in operational efficiency. For H1FY23, the society saw a significant rise in the SBILDT and SAT margins. SBILDT for H1FY23 stood at 38.96% and SAT margin stood at 16.49%. The rise in margins in H1FY23 is due to the 100% enrolment in UG Courses with higher fees.

Adequate infrastructure facilities and statutory approvals: The society is affiliated to Jawaharlal Nehru Technological University (JNTU), Kakinada (for Undergraduate and Post Graduate courses). KITS has received accreditation from the All India Council for Technical Education (AICTE) and National Assessment and Accreditation Council (NAAC).

Liquidity: Stretched

The liquidity of the society remains stretched led by fund-based working capital limits being utilized at 98% for the 12 months ending September 30, 2022. The current ratio of the society stood at 1.50x in FY22. The repayment obligation for FY23 is Rs.4.12 crore. The society's GCA was healthy for FY22 and stood at Rs. 3.21 crore and for H1FY23 the GCA remained at Rs. 3.10 crore. The free cash & bank balance was Rs 1.31 crore as on March 31, 2022. Thus, the society's liquidity is just enough to fund its debt obligations.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Policy On Curing Period
Rating Outlook and Credit Watch
Education
Service Sector Companies

About the company

GSR & KKR Educational Society (GKES) was established in the year 2007 at Guntur by Mr Koyi Subba Rao, Founder & Chairman of the society. GKES provides education for aspirant engineering and management students. The Society started with the setting up of KKR & KSR Institute of Technologies and Sciences (KITS) in the year 2007 in Guntur District, Andhra Pradesh. GKES provides both undergraduate courses (B. Tech) and postgraduate courses (i.e., M.B.A and M. Tech) in KITS. The institution is affiliated with Jawaharlal Nehru Technological University (JNTU), Kakinada and approved by the All India Council for Technical Education (AICTE). KITS is also a National Assessment and Accreditation Council (NAAC) accredited institute.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Prov.)
Total operating income	18.30	21.92	10.61
PBILDT	5.24	5.83	4.13
PAT	0.32	1.16	1.03
Overall gearing (times)	6.41	5.03	NA
Interest coverage (times)	1.79	2.16	NA

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: CRISIL has moved the ratings assigned to the bank facilities of GSR and KKR Educational Society to the 'issuer non-cooperation category vide a press release dated March 28, 2022, on account of its inability to review in the absence of the best available information from the company.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	4.00	CARE B; Stable
Fund-based - LT-Term Loan		-	-	December 2027	17.00	CARE B; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE D; ISSUER NOT COOPERATING* (10-Oct-22) 2)Withdrawn (10-Oct-22)	1)CARE D; ISSUER NOT COOPERATING* (23-Dec-21)	1)CARE D (03-Dec-20)	1)CARE BB-; Stable (13-Nov-19)
2	Fund-based - LT-Cash Credit	LT	-	-	1)Withdrawn (10-Oct-22) 2)CARE D; ISSUER NOT COOPERATING* (10-Oct-22)	1)CARE D; ISSUER NOT COOPERATING* (23-Dec-21)	1)CARE D (03-Dec-20)	1)CARE BB-; Stable (13-Nov-19)
3	Fund-based - LT-Term Loan	LT	17.00	CARE B; Stable				
4	Fund-based - LT-Cash Credit	LT	4.00	CARE B; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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