

Swordlily Cultural and Sports Private Limited

June 17, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	100.00	CARE BBB-; Stable (Triple B Minus: Outlook Stable)	Assigned
Total Bank Facilities	100.00 (Rs. One Hundred Crore Only)		

Details of facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Swordlily Cultural and Sports Private Limited (SCSPL) derives comfort from promoters being a part of Aurobindo Pharma Limited's promoter group and their resourcefulness, unique business model of SCSPL, state-of-the-art campus, sports facility being run by strong and eminent sports personalities along with stable industry growth prospects. The rating also favourably factors high cost project successfully completed, partly through promoters funds and partly through term debt which is backed by personal guarantees of the high net-worth promoters. The rating strengths are however partially offset by weak financials because of recently commenced operations, continued financial support of promoters required given long gestation period for SCSPL to be able to generate healthy revenue and profits, and presence of the company in a highly competitive and regulated nature of industry. The rating also takes cognizance of severe impact of COVID on the educational and sports training institutions.

Key Rating Sensitivities

Positive rating sensitivities- Factors that could lead to positive rating action/upgrade:

- ✓ Notable improvement in revenue and turning profitable at net level.
- ✓ Improvement in cash flows to ensure debt servicing and support operations with no further requirement of promoter fund infusions.
- ✓ Significant increase in the student enrolments y-o-y on a steady basis.

Negative rating sensitivities - Factors that could lead to negative rating action/downgrade:

- ✗ Non-availability of requisite support from the promoters resulting in stretched liquidity.
- ✗ Revocation or dilution of personal guarantee extended towards the debt availed by SCSPL.

Detailed description of key rating drivers

Key Rating Strengths

Robust lineage of Aurobindo Pharma Group

Swordlily Cultural and Sports Private Limited (SCSPL) has strong promoter linkages with the pharma giant- Aurobindo Pharma Limited. The promoter and whole-time director of Aurobindo Pharma Limited; Mr. K. Nithyananda Reddy is the chairman of the Gaudium School. His daughter Ms.K. Kirthi Reddy -the Managing Director of SCSPL is also the Founder and vice president of the Gaudium School. Gaudium school operates on the SCSPL's campus on lease basis.

Qualified and resourceful promoters

Ms. K. Kirthi Reddy holds a BSC degree from Rutgers University in US and has a decade of experience in education business. Mr. K. Nithyananda Reddy, chairman of the Gaudium School, holds a Master's Degree in Chemistry. The promoters have vast entrepreneurial skills and established relations in the market by virtue of being a part of Aurobindo Pharma Limited. The promoters have demonstrated their resourcefulness by regularly infusing funds to support the business operations. Apart from financial support, the promoters also significantly contribute towards brand building, generating business for school, getting sponsorships etc.

Unique business model, Strong and eminent sports faculties

SCSPL has developed Sportopia- Sports facility, Artopia- Arts facility along with the Gaudium School (operating under Triarshaa Educational Society) at Kollur area in Hyderabad, Telangana. Gaudium Sportopia is India's first fully integrated world class residential sports institution having over 25 sports academics from popular sports based on a unique concept which was inaugurated in December 2019. SCSPL apart from income from its sports facilities receives lease rentals from Gaudium school for the buildings leased out to the school thereby ensuring regular stream of revenue. The campus also has a residential facility- Hostel for the Gaudium school students and the other students who enrol for sports training.

The sports facility of SCSPL is mentored by renowned sports personalities like Mr. Ravichandra Ashwin for cricket, Mr. Pullela Gopichand for badminton, Mr. B. Mahesh for chess, Mr. Subramaniam Raman for table tennis, etc.

High cost project successfully completed through promoters funds and term debt backed by personal guarantee of the promoters

The campus of SCSPL in of international standards and has state of the art facilities. The cost for setting up this project was Rs. 224 crore which was funded primarily through promoters' funds and remaining through term debt backed by personal guarantees of the promoters. The company is planning to add more equipment to the gym along with other additions in the sports facilities by incurring an additional cost of around Rs 80 crore which will be partly debt funded and partly through funds infused by promoters.

Stable industry outlook

Education sector in India is expected to reach ~USD 3.5 billion by 2022 and USD 35.03 billion by 2025. Education sector in India remains to be a strategic priority for the Government. Indian ed-tech startups have received a total investment of around USD 3 billion in 2021, up from USD 1.5 billion in 2020. Further, Sport is regarded as one of the largest industries globally in terms of employment and revenue. However, the size of the Indian sports industry fell by 34% in 2020 due to lockdowns in the early part of last year, the outlook looks negative over the short term due to the impact of the second wave of the on-going pandemic. Nevertheless, the growth and development of the Indian sports industry are creating opportunities for management professionals in a wide variety of settings. Boosted by initiatives such as professional leagues of developed sports, commercialization of underdeveloped sports, professionalization of heritage sports and increased corporate sector investments, the sports industry is expected to grow faster in the long term.

Key Rating Weakness**Weak financials given recently commenced operations coupled with COVID impact on the business:**

SCPCL sports campus started operations from December 2019 just before the outbreak of COVID-19 in India. The operating income of SCSPL has been marginal and the company incurred operating loss and net loss during FY21. During FY21, the school admissions and sports enrolments have not been as envisaged due to the pandemic. Although, the school is able to collect some fees through online coaching for school and art courses being offered, the hostel and sports facility did not generate much income during FY21. The income in the current FY is also likely to remain subdued in view of ongoing pandemic.

Continued financial support from promoters required:

SCSPL's business operations are expected to improve gradually, however it may take considerable time to generate adequate revenue in order to self-sustain its operational expenditure and debt servicing. Hence, financial support from promoters is necessary for an elongated period. Moreover, because of the ongoing pandemic, the industry at present is witnessing headwinds and therefore promoters may have to support SCSPL's operations for a few more years to come.

Highly regulated industry amid competition

SCSPL operates in a highly regulated industry. The education sector is highly fragmented with the presence of large number of small and big institutions due to high growth opportunities and 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. Despite favourable growth outlook of the education sector in India, regulatory challenges continue to pose a significant threat to the educational institutes. Various regulatory bodies are responsible for the regulation, coordination and development of higher education in India. The scope of government regulations is wide, starting from approval for establishment of courses/institute, intake capacity, fee structure and periodic review for standards followed by the institute. All these factors have a significant impact on the revenues and profitability of educational institutes.

Liquidity analysis: Adequate

The company is envisaged to have adequate accruals to meet its repayment obligations going forward backed by the infusion from promoters in case of shortfall of funds. Further, the company has been maintaining DSRA balance equivalent to three months of debt servicing which provides some liquidity cushion. However, timely infusion of funds by the promoters is critical from credit and rating perspective.

Analytical approach: Stand alone with strong promoter linkages with Aurobindo Pharma Limited have been factored while arriving at rating.

Applicable criteria:

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Notching by factoring linkages in Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology for Real Estate Sector](#)

[Methodology for Education Sector](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity analysis of Non-financial sector entities](#)

About the company

Incorporated on May 19, 2014, Swordlily Cultural and Sports Private Limited (SCSPL) is promoted by Ms.K. Kirthi Reddy – Managing Director, daughter of Mr. K. Nithyananda Reddy- the promoter and whole-time director of Aurobindo Pharma Limited who is also the chairman of the Gaudium School along with Mr. Prasada Reddy Kambham and Ms. K. Rajeswari (wife of Mr. K. Nithyananda Reddy), who are amongst the pharma giant Aurobindo Pharma Limited’s promoter group shareholders. SCSPL has developed India’s first fully integrated school property and residential sports institution spread over an area of 27 acres in Kollur area in Hyderabad having over 25 sports academics from popular sports like cricket, badminton, tennis, to non-conventional sports like skating, gymnastics etc. The school property is leased out and run under the name ‘The Gaudium School’ (operating under Triarshaa Educational Society). The company has also developed another campus (which is also leased to the Gaudium school) for pre-primary to class II students at Nanakramguda, Hyderabad which is spread across an area of 2 acres and is 10 kms away from the main campus.

Brief Financials- SCSPL, Standalone	FY20 (A)	FY21 (Prov.)
Total operating income	6.41	2.15
PBILDT	4.47	-1.96
PAT	-2.05	-8.36
Overall gearing (times)	-68.94	-19.91
Interest coverage (times)	0.85	-0.26

A-Audited, Prov. – Provisional

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

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Mar 2029	100.00	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	100.00	CARE BBB-; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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