

Auro University

March 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	8.24 (Reduced from 60.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	8.24 (Rs. Eight Crore and Twenty-Four Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmations in the ratings to the bank facilities of Auro University (AU) continue to derive strength from its experienced and resourceful promoters being assisted by qualified and experienced body of governors and head of schools, well-established infrastructure facilities, revenue diversification arising from wide course offerings by experienced faculties along-with foreign tie-up. The ratings also factor stable performance in FY21 and 9MFY22 and comfortable leverage, moderate debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain tempered on account of relatively small scale of its operations, on-going large sized debt funded capex and its presence in the highly competitive and regulated education sector.

Rating Sensitivities

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

- ✓ Sustained growth in its scale of operations with TOI of more than Rs.50 crore with healthy enrolment across courses.
- ✓ Improvement in the PBILDT margins to more than 35% on a sustained basis.
- ✓ Completion of the on-going capex within envisaged time and cost parameters along with generation of envisaged returns from the same.

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

- × Decline in its PBILDT margins below 18% on a sustained basis leading to adverse impact on its debt coverage indicators.
- × Any additional unscheduled debt-funded capex adversely affecting the capital structure or debt coverage indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

AU is a part of JHM Hotels group, USA, which operates a multi-brand hotel chain comprising 43 hotels with over 7,200 rooms across USA and in India. The group is associated with multiple brands such as Marriott, Starwood, Hilton and Hyatt in the US and Indian hospitality sector. In India, promoter group operates through Gujarat JHM Hotels Limited (GJHM; rated *CARE BBB; Negative / CARE A3*) which owns and operates two five-star hotels at Surat and Hazira under the brand of 'Marriott'. The promoters have demonstrated their support to the operations of AU which is depicted by infusion of funds in the form of corpus during its stabilization phase the promoters are committed to support the operations of AU which is depicted by infusion of funds (as and when required) in the form of corpus during its stabilization phase.

Revenue diversification arising from wide course offerings by experienced faculties along with foreign tie-ups

AU currently offers an array of courses in graduation and post-graduation programs in various professional fields such as management, hospitality, IT, design engineering, journalism and mass communication, law, liberal arts, and human sciences All these courses are being imparted by qualified and experienced team of more than 67 professors (including 5-6 visiting facilities) having average experience of 10 to 12 years in their respective field along-with administrative and support staff of more than 142 people across all the schools. Further, AU has collaboration with many foreign universities for the student exchange programmes. Also, AU has tie-ups with many hotels in India and abroad like Marriot, Hyatt Regency, Renaissance, Hilton, Taj, etc. for providing internship to the students of hospitality management.

Well established infrastructure facilities

AU, situated at a distance of 12 km from the city of Surat, Gujarat, houses eight colleges with a total of 27 classrooms, administration facilities, staff rooms, auditorium, and conference rooms in two academic blocks, two hostels comprising of 96 rooms, IT laboratories, innovation, and incubation centre, play area, cafeteria, workshop for design etc. on its 30-acre campus. Further, AU has Courtyard Marriot – a 5-star hotel on its university campus, which also provides opportunities to the students at all schools (especially hospitality management) to apply their knowledge and skills. Out of the entire 115 acres of land leased by Government of Gujarat to GJHM, 30 acres of land has been subleased to AU, 5 acres of land has been used for construction of Courtyard Marriot and balance 80 acre of land is free which provides a good prospect for growth of AU and GJHM in future.

Comfortable capital structure and debt coverage indicators

The capital structure and debt coverage indicators of AU stood comfortable marked by overall gearing of 0.24x & TD/GCA of 0.88x as on March 31, 2021. The debt structure primarily comprises of only term loan taken towards the latter part of FY21 for its ongoing expansion. . As against projected debt of Rs.60 for its ongoing project, AU has availed a total loan of Rs.7.5 crore and has cancelled the balance as the management had slowed down its expansion and plans to fund from internal accruals of AU. As a result of the above the overall gearing is projected to remain comfortable in the projected period.

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

Key Rating Weaknesses

Relatively small scale of operations

During FY21, AU's scale of operations marked by total operating income (TOI) registered decline of 9% y-o-y basis to Rs.29.49 crore in FY21 from Rs.32.33 crore in FY20, primarily on account of marginal decline in enrolment of students. The total number of students declined from 1282 students in FY20 to 1,186 in FY21; however, average fee per student per annum has remained largely stable. AU's operating surplus, as marked by SBILDT margin, has increased from 26.05% in FY20 to 32.60% in FY21 and to 44.08% in 9MFY22 due to better absorption of its fixed overheads. Further, despite increase in finance expense and depreciation charges, surplus after tax margins from 15.15% in FY20 to 17.97% in FY21. Improvement in operating profitability led to increase in gross cash accruals from Rs.8.74 crore in FY20 to Rs.9.53 crore in FY21. Furthermore, AU has achieved TOI of Rs.21.83 crore (PY: Rs.23.31 crore) along with SBILDT margin of 44.08% (PY: 39.47%) during 9MFY22.

Project Risk:

AU undertook a project to build one academic building comprising of 4 classrooms, one hostel building with 60 rooms, Shree Aurobindo Integral Life centre (SAIL), Student Activity Centre (SAC) and other infrastructure facilities. Total envisaged cost of the project is Rs.83.56 crore to be funded by term loan of Rs.60.00 crore and balance Rs.23.56 crore from internal accruals. On the backdrop of impact of covid on the overall business of the entity, the company had extended its timeline of afore said investment to about 3-4 years. Furthermore, as a result of stable cash flow, AU now plans to fund the entire project by availing a loan of Rs.7.5 crore and balance from internal accruals as against earlier planned debt of Rs.60 crore.

Presence in highly competitive and regulated environment

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. Further, education in India, being in the concurrent list of the constitution, comes under the purview of both Central and State Government. The education sector is highly regulated, despite increasing privatization, by central & state governments along with other regulatory bodies such as University Grant Commission (UGC), All India Council for Technical Education (AICTE), National Medical Commission, Bar Council of India etc. Consequently, operating, and financial flexibility of the education institutions is limited, as regulations govern almost all aspects of operations, including approval for establishment of courses/institute, fee structure, intake capacity, changes in curriculum and infrastructure requirements etc. All these factors have a significant impact on the revenue and profitability of educational institutes. Any delay or rejection of necessary approvals may result into under-achievement of the projected revenue streams.

In view of the national lockdown imposed by the GOI to contain spread of virus, Auro University was closed from March 2020 onwards. However, AU has provided online classes to its students; and as per Government of Gujarat guidelines, AU has been allowed to start the classes of first year & final year graduation and post-graduation students from January 2021 onwards.

Despite COVID-19 disruptions, medium-term outlook for the education sector expected to remain favourable on expectation of increasing population, increase in per capita income, rising enrolment ratios, variety of courses being offered, growth in vocational courses, government support in terms of fee reimbursement schemes etc.

Liquidity Analysis - Adequate

AU's liquidity remains adequate on account of healthy cash flow from operations of Rs.7.79 crore in FY21 along with negative operating cycle. AU has academic year from July to May and it receives majority of its college fees on advance basis; therefore, average collection days remains minimal. Also, AU's inventory holding days remained at a lower level along with average payable days of around 69 days leading to negative operating cycle. Consequently, the company has not availed any fund based working capital limits. Further, AU had free cash and bank balances and liquid investments in the form of liquid mutual funds amounting to Rs.8.38 crore as March 07, 2021. On account of sufficient liquidity cushion, AU had not opted for moratorium on the interest payment on its outstanding term loan.

Analytical approach: Standalone along with linkages with GJHM.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology- Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[CARE's Methodology Education Sector](#)

About the Company

Surat, Gujarat based Auro University (AU), is registered as a private university to impart higher education by offering undergraduate and post graduate courses in varied streams. AU is a wholly owned subsidiary of Gujarat JHM Hotels Ltd. which own & manages two five-star hotel properties in Surat. AU is headed by Mr. H.P. Rama, and he is very well assisted by qualified and experienced body of governors and head of different schools. It has a total of eight colleges offering more than 20 courses at its 30 acres campus located at Hazira near Surat, Gujarat. All the courses offered by AU are accredited by the relevant statutory bodies like All India Council for Technical Education (AICTE) for Management courses and Bar Council of India (BCI) for law etc. Currently, 1,210 students are studying in varied streams in the academic year 2020-2021 (July to May).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	32.33	29.49	21.83
PBILDT	8.42	9.61	9.62
PAT	4.90	5.30	5.66

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	32.33	29.49	21.83
Overall gearing (times)	0.26	0.24	NA
Interest coverage (times)	218.22	29.64	NA

A: Audited, UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: Please refer Annexure-2

Covenants of rated facility: 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 Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	September 2028	8.24	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	8.24	CARE BBB-; Stable	-	1)CARE BBB-; Stable (31-Mar-21) 2)CARE BBB-; Stable (01-Apr-20)	-	-

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 instrument	Complexity level
1	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 instrument: CARE Ratings Ltd. 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.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Manohar S Annappanavar
Contact no.: +91-22-6754 3436
Email ID: manohar.annappanavar@careedge.in

Relationship Contact

Name: Aakash Jain
Contact no.: +91-20-4000 9090
Email ID: aakash.jain@careedge.in

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