

Sanaka Educational Trust

July 05, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	49.42	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Total Facilities	49.42 (Rupees Forty Nine crore and Forty Two lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sanaka Educational Trust (SET) is constrained by its small scale of operations with limited experience in healthcare segment, project implementation risk, weak liquidity position and leveraged capital structure with moderate debt protection metrics. The rating also factors in its constitution as a trust, moderate enrolment rate in its educational institute, moderate occupancy in hospital, high vulnerability to treatment-related risk and regulated nature of the industry. The rating, however, derives strength from decade long track record of the trust in running educational institutes, association of experienced faculties along with moderate infrastructure and improvement in financial performance during FY15 (refers to the period April 1 to March 31) to FY17 (Provisional).

The ability of the trust to commence medical college operations and to improve the liquidity position with no further debt funded Capex plan are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Limited experience in healthcare segment: The promoters lack the experience of managing a hospital.

Small scale of operations: SET's scale of operations has increased over the last three years; however, it continues to be a relatively small player in the education and healthcare sector with total operating income of Rs.44.21 crore in FY17 (Provisional). The total capital employed also remained low at Rs.85.31 crore as on March 31, 2017(Provisional).

Constitution as Trust: SET being formed as a trust is subjected to lesser level of regulations and lacks the flexibility to raise capital.

Project implementation risk: SET is undertaking a project for creating the requisite infrastructure for setting up a Medical College cum Hospital, Sri Ramkrishna Institute of Medical Sciences (SRIMS) and Sanaka Hospitals in phases at Durgapur, West Bengal. Sanaka Hospitals has already started (from January 2016) operations with 330 beds. The project started in July 2015 and is expected to be completed in phases by September 2021 at an envisaged cost of Rs.187.89 crore to be financed by term loans of Rs.45.50 crore, equity of Rs.36.57 crore and internal accruals of Rs.105.82 crore at debt equity of 0.32:1. In first phase, the trust has planned to convert its existing campus of Engineering, Architecture & Diploma College into hospital and constructs new buildings for medical college and existing Engineering, Architecture & Diploma Colleges. The total cost of phase I is envisaged at Rs.64.35 crore to be financed by promoter's contribution of Rs.18.85 crore and term loans of Rs.45.50 crore at a debt equity of 2.41:1. However, financial closure in respect of Rs.40.42 crore is already in place. SET managed to start the hospital operations from January 2016.

The trust has already incurred around Rs.60.71 crore (around 94% of the total project cost (Rs.64.35 crore) envisaged for phase I) towards the construction of such project till March 31, 2017. The medical college is expected to start from September 2017 subject to MCI approval.

High vulnerability to treatment-related risks: Healthcare is a highly sensitive sector where any mishandling of a case or negligence on the part of any doctor and/or staff of the unit can lead to distrust among the masses.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Moderate enrolment rates in educational institutes and moderate occupancy in hospital: The enrollment in B.Tech streams remained low (in the range of 54%-67%) over the past three years. The enrollment rate for diploma courses remained moderate at around 85% during the same period. Furthermore, the enrollment in Rani Rashmoni School of Architecture also witnessed a declining trend over the past three years and remained low at 68% in FY17. Moreover, the occupancy rate remained moderate for Sanaka Hospitals at around 70% in its initial period of operations.

Weak liquidity position: The liquidity position of the trust remained under pressure over the past years due to use of internal accruals to fund the on-going project. Furthermore, presently, the hospital operations are largely dependent on its tie-ups with the central government for schemes like ESIC, Rashtriya Swasthya Bima Yojna (RSBY)) and with the state government for its 'Sastho Sathi' schemes. For these schemes, bills are directly made to the central or state government. However, the payment periods are stretched which creates a working capital gap for the trust and puts pressure on the liquidity position.

Leveraged capital structure with moderate debt protection metrics: The capital structure of the trust remained leveraged as on the past three account closing dates owing to its continuous debt-funded capex for improvement in the infrastructure and setting up of medical college and hospital. Total debt/GCA remained moderate and improved from 10.25x in FY15 to 4.80x in FY17 (Prov.) mainly due to improved cash accruals over the same period.

Regulatory nature of the industry: Despite the increasing trend of privatisation of education sector in India, the sector continues to operate under stringent regulatory control. Accordingly, the players, at times, find it difficult to realize their plans or cope up with the framework resulting in failure of the institution. Hence, regulatory challenges continue to pose a significant risk to educational institutions as they are highly susceptible to changes in regulatory framework.

Key Rating Strengths

Decade long track record of the trust in running educational institutes: SET has been in operation since the year 2008 and has gradually grown from a single institute to a group of institutes imparting education in various disciplines as well as running a hospital. Trustees of SET are experienced businessmen and renowned people in the Durgapur area. Presently, the day-to-day affairs of SET is looked after by Mr Partha Pobi (President, son of Mr Tapan Kr Pobi, founder) B. Tech, having about a decade long experience in the organization with required support from other experienced and qualified trust members.

Association of experienced faculties and reputed doctors along with moderate infrastructure with modern technology : The faculties have requisite experience in their area of discipline. Furthermore, all the institutes under SET have modern infrastructure including furnished hostels for boys and girls, transport & canteen facilities and latest tools & technologies. Sanaka Hospitals is a hospital with various departments. The hospital is equipped with state-of-the-art equipments, research laboratories and well-trained staff.

Improvement in financial performance during FY15- FY17 (Provisional): SET's total operating income has grown at a CAGR of 62.4% during FY14-FY17 and witnessed an significant increase of about 147% y-o-y from Rs.17.92 crore in FY16 to Rs.44.22 crore in FY17 (Provisional). As a result, surplus before interest & depreciation (SBID) also improved from Rs.9.87 crore in FY16 to Rs.20 crore in FY17 (Prov.). The SBID margin remained healthy and stable in the range of at about 44% - 55% in the past three years (FY14-FY16). However, with lower absorption of fixed overheads which led to decline in SBIDT margin from 55.08% in FY16 to 45.23% in FY17 (Provisional). Interest coverage ratio improved from 2.48x in FY15 to 3.05x in FY16 as sharp increase in SBID more than offset the impact of increase in interest cost. In FY17 (Provisional), SET reported GCA of Rs.13.78 crore (improved from Rs.6.23 crore in FY15) vis-à-vis debt repayment obligation of Rs.9.86 crore.

Analytical approach: Standalone

Applicable Criteria

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

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

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

About the Trust

SET, registered under Indian Trust Act, 1882, was established in December 2006 by Durgapur-based (West Bengal) Mr Tapan Kr Pobi along with his family members for the purpose of imparting education and other charitable purposes. The trust commenced its operation in August 2008 with an engineering college, named Institute of Engineering & Industrial Technology (IEIT), Durgapur. In the year 2010, the institute was converted to AICTE approved integrated campus and the name was subsequently changed to Sanaka Educational Trust's Group of Institutions (SETGOI). Subsequently, Swami Vivekananda School of Diploma and Rani Rashmoni School of Architecture for Diploma & B.Arch courses, respectively, were also started as part of the integrated campus. Currently, SET is undertaking a project for creating the requisite infrastructure for setting up a Medical College cum Hospital, Sri Ramkrishna Institute of Medical Sciences (SRIMS) and Sanaka Hospitals in phases at Durgapur, West Bengal. Sanaka Hospitals has already started (from January 2016) operations with 330 beds. Furthermore, SET has received consent for in-principal affiliation from, 'The West Bengal University of Health Sciences' for its proposed introduction of 150 seats in "MBBS" course subject to approval of MCI for medical courses, which is still pending.

As per the audited results for FY16, SEL reported a net surplus of Rs.4.27 crore on a total operating income of Rs.17.92 crore as against net surplus of Rs.1.80 crore on a total operating income of Rs.13.01 crore in FY15. Based on the provisional results for FY17, SEL reported total operating income of Rs.44.22 crore and a net surplus of Rs.10.09 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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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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,2025	49.42	CARE B+; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	49.42	CARE B+; Stable	-	-	-	-

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