



Press Release

Silver Oak Shops & Offices Co. Op. Housing Society Limited

August 25, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities - Term Loan	48.70 (Reduced from Rs 53.70)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed
2.	Long Term Bank Facilities - OD	20.80	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed
3.	Short Term Bank Facilities – Bank Guarantee	6.00	IVR A3 (IVR A Three)	Reaffirmed
	Total	75.50		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Silver Oak Shops & Offices Co. Op Housing Society (SOSCHS) draws comfort from its experienced board of management, satisfactory infrastructure with association of experienced faculties, established track record of the society of successfully running educational institutions over a decade in imparting education and its strategic location. The ratings also positively considers its healthy profitability due to satisfactory enrolment rates in education institutes along with moderate placement history, average financial risk profile marked by moderate debt protection metrics. The ratings also notes receipts of approval to set up an University and positive demand outlook for education in India marked by significant demand for higher education. However, these rating strengths are partially offset by small scale of its operations, intense competition and susceptibility to regulatory risk. The ratings also considers its moderate capital structure and expected moderation in the leverage ratios with incremental debt to fund further capex attributable to its capital-intensive nature of operations.



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Key Rating Sensitivities:

Upward Factor:

- Improvement in enrollment rates thereby adding to the growth in operations and profitability and consequent increase in liquidity on a sustained basis
- Reduction in debt level with improvement in the capital structure and debt protection metrics
- Continues support from the management of society for additional funds if required.

Downward factor:

- Decline in the intake of students and/or negative change in government regulations leading to moderation in the operating income and/or dip in profitability impacting the liquidity
- Deterioration in debt protection metrics with interest coverage remained at below 2x on a sustained basis
- Withdrawal of subordinated unsecured loan amounting to Rs.22.49 crore (outstanding as on March 31,2020(Prov)) and/or moderation in the capital structure
- Any unplanned capex impacting the overall financial risk profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Board of Management.

The promoters of the society, the Silver oak group of Gujrat started their operations in the education sector in 2008. Mr. Shital Omprakah Agarwal, the main promoter and Chairman of SOSOCHS is highly experienced in the education sector with more than two decades of experience. He is actively involved in the management of the society with support from Ms. Poonam D Agarwal (Executive Director) also having experience for over one decade and Mr Janak Khandwala (Joint Executive Director). The day-to-day activities of the educational institutions are managed by respective Principals under the guidance of society members.



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Established track record of the society of successfully running educational institutions for over a decade in imparting education

SOSOCHS, operating since 2009 has more than a decade long experience in the education sector. At present, the Trust consists of two colleges at Ahmedabad with total strength of around 7400 students across all colleges. Currently, both the colleges are affiliated to the Gujrat Technical University and is approved by All India Council for Technical Education (AICTE).

Strategic Location

Ahmedabad is the commercial capital of Gujarat and has industrial hubs in vicinity. The colleges are within the city limits of Ahmedabad Municipal Corporation (AMC) that aids the students for undertaking live project, training, internships and placements. Location is well connected and enjoys close proximity to road (S.G. Highway – 500 meters from site), rail (13 kms from site) and airport. Moreover, there are only two colleges of engineering within the municipal limits of the city one of them is Silver Oak Group of Institutes.

Satisfactory infrastructure with association of experienced faculties

The institutes under SOSOCHS has the privilege of having a number of experienced faculty members, which is essential in building a strong brand name and attracting quality students. Further, all the institutes under SOSOCHS have modern infrastructure including modern lab, canteen facilities and latest tools & technologies.

Approval received to set up University

SOSOCHS had applied to set up the Private University for which got approval by the state government on July 16, 2019. SOSOCHS will be able to avail the benefits provided to University i.e. allocation of seats to students according to application received, designing of courses and curriculum according to current scenario and trend in educational sector.



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Satisfactory enrolment rates in educational institutes along with moderate placement history

The enrolment rates in IT, Computer and Civil has Engineering been increasing over the years. SOSOCHS has also started new courses in PG Diploma. Further, SOSOCHS has also maintained a moderate placement rate over the years.

Healthy profitability

Being in service sector, the operating profit margin of the society remained healthy over the years. However, the EBITDA margin of SOSOCHS witnessed a moderation from 35.99% in FY19 to 34.13% in FY20(Prov) due to increase in staff salary and other maintenance cost albeit there was an increase in PAT Margin from 6.00% in FY19 to 10.70% in FY20(Prov).

Average financial risk profile marked by moderate capital structure and debt protection metrics

The capital structure of the society remained moderate as on the past three account closing dates mainly due to its capital-intensive nature of operations and availment of term debts to fund the same. To arrive at the net worth, Infomerics has considered Rs.22.49 crore of unsecured loans from the trustees and related parties as quasi-equity as the same is subordinated to the bank facilities. The leverage ratios though improved as on March 31, 2020(Prov) as compared to March 31, 2019 backed by scheduled repayment of term loans coupled with infusion of subordinated unsecured loans in the business continues to remain moderate. Total indebtedness of the society also remained moderate as reflected by TOL/ANW at 0.97x as on March 31, 2020(Prov). The debt protection parameters also remained healthy marked by interest coverage at 4.59x and Total debt to GCA at 2.87 years in FY20(Prov). However, the leverage ratios of the society are expected to deteriorate in the near term with incremental debt in the capital structure to fund further capex. Further, high near term repayment obligation and weak current ratio mainly due to continuous capex also weakened the financial risk profile of the company to an extent.

Positive demand outlook for education in India marked by significant demand for higher education

The long-term demand outlook of the education industry remains favourable on the back of a significant demand-supply gap in the higher education space augurs well for the group.



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Further, demand for higher education is likely to improve in India on the back of rising awareness, increasing population and better affordability.

Key Rating Weaknesses

Small scale of operations

The society's scale of operations though is in improving trend remained small over the past three years with an operating revenue of Rs.49.17 crore in FY2019. Small scale of operations restricts the financial flexibility to an extent. The society achieved a total operating income of ~Rs.61 crore in FY20(Prov).

Susceptibility to regulatory risks

The education sector is highly regulated and compliance with specific operational and infrastructure norms set by regulatory bodies are important. Any regulatory changes that impact the flexibility of the society to fix fees for the management quota seats may adversely impact the revenue profile and cash accruals.

Capital intensive nature of operation

Education sector needs regular investment in the workforce and infrastructure to upgrade its facilities and to conduct the operations efficiently. SOSOCHS has plans to build "E block" of 3 lakh square feet for diploma, designing courses, new courses and admin department and will incur CAPEX of approx. Rs.74 crore in FY21. Incremental debt to fund the capex will result in moderation in the leverage ratios.

Intense competition

SOSOCHSL faces intense competition from reputed public and private institutes in and nearby states. This puts pressure on attracting / retaining talented students and faculty.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Companies

Financial Ratios & Interpretation (Non-financial Sector)



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Liquidity - Adequate

Society has generated gross cash accrual of Rs 13.70 crore against repayment of Rs 9.16 crore in FY20(Prov). Adequate liquidity marked by expected cash accruals in the range of ~Rs.17-20 crore as against repayment obligation of around ~Rs.12.29-13.91 crore during FY21-22. Further, the society's management have financially supported in the form of unsecured loans as and when required and the same is expected to be so going forward. All these factors indicate an adequate degree of liquidity support to the Society in meeting its near-term debt obligations.

About the Entity

Silver Oak Shops & Offices Co. Op Housing Society (SOCOCHS), incorporated in 2006, manages two institutes, Silver Oak College of Engineering and Technology (set up in 2009) and Aditya Silver Oak Institute of Technology (ASOIT) (set up in 2014) in Ahmedabad, Gujarat. The colleges offer professional courses in engineering and technology in eight specializations. The society also manages a National Skill Development Centre, a vocational training centre under the Skill India Campaign and an incubation centre. Currently, both the colleges (ASOIT & SOCHS) are affiliated to the Gujarat Technology University and is approved by All India Council for Technical Education (AICTE)

SOCOCHS is managed by Mr Shital Omprakash Agrawal (Chairman) and Mrs Poonam D Agrawal (Executive Director) having an experience of more than a decade along with daughter Anu and Sakshi Agarwal and qualified personnel.

Financials (Standalone):

For the year ended*/As on	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Provisionals
Total Operating Income	49.17	61.00
EBITDA	17.70	20.82
PAT	2.96	6.55
Total Debt	45.40	39.34
Tangible Net worth	17.68	29.24
Adjusted Net Worth^	33.45	51.72
EBITDA Margin (%)	35.99	34.13
PAT Margin (%)	6.00	10.70
Overall Gearing Ratio (x)	1.36	0.76



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^ Unsecured loan from promoters have been treated as quasi equity.

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by IND vide press release dated December 3, 2019 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	48.70	IVR BBB-/Stable			
2.	OD (Against Future receivable)	Long Term	20.80	IVR BBB-/Stable	-	-	-
3.	Bank Guarantee	Short Term	6.00	IVR A3	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually



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widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Bank Facilities –Term Loan	-	-	Jan 31, 2029	48.70	IVR BBB- /Stable
Bank Facilities – OD Against Future receivable				20.80	IVR BBB- /Stable
Short Term Bank Facilities– Bank Bank Guarantee	-	-	-	6.00	IVR A3