

Karnavati Medical & Educational Trust

April 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	69.10 (Reduced from 105.75)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	2.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)
Total Bank Facilities	71.10 (Rs. Seventy-One Crоре and Ten Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Karnavati Medical and Educational Trust (KMET) takes into account continuous growth in its scale of operations with healthy surplus margins. Ratings continue to take into account its established track record of operation in education industry with qualified and experienced management, accredited colleges with diversified course offerings and well-established infrastructure and adequate liquidity.

These strengths, however, continue to remain constrained on account of its improved albeit moderate capital structure with significant amount of loans and advances extended to group entities during FY21 and 9MFY22 (FY refers to the period April 1 to March 31), its presence in the highly regulated and competitive education sector and moderate placement record for few courses.

Rating Sensitivities

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

- Sustained increased in scale of operations of the trust above Rs.200 crore supported with healthy enrolment across courses
- Improvement in Surplus before interest and depreciation (SBID) margins to more than 35% on sustained basis
- Containment of loans and advances extended to group entities

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

- Loans and advances extended to group entities exceeding 45% of networth alongwith moderation in debt coverage indicators
- Continued elongation in average collection period to more than 30 days with increased dependence on external borrowings
- Any changes in government regulation which adversely impacts fee structure and/or student enrolment affecting the income and surplus of the trust, with SBID margin falling below 25%.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and track record of the trust

KMET was established in 2003 as a charitable trust with an objective to impart education and has a track record of over a decade in running educational institutions in varied courses. KMET has been granted the status of a Private University by the State of Gujarat in March 2017 under Gujarat Private Universities Act, 2017. The trustees comprise family members of Mittal and Hada family who are also engaged in varied other businesses such as Textile, Real estate, Construction, Hospitality, Trading and Import-export in Ahmedabad, and other educational institutes in Haryana and an international school in Mumbai, viz. Singapore International School. The policy decisions such as starting new college, new course and investment in infrastructure are decided by a committee comprising trustees in consultation with external consultants and respective administrative/academic staff.

Growth in scale of operations and healthy surplus margins; backed by growth in student enrollment

In FY21, KMET's scale of operations as indicated by Total Operating Income (TOI) registered healthy compounded annual growth rate of 10.3% in last four years ended FY21, including a ~10% y-o-y growth in FY21 and stood at Rs.123.01 crore (P.Y: Rs.111.77 crore). This is largely attributed to healthy y-o-y growth in student enrollment in all the institutes from 2,733 during FY18 to 3,922 during FY21, alongwith routine increase in tuition fee (which is around 10% average increase in fees). Further, as per provisional financial results, in 9MFY22 trust booked revenues of Rs.150 crore.

SBID margin of KMET improved during FY21 by around 883 bps to 40.95% (P.Y:32.12%), on account reduced direct/indirect costs such as professional fees, printing & stationary expenses, travelling & hotel expenses etc. The surplus margin of KMET

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

also improved by 884 bps to 19.20% (P.Y:12.19%) due to higher SBID, alongwith lower interest cost. Consequently, the gross cash accruals of KMET improved from Rs.29.07 crore during FY20 to Rs.41.91 crore during FY21.

Margins, though expected to normalise in FY22 owing to normalisation of operations post covid, are expected to remain healthy.

Accredited colleges with diversified course offerings and well-established infrastructure

The university currently offers an array of courses under graduation and post-graduation programs in various professional fields such as management, law, dentistry, design, arts and mass communication at its campuses situated in Gandhinagar and Kolkata, with majority of revenue from the Unitedworld Institute of Design (UID) where KMET has independence to determine the intake of students in various courses alongwith tuition fees. Further, university has around 250 qualified and experienced professors (including visiting professors), having average experience of 10 to 12 years in their respective fields. The average student to teacher ratio at KMET over past three years ended FY21 was around 12:1.

Infrastructure at the university is well established with Six institutes within Gandhinagar campus and one in Kolkata with separate buildings and classrooms for each institute, alongwith related infrastructure such as administration building, staff rooms, hostel, laboratories and OPD to train dental students. All institutes are accredited with their respective regulatory authorities.

Key Rating Weaknesses

Moderate capital structure with loans and advances extended to group entities and moderate debt coverage indicators

Capital structure of the trust stood moderate marked by an overall gearing of 0.92 times as on March 31, 2021 with moderate utilisation of fund based limits and debt availed for recently concluded capex. During FY22, debt levels reduced owing to transfer of select loans to a group entity alongwith transfer of select assets.

However, trust extended loans and advances to its group entities during FY21 which further increased in 9MFY22 and is expected to constitute around 40% of its FY22 end network. Thus, overall gearing (after adjusting the network for these loans and advances) is expected to remain moderate at FY22 end.

Debt coverage indicators stood moderate with total debt to GCA at 2.31 times as on March 31, 2021, improved from 3.61 times as on March 31, 2020. Interest coverage ratio also stood moderate at 3.36 times in FY21 (3.44 times in FY20).

Moderate placement track record

KMET conducts placements for post-graduate management program and design students. University has tie-ups with various prestigious companies such as HDFC AMC Ltd., S&P Global etc. with an average 75-80% students placed in last three years ended FY21, albeit with moderate level of packages. This has also restricted student enrolment in management programme over past few years, though enrolment in design programme has witnessed good growth.

Inherent regulatory risk in education sector

Despite the increasing trend of privatization of education sector in India the education industry remains a highly regulated industry with regulatory control from the Central/State Governments and other regulatory bodies. In addition to central bodies such as All India Council for Technical Education (AICTE), Bar Council of India and Dental Council of India, educational institutions are regulated by respective state governments with respect to various factors such as number of seats, amount of tuition fee, and extension of courses offered by universities. These factors have a significant impact on the revenue and profitability of the institutions. In KMET, seats and tuition fee for dentistry are decided by Dental Council of India, whereas for management and law courses the sanctioned intake and fees is decided by the Karnavati University Fee Committee, however subject to approvals from respective authorities. Thus, educational institutes such as KMET remain susceptible to the norms of the governing authorities.

Highly competitive industry

The sector is highly fragmented with the presence of numerous players 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. KMET faces high competition for its post-graduation courses and other popular courses such as management and law from the other educational institutes located in the vicinity. However, it has been able to sustain healthy enrolment ratio in courses such as Dentistry and Design.

Liquidity: Adequate

Liquidity of KMET remains adequate owing to lean working capital cycle, adequacy of gross cash accruals against repayments, low utilization of working capital limits and absence of any major capex plan.

KMET receives majority of its tuition fees on advance basis resulting into minimal average collection period of 15-30 days. Further, average utilization level of Working Capital limits stood low at 30-35% over the last six to eight months supported by healthy cash flow from operations which stood at over Rs.40 crore in FY21.

Debt repayment obligations of around Rs.14 crore in FY22 are expected to be met out of its cash accruals. Also, entity has no major capex plans in near to medium term.

Analytical approach: Standalone**Applicable Criteria**[Policy on default recognition](#)[Financial Ratios – Non financial Sector](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Credit Watch](#)[Short Term Instruments](#)[Education](#)**About the Company**

Gandhinagar, Gujarat based Karnavati Medical and Educational Trust (KMET) was registered as a charitable trust in October 2003 under Bombay Public Trust Act, 1950 with an objective to impart education. The Trust started operations in 2005 with establishment of its first college, namely, Karnavati School of Dentistry in 2005. Gradually, it increased its operations to seven colleges/ institutes in Gandhinagar and Kolkata offering degrees in varied faculties including management, design, arts, law and dentistry under graduation and post-graduation programs. Karnavati University was granted 'Private University' status in March 2017 by the state of Gujarat through the Gujarat Private Universities Act, 2017.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	111.77	123.01	153.65
PBILDT	35.90	50.38	NA
PAT	13.62	23.61	NA
Overall gearing (times)	1.28	0.92	NA
Interest coverage (times)	3.44	3.36	NA

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

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating History for last three years:** Please refer Annexure-2**Covenants of rated instrument / 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 Instruments / Facilities**

Name of the Instrument	IS IN	Date of Issuance	Coup on Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	August 2026	44.10	CARE BBB; Stable
Fund-based - LT-Bank Overdraft		-	-	-	25.00	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	2.00	CARE BBB; Stable / CARE A3+

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	44.10	CARE BBB; Stable	-	1)CARE BBB-; Stable (30-Mar-21) 2)CARE BBB-; Stable (25-Sep-20)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (28-Mar-20)	1)CARE BBB; Stable (25-Feb-19)
2	Fund-based - LT-Bank Overdraft	LT	25.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (30-Mar-21) 2)CARE BBB-; Stable (25-Sep-20)	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (28-Mar-20)	1)CARE BBB; Stable (25-Feb-19)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	2.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (30-Mar-21) 2)CARE BBB-; Stable / CARE A3 (25-Sep-20)	1)CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* (28-Mar-20)	1)CARE BBB; Stable / CARE A3+ (25-Feb-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this CompanyTo 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.

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