# K12 Techno Services Private Limited (Revised)

April 07, 2022

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 250.00 (Enhanced from 90.00) | CARE BBB; Stable (Triple B; Outlook: Stable) | Reaffirmed |
| Total Facilities | 250.00 (Rs. Two Hundred Fifty Crore Only) | | |

Details of instruments/facilities in Annexure-1

**Detailed Rationale & Key Rating Drivers**

The reaffirmation of ratings assigned to the bank facilities of K12 Techno Services Private Limited (KTSPL) continues to derive strength from professionally qualified and experienced management, strong shareholder support, equity infusion in FY21 and 9MFY22 resulting in comfortable capital structure as on December 31, 2021, steady growth in TOI; albeit volatility witnessed in profitability margins and increasing geographical diversification.

The above rating strengths are however tempered by, continued negative cash flow from operations (after considering capex advances/security deposits given to trust for expansion) with volatility in PBILDT margins expected in medium term owing to growth phase of operations of schools and inherent regulatory risk and competition in the education sector.

**Rating Sensitivities**

**Positive Factors**

- PBILDT margin of more than 30% on a sustainable basis
- Working capital cycle to be less than 90 days on a sustainable basis
- Positive Cash Flow from Operations going ahead on a sustained basis

**Negative Factors**

- Decline in current ratio below 1.20 times
- Decline in TOI below Rs.100 crore on a sustained basis

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Professionally qualified and experienced management**

KTSPL is a professionally managed company. There are 5 directors on the board of KTSPL. Out of 5 directors, 2 directors represent SCI, 2 directors represent NL and remaining 1 director is mutually appointed by the SCI and NL. The day-to day management is look by Mr. Jai Decosta, a whole time-director, also CEO and Managing director of the Company. Mr. Decosta is Chartered Accountant and have also done MBA from Indian Institute of Management, Bangalore having more than 19 years of experience in pre-paid internet, cash card companies, sales and outsourcing company for modern retail outlets etc. Prior to joining KTSPL, Mr. Decosta had worked for Times education and Next Education.

**Strong Shareholder Support**

The shareholders of KTSPL have sound financial and credit profile. i) Sequoia Capital India (SCI) is a venture capital firm with approximately $5.7 billion in assets under management across seven funds. SCI has invested in 403 opportunities which include ventures such as OYO Rooms, BYJU, OLA, Zomato, MobiKwik, Mu Sigma, Unacademy, MoneyTap, Urban Ladder, Grofers, BharatPe etc. ii) Navneet Learning LLP is subsidiary of Navneet Education Ltd (NEL; rated CARE AA; Stable/CARE A1+) which publishes supplementary books for state boards of Maharashtra and Gujarat, and manufactures various stationary products for local, and export markets. iii) Sofina Ventures SA founded more than 120 years ago as an engineering conglomerate, is now a listed investment company with equity holdings in Europe, the United States and Asia, and across many sectors with a particular focus on consumer and retail, digital transformation, education and healthcare. During 9MFY22, the company secured another round of funding to the tune of around Rs. 159.90 crore from Sorting Hat Technologies Private Limited (popularly known as Unacademy).

The shareholders continue to provide consistent financial and operational support to KTSPL. The shareholders have infused quasi equity (Compulsory Convertible preference shares) over the last four years to support the expansion plans and maintain

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

the capital structure at comfortable level. Further, both the finance and marketing functions are managed by ex- NEL employees. Details of fund infusion by the investors till date is given below:

| Particulars / Rs. in Crore | SCI – III | | SCI – V | | NEL | | Sofina | | Others | | Sorting Hat | Total amount invested |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Equity | CCPS | Equity | CCPS | Equity | CCPS | Equity | CCPS | Equity | CCPS | CCPS | |
| FY10 | - | - | - | - | - | - | - | - | 0.01 | - | - | 0.01 |
| FY11 | 0.02 | 24.35 | - | - | - | - | - | - | 0.03 | 5.60 | - | 29.96 |
| FY12 | - | 20.31 | - | - | 0.09 | 25.46 | - | - | -0.02 | -5.60 | - | 40.23 |
| FY13 | - | - | - | - | - | - | - | - | - | - | - | - |
| FY14 | 9.36 | - | - | - | 5.70 | 10.76 | - | - | - | - | - | 25.82 |
| FY15 | 3.24 | - | - | - | 1.80 | - | - | - | 8.66 | - | - | 13.70 |
| FY16 | - | 7.58 | - | - | - | 4.21 | - | - | - | - | - | 11.79 |
| FY17 | - | 5.00 | - | - | - | 2.79 | - | - | - | - | - | 7.79 |
| FY18 | - | - | - | 38.56 | - | 21.44 | - | - | - | - | - | 60.00 |
| FY19 | - | - | - | 25.71 | - | 14.29 | - | - | - | - | - | 40.00 |
| FY20 | - | - | - | 30.00 | - | 20.00 | - | - | - | - | - | 50.00 |
| FY21 | - | - | 2.67 | 28.53 | 0.60 | 6.40 | 17.05 | 182.35 | - | - | - | 237.60 |
| 9MFY22 | - | - | - | - | - | - | - | - | - | - | 159.90 | 159.90 |

**Equity infusion by promoters to support growth in number of schools addition by KTSPL.**

Sofina has invested Rs.199.40crore in July 2020 in KTSPL. Along with Sofina, SCI and NL invested Rs.31.20 crore and Rs.7.00crore respectively aggregating total investment of Rs.237.60crore. The said amount is primarily to be utilized for setting up of new schools.

Furthermore, KTSPL is planning to add 6 new schools in FY22 and 12 new schools in FY23. KTSPL will require funding of Rs.139crore each in FY22 and FY23 for opening new schools which will be made operational in FY23 and FY24. Out of Rs.139crore funding requirement each in FY22 and FY23 KTSPL is planning to fund Rs.19.50crore and Rs.90.50crore from Banks while the rest will be funded from internal accruals and aforesaid equity proceeds.

**Increasing geographical diversification**

KTSPL's brand, 'Orchid-The International School' has pan India presence through forty-four schools. During FY22, KTSPL added another 7 schools which are yet to become fully operational and are under different stages of development. Major number of schools are present in Bangalore and Mumbai. KTSPL is planning to add 12 new schools in FY23.

**Steady growth in TOI; albeit volatility witnessed in profitability margins**

The company reported a marginal increase in Total Operating income (TOI) to Rs.107.53 crore from Rs.106.24 crore in FY20. PBILDT margin reported during FY21 was 23.67% as against 20.91% in FY20. PBILDT margins recorded some improvement, largely on account of cost savings owing to online operations of the company, which resulted in reduction in some material costs, electricity and decline in rental expenses etc. During 9MFY22, though the company recorded marginal improvement in the TOI on a comparison with same period previous year, the PBILDT loss was on account significantly higher advertisement expense of around Rs. 61 crores.

**Comfortable capital structure as on December 31, 2021, as a result of equity infusion**

The capital structure of the company remained comfortable as indicated by TOL/TNW of 0.20x as on March 31, 2021 (PY: 0.56x) and overall gearing of 0.12x (PY: 0.39x). The improvement in overall gearing was due to accretion of profit as well as infusion of funds through CCPS. Interest coverage improved from 1.58x to 2.53x during FY21. TDGCA too improved from 8.49 years in FY20 to 2.88 years in FY21. Despite rise in debt of around Rs. 80 crores, capital structure of the company remained comfortable owing to equity infusion of around Rs. 159.90 crores during the first 9M of FY22.

**Key rating weaknesses**

**KTSPL' cash flow from operations (after considering capex advances/security deposits given to trust for expansion) to remain negative with volatility in PBILDT margins expected in medium term horizon**

Total operating income is expected to show a steady growth on the backdrop of planned addition of new schools in the near to medium term also with improved enrolment in existing schools. However, given the growth phase of the company, the PBILDT margins are expected to remain volatile in near to medium term. Although, the cash flow from operations is positive if we consider capex advances/security deposits given to trust for expansion it continues to remain negative in the near to medium term.

**Inherent regulatory risk and competition in the education sector**

The revenue of KTSPL is dependent on the service billing it does to schools. Hence, the company is indirectly impacted by the regulatory changes in the education sector. Education falls in the Concurrent List of the Constitution of India i.e. both the centre and the states have the authority to legislate on it. Primary and secondary education in India is subject to regulatory control, and educational institutions need to comply with central as well as state-specific regulations (unless expressly excluded). Under Indian laws, predominantly, an educational institution school can only be set up in the form of a non-profit entity i.e. either as a charitable trust or a society or a Section 8 Company (a non-profit company under the Companies Act, 2013), which are of a not-for-profit character. Further, legislations regulating fee have been enacted in a few states, and have a direct bearing on the fee that can be charged by schools, specifically private unaided schools, which receive no grant or aid from the government.

As a preventive measure to curb the further spread of the COVID-19 pandemic, schools universities, training centres and other educational institutions were closed across India since mid-March 2020. Closure of schools (physical) continue to impact the revenue of schools. Also, the ongoing tussle between parents and school association for reduction in fees by about 30% for the 2021 academic year, which is presently subjudice continues to pose challenge. Unfavorable judgement against the school management might have negative impact on the revenue of schools. Supreme court on 8th of February 2021 gave interim order while holding a joint hearing on a SLP filed challenging the Fee-Regulation Act 2016. Under the orders, parents will have to pay the fee from March 05, 2021, which can be collected in 6 installments. Also, the court clarified that no child's name will be omitted from the school due to non-payment of fees. Students of classes X and XII will not be denied to appear in the examinations if fees are not deposited.

**Liquidity: Adequate**

KTSPL reported a GCA of Rs.17.03 crore in FY21. While the company incurred losses at EBITDA level during 9MFY22, the company cash and bank balance increased to Rs. 240.13 crore as on December 31, 2021, mainly due to raising of funds through CCPS from Sorting Hat.

**Analytical Approach:** Standalone factoring support in the form of funds infused from the investors (NEL; Rated CARE AA; Stable/CARE A1+, SCI, Sofina and Sorting Hat)

**Applicable criteria:**

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology - Service Sector Companies
Rating Methodology- Education Sector
Rating Methodology: Consolidation
Rating Methodology: Notching by factoring linkages in Ratings
Liquidity Analysis of Non-Financial Sector Entities

**About the Company**

K12 Techno Services Private Limited (KTSPL), was incorporated in March 2010 by Mr. M. Venkatanarayana and his son Mr. MSC Srikanth, to provide education services to various state board schools, under the name Sri Gowtham Academy of General and Technical Education (SGATE). The company was loss making as it provided to services to low cost state board schools. In 2016, the promoters exited the KTSPL, and it was acquired by **Sequoia Capital India** (SCI; holding 64% of the total shares through its overseas investment vehicles – Sequoia Capital Investment Holdings III and SCI Investment V) and Navneet Learning LLP (NL; balance 36%). Under the new management, KTSPL provides management services to ICSE/ CBSE curriculum schools from Kindergarten to 10/12 based in large metros like Bangalore, Mumbai etc. under the brand name, "**Orchid, The International School**. As on date, the company provides its management services to 40 schools across Bangalore, Hyderabad, Mumbai, Pune, Kolkata and one Pre-University Certificate and Degree college in Bangalore of which 34 schools are operational and 6 schools are under-development. The schools have an enrollment of 25,357 students in Academic Year (AY) 2020-2021.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) | 9MFY22 (UA) |
|---|---|---|---|
| Total operating income | 106.24 | 107.53 | 102.24 |
| PBILDT | 22.22 | 25.45 | -22.08 |
| PAT | -2.78 | 3.11 | -47.27 |
| Overall gearing (times) | 0.39 | 0.12 | 0.21 |
| Interest coverage (times) | 1.58 | 2.53 | -0.81 |

A: Audited; UA: Un-Audited

Note: The financials are adjusted as per CARE Ratings Ltd's standards.

**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 | 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 | | - | - | FY30 | 218.00 | CARE BBB; Stable |
| Fund-based - LT-Bank Overdraft | | - | - | - | 32.00 | 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 | 218.00 | CARE BBB; Stable | - | 1)CARE BBB; Stable (17-Mar-21) | 1)CARE BBB; Stable (05-Mar-20)<br>2)CARE BBB; Stable (25-Dec-19) | - |
| 2 | Fund-based - LT-Bank Overdraft | LT | 32.00 | CARE BBB; Stable | - | 1)CARE BBB; Stable (17-Mar-21) | 1)CARE BBB; Stable (05-Mar-20) | - |

* 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 |

**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: Hitesh Avachat
Contact no.: 90048 60007
Email ID: hitesh.avachat@careedge.in

**Relationship Contact**
Name: Saikat Roy
Contact no.: +91-98209 98779
Email ID: saikat.roy@careedge.in

**About CARE Ratings Limited:**

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**