

## Karnatak Lingayat Education Society

March 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long- term bank facilities	71.28 (Reduced from 78.88)	CARE AA; Stable	Revised from CARE AA-; Stable
Short- term bank facilities	10.00 (Enhanced from 5.85)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings of the long-term bank facilities of Karnatak Lingayat Education Society (KLES) derive strength from robust improvement in total operating income (TOI) and surplus before interest depreciation and tax (SBILDT) margin during FY22 along with further improvement in its liquidity position. Ratings are also underpinned by long track record of operations of the society in the education sector, diversified revenue stream with large number of institutions offering diverse range of courses and continuing satisfactory enrolment ratios with consistent growth in students' intake. The ratings also positively factor in the increasing demand for education in India as well as strong financial risk profile of the society marked by comfortable capital structure aided by strong network and comfortable liquidity position. These rating strengths are partially offset by the geographically-concentrated revenue profile of the society operating in a highly regulated environment, moderate brand recall and the intense competition faced by the society from other established players in the education sector.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in TOI by 20% and maintaining SBILDT margin over 25% on a sustainable basis.
- Improvement in overall enrolment ratio to 90% on sustained basis.
- Maintaining overall gearing below 0.10x on sustainable basis.

#### Negative factors

- Significant debt-funded capex or deterioration in liquidity.

### Analytical approach: Standalone

#### Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its growth backed by established market position coupled with strong liquidity with no major debt funded capex in medium term.

### Key strengths

**Long track record of over a century and established operations of KLE Society:** The trust has been operating various schools and institutes since 1916. KLE commenced its operations by starting an Anglo Vernacular school in Belagavi in the name of Gilganchi Artal High School and over the years has started several educational institutes in many segments of education systems. The trust currently manages around 292 educational institutes with a student base of more than 1.30 lakh. Dr Prabhakar Kore who was the former Rajya Sabha member is the Chairman of the trust and has been holding Chairmanship of KLE since 1984

**Diversified revenue stream on account of large number of institutes offering diverse range of courses:** The institutes offer diverse range of courses in the sectors, starting from Pre-primary to Management, Engineering, Medical, Arts, Commerce, Agriculture, Fashion, Pharmacy, Law, Polytechnic, etc. It offers various other diploma courses and graduate and undergraduate courses. KLES also operates eight hospitals and 29 hostels. During FY22, 39% of the revenue was derived by the society from fees collection, 29% from hospitals, 12% from grants and donations and the balance through rental and other income.

**Robust growth in the scale of operations with improvement in SBILDT margin:** The society has registered robust growth in TOI during FY22. TOI improved from ₹611.19 crore during FY21 to ₹782.59 crore viz. growth of 28.15%. The improvement in the income is partially due to increase in fees as well as shifting of revenue from academic year 2021 to 2022 due to COVID-19

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

pandemic. During FY21, TOI of KLES, declined by 12.58% to ₹611.19 crore from ₹698.69 crore in FY20 due to fall in income across divisions on account of COVID-19 and resultant impact. In term of margin, the society has been reporting healthy SBILDT margin. During FY22, KLES reported SBILDT margin of 25.88% (PY: 15.09%)

**Satisfactory enrolment ratios with consistent growth in students' intake:** The trust has been operating various schools and institutes since 1916. KLES has been investing continuously in their infrastructure to increase the intake capacity which along with increased spend on advertisements in the last few years has also contributed to year-on-year growth in the students' intake. The enrolment ratio has been stable and remained at about 80-85% over last five years.

**Strong financial risk profile:** The financial risk profile of KLES marked by its overall gearing remained comfortable. As on March 31, 2022, the overall gearing stood at 0.04x (FY21: 0.05x). The outstanding term loan as on March 31, 2022 stood at 54.07 crore against the corpus of ₹1,965.45 crore. The operations of the society have been stable with no envisaged major debt-funded capex. The other debt coverage indicators such as Interest coverage 27.67x, Total debt/ GCA 0.28x remained comfortable. The society has cash and liquid balance of about ₹700 crore in February 2023.

### Key weaknesses

**Intermittent cash flow mismatch associated with educational institutes:** Around 60% of the fee is collected by KLES during the period June-August in every academic year, while the trust incurs regular stream of payments for meeting staff salary, maintenance activities, interest expenses, term loan repayments, etc. KLES maintains deposits of monthly maturity to take care of operational expenses like staff salary, maintenance expenses, etc. The cash flow mismatch is also offset to an extent by the regular income from the hospital, which contributed almost 29% of the total income for the society during FY22. The society also gets other income in the form of rentals, interest from banks, revenue grants, examination fees, etc. The society undertakes regular expansion and capex activities year on year towards the existing colleges and schools.

**Competition from the larger and more established educational institutes:** KLES is in the education sector, which is highly fragmented in nature with the presence of various educational institutes. Further, the society has moderate brand recall in comparison to other established players which leads to high competition for institutes of KLES. Furthermore, the Central Government is also encouraging private sector participation in the education sector which will further intensify the level of competition for KLES. Increasing competition may lead to decline in student enrolment which will directly impact the revenue visibility for the society. However, considering the brand image of KLES and long track record, the risk is mitigated to a large extent.

### Liquidity: Strong

KLES continues to maintain high bank and liquid balances of more than ₹700 crore (PY: ₹515 crore) as against total term debt obligation of about ₹54 crore at the end of FY22. As policy, KLES maintains a minimum amount equivalent of 12 months' salary plus certain fixed expenses in form of Fixed Deposit (FD). Capex for FY23-FY24 is expected in the range of ₹ 180-200 crore. The same will be funded partly from loan and partly through internal accruals. Liquidity is further aided by Gross cash accruals, which stood at ₹253 crore in FY22 and expected to reach around ₹268 crore for FY23, as against repayments of about ₹26.00 crore for FY23.

### Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Education](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

### About the company and industry

## Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Other Consumer Services	Education

KLES was established in 1916 and commenced its operations by starting an Anglo Vernacular school in Belagavi in the name of Gilganchi Artal High School. Over the years, it has established itself in the field of education and healthcare. Today, KLES is one of the leading and reputed educational societies operating 292 educational institutes in the state of Karnataka with a student base of approximately 1.3 lakh. It also has eight hospitals and 13 health science institutions, with over 4,000 beds including 1,200 charitable beds. The society's institutes are mostly located in the state of Karnataka and Maharashtra. The courses offered by the Trust are affiliated to several state universities.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	7MFY23 (P)
Total operating income	611.19	782.59	450.51
PBILDT	92.23	202.57	123.55
PAT	87.13	202.28	122.79
Overall gearing (times)	0.06	0.04	NA
Interest coverage (times)	8.70	27.67	NA

A: Audited, P: Provisional, NA: Not applicable

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

## Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	23.50	CARE AA; Stable
Fund-based - LT-Term Loan	-	-	-	31.03.2026	47.78	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	10.00	CARE A1+

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	47.78	CARE AA; Stable	-	1)CARE AA-; Stable (03-Mar-22)	1)CARE AA-; Stable (18-Mar-21)	1)CARE AA-; Stable (04-Mar-20)
2	Fund-based - LT-Cash Credit	LT	23.50	CARE AA; Stable	-	1)CARE AA-; Stable (03-Mar-22)	1)CARE AA-; Stable (18-Mar-21)	1)CARE AA-; Stable (04-Mar-20)
3	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (03-Mar-22)	1)CARE A1+ (18-Mar-21)	1)CARE A1+ (04-Mar-20)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings 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

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