Silverline Investment and Finance Private Limited (Revised)

June 12, 2023

Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-Convertible Debentures^^	1,400.00	Provisional CARE A (CE); Stable	Assigned

Details of instruments/facilities in Annexure-1.

^^ The above rating for the proposed NCD issue is provisional and will be confirmed once the Company submits copies of relevant executed documents (listed below as part of the rationale), to the satisfaction of CARE Ratings Ltd.
The rating is based on the credit enhancement in the form of proposed draft guarantee deed stipulating proper payment mechanism and other mandatory clauses, to be extended by Narayana Education Society (NES), Nspira Management Services Private limited (Nspira), Narayana Educational Trust (NELT) and Narayana Education Trust (NET) referred to as the 'Narayana Group'.

Unsupported rating	**CARE BBB- [Assigned]**

Note: Unsupported rating does not factor in the explicit credit enhancement.

Rating in the absence of the pending steps/ documents	**Same as unsupported rating**

Rationale and key rating drivers for the credit enhanced debt:
The rating assigned to the proposed bank facilities of Silverline Investment and Finance Private Limited (SIFPL) is based on the credit enhancement in the form of proposed unconditional and irrevocable guarantee to be extended by Narayana group entities.

Rationale and key rating drivers of Narayana Group:
Narayana group draws strength from its sizeable market share with an optimal student to teacher ratio and demonstrated track record along with experienced management. The group offers integrated curriculum design along with proprietary and comprehensive suite of services to its students. The rating is also driven by the strong brand recall and significant market share in Andhra Pradesh and Telangana region for the K12 segment especially focusing on the IIT and other entrance exam coaching. It has also over the years expanded its footprint to other regions in India like Chennai, Bangalore, Mumbai etc. During FY21 to FY23 (Prov), the group has exhibited healthy growth in Total operating income at CAGR of 47%, while the PBILDT margins have remained comfortable at about 17% to 24%.
These strengths are however partially offset by the concentrated revenue stream in terms of geography (Andhra Pradesh and Telangana region) and business segments (majorly derives revenue from educational services). The credit risk profile i.e. overall gearing and debt coverage indicators of Narayana Group although is comfortable during FY23, the same is expected to weaken on account of factoring the guarantee to be extended to the NCD to be raised by SIFPL during FY24. Further, inherent exposure to regulatory risks and high levels of intra group transactions impact the ratings negatively.

Currently two PE investors hold a minority stake (less than 25%) in one of the Group entities, namely, Nspira in the form of Compulsorily Convertible Preference Shares and Compulsorily Convertible Debentures. In lieu of providing the exit to these PE investors the promoters of Narayana group intending to acquire the said stake are raising funds by issuing NCD amounting to Rs. 1400 crores. SIFPL will invest a major portion of the proposed NCD as optionally convertible debentures in an investment company, which would ultimately acquire from the PE investors. The promoters of Nspira will be the shareholders of the Investment company.

Further, the above ratings are provisional and will be confirmed once SIFPL submits all the below-mentioned documents and completion of the steps to the satisfaction of CARE Ratings Ltd.:

a. Executed debenture trustee deed.
b. Execution of guarantee document including structured payment mechanism along with other relevant clauses by Narayana Group.
c. NCD terms to be in line with indicative terms assessed.
d. Additional documents executed for the transaction.

Key rating drivers of SIFPL (Unsupported Rating):
The unsupported rating assigned to the proposed instruments of SIFPL takes into account the existence of experienced, resourceful and reputed management with over four decades of established track record. Narayana group on a combined basis has more than 4 lakhs student base and the same can be leveraged by SIFPL for its Business to Consumer (B2C) services. The rating also factors the support expected to be extended by the Narayana group entities to SIFPL both in the form of guarantee and also by providing reasonable sales visibility with superior margins. The services expected to be rendered is as follows:

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

1. To the students (both Narayana group and others) Silverline will provide student counselling services, offer consultancy services to eligible Narayana group students, assist the students in obtaining financing from financial institutions for higher education and study abroad for a commission fee-based income.

2. For Narayana group entities SIFPL will provide marketing and distribution of Narayana's content for students, provide curated and attractive financing packages to property owners who are leasing to the group.
CARE Ratings expects that this will enable the group in tapping additional revenue sources in addition to providing increased revenue visibility.

The near-term favourable outlook for the overall educational sector also acts as a tailwind.
The rating, however, is tempered by uncertainty with respect to evolving of operations in SIFPL as current year being first year, dependency on Narayana group for meeting the NCD debt obligations (includes coupon and NCD redemption) and its major dependency on the group for revenue generation.

Rating sensitivities (for the rating assigned to credit enhanced debt): Factors likely to lead to rating actions
Positive factors

- Consistent growth in total operating income by 15% to 20% while maintaining profitability over 20%.
- Improvement in credit risk profile of the Narayana Group with overall gearing below 0.7x post factoring NCD to which the group has extended the guarantee.

Negative factors

- Deterioration in PBILDT% below 15% and increase in overall gearing over 1.5x post factoring NCD to which the group has extended guarantee.
- Any weakening of linkages, or lack of adequate support from the Narayana group

Outlook: Stable
The stable outlook reflects CARE's expectation that the entity will continue to benefit from the experienced management and strong brand recall of the Narayana group institutions.

Analytical approach: Combined
For Credit Enhanced rating: Considering the common management, similar business lines and cash flow fungibility of NES, NSPIRA, NET, NELT, CARE Ratings has carried out the credit risk assessment combining the financials of the said four entities. Further these entities have proposed to extend unconditional and irrevocable guarantee to SIFPL.

For unsupported Rating: Standalone while factoring linkages with group entities, NES, NSPIRA, NET, NELT based on the following:

- These companies have strong financial and functional linkages with each other.
- The group companies also provide technical knowhow and its subject expertise to Silverline.
- The management for all these entities are common and they have centralised Accounting, Treasury functions to manage its investments & debt finance requirements.

Detailed description of the key rating drivers of Narayana group:

Key strengths

Existence of experienced and reputed management with significant market share:
SIFPL is owned and governed by Narayana group's management and there are close operational linkages between the services offered by SIFPL and the other educational institutions operating within the group. The group has been in existence for over 40 years and has gained decent market share during the period. The group has a proven track record in the education segment. In terms of number of students and number of centres Narayana group is amongst the top 5 schools in the K12 segment. As of March 2023, the group has 65 coaching centres, 667 academic centres and more than 4 lakh students.

Strong brand recall with integrated curriculum design:
The group has garnered significant market share and has a strong brand recall among the people in Andhra Pradesh and Telangana region. It has also over the years expanded its footprint to other regions in the south like Karnataka and Tamilnadu.
The group is into schools which operate from kindergarten to 12th standard. The major portion of fee is collected from the 11th and 12th standards as the institution is mainly known for its success rates in various professional entrance exam courses like JEE, NEET etc. They offer integrated curriculum, wherein the students are trained from class Vlll focused on their respective entrance exam courses.

Steady scale up of operations and optimal student to teacher ratio:
The first coaching class was formed in the year 1979 with less than 20 students. The educational institution has, since then, expanded considerably in the years which followed with the number of students growing at a CAGR of 6% (FY16-FY23) and consequently the number of centres has also grown to 732 in FY23 (CAGR of 7% from FY16-FY23). Majority of the revenue (more than 40%) is derived from the class 11 & 12 due to the higher number of enrolments. Narayana group of institutions are known

for their effective coaching and higher passing rates and more number of students acing premier institution entrance exams like JEE, NEET, Olympiad, EAMCET, NTSE etc. compared to peers. The institute has optimal student to teacher ratio of 1:20.

Key weaknesses

High debt exposure towards replacement of capital:

The proposed issue of Rs. 1400 crores is expected to have a two-fold negative impact on the credit risk profile of the Narayana group.

(i) Weakening of overall gearing: SIFPL is planning to raise funds by issuing NCDs to acquire the 20% stake from Private equity investors, further these NCDs are proposed to be guaranteed by Narayana Group entities. The overall gearing of Narayana group although is comfortable at 0.7x as on March 31, 2023, the same is expected to weaken to around 1.4x as on March 31, 2024 factoring the proposed NCD of Rs. 1400 crore.

(ii) No significant additional revenue expected: Since majority of the additional debt is towards replacing existing capital and not towards increasing current capacity or number of centres, the same will not augment in growth of the overall business of group.

Inherent exposure to regulatory risk:

The Narayana group is operating in one of the highly regulated sectors in India. The operating and financial flexibility of the education sector are limited, as regulations governs almost all aspects of operations, including fee structure, number of seats, changes in curriculum and infrastructure requirements. These factors have significant impact on the revenue and profitability of the institutions. However, there has been significant improvement in recent times. More accommodative policies by most states to propel growth and reduce operational interference towards private K-12 players.

Geography concentration risk, albeit the same reducing in recent years

The group is still very much dependent on the revenues derived from the Andhra Pradesh and Telangana region's K12 education segment. Almost 100% of revenue is derived from fee collected for educational services provided in the form of tuition fees or other ancillary services provided to the students like transportation, hostel, printing etc. Geographically, the management has taken certain steps to reduce the high concentration and diversify to other states like Tamil Nadu, Karnataka & New Delhi etc. In the past 10 years, the management has established 53 centres in Karnataka, 37 in Tamil Nadu, 12 in New Delhi and has observed strong growth and increasing enrolments in these regions. The revenue contribution from AP & Telangana has come down from 82% in FY16 to 69% in FY22. The CAGR of the other region has been more than 10% from FY16 to FY22 in students, centres. The management further expects that the growth in AP and Telangana in the coming years will stem from price increases (higher fee). CARE Ratings expects the same to improve going forward.

High levels of intra group transactions, though the same is at arms-length basis:

The Narayana group has multiple institutions through its Narayana Group entitles all of them have significant related party transactions amongst them. Narayana Educational Society (NES) contributes large pie (i.e. about 60% to 65%) in terms of Total Operating Income to Narayana Group entities. Nspira charges fees to NES for services provided like admission, exam support services, catering services, housekeeping & infrastructure management and transport facilities. Nevertheless, to ensure that these transactions happen at an arms-length manner, the management engages with consulting firms for periodical benchmarking, who ensures the rates charged by Nspira are as per industry standard.

Liquidity: Adequate

For the Provisional CARE A (CE) (Stable) rating: Adequate

The debt profile of the Narayana group represents one overdraft facilities amounting to Rs. 135 crores, finance leases amounting to Rs. 662 crores and term loan amounting to Rs. 169 crores as of March 31, 2023. The maximum utilization of working capital is around 67% for last twelve months ended on April 30, 2023. As a strategy the management opts to conserve cash which can be utilised for capex requirements and in case of any distress situation. The group operates in an asset light model and hence finance lease forms a major portion of the debt. The combined cash and current investments of the group is around Rs. 400 crores of which liquid investments is Rs. 158 crores as of March 2023. Going froward post to the successful issuance of the new NCD, the debt repayment obligations are expected to increase to ~Rs. 430 crores in FY24 against the estimated GCA of about Rs. 600 crores. With the additional debt repayments, the average DSCR is expected to be below 1.5x during FY24. The group has capex plans of around Rs. 200 crores in the next 3-4 years and is expected to be funded partly by debt (finance leases) and partly from internal accruals.

For the standalone rating: Adequate

SIFPL was incorporated in March 2023 and does not have any major liquid assets. Considering these any immediate payment obligations of the company are expected to be supported by the group entities initially. In addition to this majority (over 50%) of revenues of SIFPL is estimated to be derived from services provided to group entities (either B2B or B2C), thus the uncertainty revolving around the take-off is mitigated to some extent. Also, it is expected that SIFPL is expected to generate PBILDT level of about Rs. 268 crore during FY24 as against the interest obligation of Rs. 122 crore, considering which the company is expected to meet its interest obligations comfortably. The company has proposed to issue Rs. 1400 crore of NCDs majority (more than 90%) of which will be utilized to pay the PE investors of Nspira and the remaining is towards discretionary capex for Narayana group companies and as per the management it also act as a cushion towards initial interest payment of ~Rs. 122 crores in FY24. According to the draft documents there is a moratorium of 18 months from the issue date after which the principal payments commence. SIFPL does not have any major capex planned for the near future. The group entities are expected to support in day-to-day operations and in adverse conditions.

Assumptions/Covenants

Proposed Covenants:

1) Pledge of 100% shares by the shareholders of NSPIRA
2) Irrevocable Personal guarantee of shareholders of NSPIRA (Puneet Kothapa, Ponguru Sindhura and Ponguru Sharani)
3) Unconditional and Irrevocable guarantee of NSPIRA, NES, NELT and NET

Assumptions:

1) Term of the NCD will be for 5 years and principal repayments will be made from 18th month in 8 unequal half yearly instalments.

Environment, social, and governance (ESG) risks: Not applicable. However, relevant governance risks are mentioned as part of key weakness above.

Applicable criteria

Policy on default recognition
Assignment of Provisional Rating
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Education
Policy on Withdrawal of Ratings
Rating Credit Enhanced Debt

Validity of the Provisional Rating:

The provisional rating shall be converted into a final rating after receipt of the above-mentioned transaction documents duly executed/ completion of the above-mentioned steps within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE Ratings Ltd.'s Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating:

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings Ltd., the final rating is assigned by CARE Ratings Ltd. In absence of receipt of documents/ completion of steps or where such documents deviate significantly from that considered by CARE Ratings Ltd., the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

About the Credit Enhancement Provider

About Narayana Group:

The Narayana group of educational institutions is a 44-year-old educational conglomerate which was initially formed as Narayana Coaching centre comprising of less than 20 students, founded by Porguru Narayana. As of March 2023, Narayana group encompasses over 732 centres including, 667 schools & colleges and 65 coaching centres, and professional colleges across 23 Indian states. It employs a team of over 50,000 highly experienced teachers and staff to support ~425K student every year. They also offer comprehensive academic programs to help students achieve their career aspirations in civil service. The group is into schools which operate from kindergarten to 12th standard. The major portion of fee is collected from the 11th and 12th standards as the institution is mainly known for its success rates in various professional entrance exam courses like JEE, NEET etc.
The group has multiple trusts and societies providing educational services and also has a few entities incorporates as companies which provide ancillary services to the students and the trusts and societies belonging to the Narayana group. For the purpose of our analysis, CARE has combined the financials of the 4 entities namely – NES, Nspira, NELT and NET as they have extended a guarantee to the proposed NCD issue.

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Finance	Other Financial Services

SIFPL is a recently incorporated (on March 22, 2023) financial services company based out of Hyderabad belonging to the Narayana group of educational institutions. It offers a wide range of financial/ educational services to Narayana Group and its clients. With the expertise in financial and educational industry, it's aim is to provide tailored solutions to students and branch owners of Narayana group in terms of study abroad, procuring financing, scouting real estate opportunities, student counselling,

management consultancy to educational institutions etc. Broad revenue streams of the company include real estate and financial consultancy, education consultancy, income from investments.
Brief financial statements are not provided as the company was incorporated on 22nd March 2023, hence audited or provisional statements not available.
The company though incorporated in March 2023, has reasonable sales visibility as major (i.e. over 50%) of sales is expected to be derived from group entities or from its students. There are two main verticals in SIFPL one is the B2C services like student career counselling, finance consulting etc and Business to Business services (B2B) like management consultancy, real estate scouting, vendor financing etc.

Brief Financials of guarantee providers:

Brief Financials (₹ crore)	31-03-2021 (C*)	31-03-2022 (C*)	31-03-2023 (Prov)
Total operating income	1737.97	2386.96	3761.78
PBILDT	409.25	482.96	632.35
PAT	34.15	107.71	209.10
Overall gearing (times)	1.24	0.91	0.70
Interest coverage (times)	3.01	4.07	6.12

C*: Combined. Since the four entities will be providing guarantee to the proposed NCD issue, CARE Ratings has combined the audited financials of these entities for analysis. UA: Unaudited; Note: 'the above results are latest financial results 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: Annexure-4

Lender details: Annexure-5

List of subsidiaries – These are family-owned entities, hence there is no parent subsidiary structure that exists.

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
Debentures-Non Convertible Debentures^^		-	-	-	1400.00	Provisional CARE A (CE); Stable
Un Supported Rating		-	-	-	0.00	CARE BBB-

^^ The above rating for the proposed NCD is provisional and will be confirmed once the Company submits copies of relevant executed documents, to the satisfaction of CARE Ratings Ltd.

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 2023-2024	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
1	Debentures-Non Convertible Debentures	LT	1400.00	Provisional CARE A (CE); Stable				

2	Un Supported Rating	LT	0.00	CARE BBB-				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Name of the Instrument
A. Non-Financial covenants (as per draft documents)
Pledge of 100% shares by the shareholders of NSPIRA
Irrevocable Personal guarantee of shareholders of NSPIRA (Puneet Kothapa, Ponguru Sindhura and Ponguru Sharani)
Irrevocable Corporate guarantee of NSPIRA, NES, NELT and NET

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Un Supported Rating	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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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