

Karnatak Lingayat Education Society

March 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities - 1	42.26 (Reduced from 47.78)	CARE AA; Stable	Reaffirmed
Short-term bank facilities	10.00	CARE A1+	Reaffirmed
Long-term bank facilities - 2 [#]	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

#The society has provided no dues certificate from the lenders and based on the same, CARE Ratings Limited has withdrawn rating to the said facilities.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Karnatak Lingayat Education Society (KLES) derives strength from the society's long track record of operations in the education sector, diversified revenue stream with numerous institutions offering diverse range of courses, and continuing satisfactory enrolment ratios with consistent growth in students' intake. Ratings also derive strength from improvement in KLES' total operating income (TOI) and surplus before interest, lease rentals, depreciation and tax (SBILDIT) margin in FY23. Ratings positively factor in the increasing demand for education in India as well as the society's strong financial risk profile marked by comfortable capital structure aided by strong net worth and comfortable liquidity. These rating strengths are partially offset by the society's geographically concentrated revenue profile operating in a highly regulated environment, moderate brand recall, and the intense competition faced by it from other established players in the education sector.

In FY24, KLES has transferred majority of hospitals' division to KLE Academy of Higher Education (KAHER) which is also sponsored by KLES. Ratings take cognisance of the impact on the society's overall TOI post transfer of hospitals' division which contributed around 28% of TOI in FY23. CARE Ratings Limited (CARE Ratings) notes that despite dent in TOI due to aforementioned reasons, KLES' credit risk profile is expected to remain robust. With addition of new institutions and regular revision of fees, the TOI is expected to recoup in next 2 to 3 years.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving TOI by 20% and maintaining SBILDIT margin over 25% on a sustained basis.
- Improving overall enrolment ratio to 90% on a sustained basis.

Negative factors

- Significant debt-funded capex or deteriorating liquidity.
- Transfer of any divisions leading to declining scale of operations and TOI.
- Declining cash and liquid investments below ₹450 crore.

Analytical approach: Standalone

Outlook: Stable

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

Detailed description of the key rating drivers:

Key strengths

Long track record of over a century and established operations of KLES

The trust has been operating various schools and institutes since 1916. KLES 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

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

institutes in various segments of education system. The trust currently manages more than 300 educational institutes with a student base of more than 138,000. Dr Prabhakar Kore, former Rajya Sabha member, is the Chairman of the trust and has been holding Chairmanship of KLES since 1984.

Diversified revenue stream due to several 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, and Polytechnic among others. It offers various other diploma courses and graduate and undergraduate courses. In FY23, 42% revenue was derived by the society from fees collection, 28% from hospitals, 12% from grants and donations, and the balance through rental and other income. However, in FY24, KLES has transferred majority of hospitals' division to KAHER, which is also sponsored by KLES. Therefore, a decline of about 20% to 25% in TOI is expected in FY24 due to decline in hospitals' division revenue. However, with the addition of new institutions and regular revision of fees, TOI is expected to recoup in next 2 to 3 years.

Growth in the scale of operations with improvement in SBILDT margin in FY23 though decline in 9MFY24

The society has registered growth in TOI in FY23. TOI improved from ₹761.95 crore in FY22 to ₹834.06 crore, a growth of around 9.50%. The improvement in income is partially due to increase in fees owing to increase in the total number of institutes from 292 in FY22 to 309 in FY23. However, in FY24, KLES has transferred majority of hospitals' divisions to KAHER which is also sponsored by KLES. Therefore, a major decline in hospitals' divisions revenue is expected from FY24 onwards. For 9MFY24, KLES reported TOI of around ₹475 crore. Income from hospitals for 9MFY24 stood at ₹77.14 crore as against ₹247.73 crore in entire FY23. In terms of margin, the society has been reporting healthy SBILDT margin consistently, which stood at 25.70% (PY: 23.88%) in FY23.

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 together with increased expense on advertisements in 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 5 years.

Strong financial risk profile

KLES' financial risk profile is marked by comfortable overall gearing. As on March 31, 2023, the overall gearing stood at 0.03x (PY: 0.04x). The outstanding term loan as on March 31, 2023 stood at ₹64.49 crore against the corpus of ₹2,229.69 crore. The society's operations have been stable with no major debt-funded capex being envisaged in near term. The other debt coverage indicators such as interest coverage 35.72x and total debt/ gross cash accruals (GCA) 0.24x remained comfortable. The society has cash and liquid balance of around ₹800 crore as on March 31, 2023.

Key weaknesses

Competition from the larger and more established educational institutes

KLES is in the highly fragmented education sector, with presence of various educational institutes. This leads to high competition for institutes of KLES. The Central Government is also encouraging private sector participation in the education sector which will further intensify the competition level for KLES. Increasing competition may lead to declining 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.

Intermittent cash flow mismatch associated with educational institutes

Around 60% 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, and term loan repayments among others. KLES maintains deposits of monthly maturity to take care of operational expenses such as staff salary, maintenance expenses, and so forth. The cash flow mismatch was offset to an extent by the regular income from the hospital, which contributed almost 28% of the society's total income in FY23. However, a major portion of hospitals are operating separately from FY24 onwards. Therefore, a major decline in hospital revenue is expected from FY24 onwards. The society also gains other income through rentals, interest from banks, revenue grants, and examination fees among others. The society undertakes regular expansion and capex activities year-on-year towards the existing colleges and schools.

Liquidity: Strong

KLES continues to maintain high bank and liquid balances of more than ₹800 crore (PY: ₹719 crore) as against total term debt outstanding of about ₹65 crore at the end of FY23. KLES maintains a minimum amount equivalent of 12 months' salary plus

certain fixed expenses in form of fixed deposit (FD). Capex for FY24 is expected in the range of ₹160-180 crore. The same will be funded partly from loan and partly through internal accruals. Liquidity is further aided by GCA, which stood at ₹271 crore in FY23 as against repayments of about ₹8.60 crore for FY24.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Education](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

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 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 over 300 educational institutes in Karnataka with a student base of approximately 1.38 lakh. The society's institutes are mostly located in Karnataka and Maharashtra. The courses offered by KLES are affiliated to several state universities.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (P)
Total operating income	761.95	834.06	474.89
SBILDT	181.93	214.39	129.87
Surplus	202.28	223.79	88.14
Overall gearing (times)	0.04	0.03	NA
Interest coverage (times)	24.85	35.72	

A: Audited, P: Provisional, NA : Not available; Note: 'these 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 to 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

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	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term loan	-	-	-	30.10.2029	42.26	CARE AA; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	10.00	CARE A1+

Annexure-2: Rating history for 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	Fund-based - LT-Term loan	LT	42.26	CARE AA; Stable	-	1)CARE AA; Stable (08-Mar-23)	1)CARE AA-; Stable (03-Mar-22)	1)CARE AA-; Stable (18-Mar-21)
2	Fund-based - LT-Cash credit	LT	-	-	-	1)CARE AA; Stable (08-Mar-23)	1)CARE AA-; Stable (03-Mar-22)	1)CARE AA-; Stable (18-Mar-21)
3	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1+	-	1)CARE A1+ (08-Mar-23)	1)CARE A1+ (03-Mar-22)	1)CARE A1+ (18-Mar-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of 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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About us:

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