

## Rajalakshmi Educational Trust

March 30, 2021

### Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	191.70	CARE BB+; Stable; ISSUER NOT COOPERATING* (Double B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative) and moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>191.70</b> <b>(Rs. One Hundred Ninety- One Crore and Seventy Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Rajalakshmi Educational Trust (RET) to monitor the rating vide e-mail communications dated February 01, 2021, February 05, 2021, March 12, 2021 among others and numerous phone calls. However, despite our repeated requests, the trust has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on RET's bank facilities and will now be denoted as **CARE BB+; Stable/ ISSUER NOT COOPERATING\***.

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).***

The rating has been revised on account of absence of information required for the purpose of monitoring the rating.

### Detailed description of the key rating drivers

*At the time of last rating on February 20, 2020 the following were the rating strengths and weaknesses*

#### Key Rating weaknesses

##### ***Moderately leveraged capital structure***

The capital structure remained moderate with LT debt equity of 1.14x as on March 31<sup>st</sup> 2019 compared to 1.19x as on March 31, 2018 and the overall gearing has remained at similar levels at 1.49x as on March 31, 2019 as against 1.50x as on March 31, 2018 owing to capex under taken in the last few years pertaining to expansion of classrooms and general refurbishment of campus. Interest coverage indicator remained healthy at 2.21 times in FY19. However, due to lower cash accruals in relation to the total debt, the Trust's total debt to GCA remained moderate at 7.52x as on March 31, 2019. It is to be noted that the dependence of the trust on the short term borrowings viz namely the overdraft facility remains high. Going forward with debt funded capex pertaining to expansion of class rooms to cater to new courses, enhancing R&D facilities and libraries planned in FY20 and FY21 the capital structure and debt coverage indicators are expected to moderate.

##### ***Moderate-size of operations of the trust with single revenue stream***

The trust has been operational for more than two decades and the scale of operations continues to remain moderate with major dependence on one institute (REC) for its revenue stream. For FY19, REC's fee receipts contributed nearly 96% to the trust's total income with remaining from RSA. Nevertheless, the risk is mitigated to an extent by the favorable brand image and consistently high student enrolment levels at REC.

##### ***Exposure to group entities***

Rajalakshmi group had floated a new trust named Rajalakshmi Medical Education and Research Foundation (RMEF) in order to acquire a medical college & hospital named Annai Medical College and Hospital which was operated by another trust. Annai Medical College and Hospital affiliated to Dr. MGR Medical University, Chennai commenced intake of first batch of sanctioned 150 students in June 2016. RET had invested Rs.24.20 crore during FY16 in RMEF as corpus and the promoters of Rajalakshmi group infused around Rs.55 crore in RMEF to acquire the college. However, due to compliance and regulatory issues, Annai Medical College has been debarred from admitting students in 2017 for two academic years. Hence the acquisition process was stalled. Apart from the infusion of Rs.24.20 crore in FY16 by RET, there has been no additional exposure in RMEF as on date. Apart from this the trust has extended loans and other advances to group entities for maintenance of hostel, canteen and other amenities. The overall loans and advances of such nature stood at Rs. 17.57 crores as on March 31<sup>st</sup>, 2019 compared to Rs. 13.66 crores as on March 31<sup>st</sup> 2018.

### ***Intermittent cash flow mismatch associated with educational institutes***

The cash flow management practice adopted by RET assumes significance in light of the intermittent nature of cash inflows as nearly 80% of the fee receipts are collected during the months of June to 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. The intermittent cash flow mismatches faced by the trust throughout the year are bridged by working capital facilities in the form of overdraft facility and unsecured loans from the trustees.

### ***Highly regulated nature of education industry***

Higher education sector is one of the highly regulated sectors with both state and central government regulating the industry directly and/or indirectly through various bodies including UGC (University Grants Commission) and AICTE (All India Council for Technical Education). The scope of government regulations is wide, starting from establishment of course/institute, seat sharing, fee fixation and periodical review of the standards followed by the institute. These factors have significant impact on the revenues and profitability of the institutions.

### **Key Rating Strengths**

#### ***Experienced promoters with long track record in the industry***

Mr. S Meganathan, Chairman and Founder of Rajalakshmi Group of Institutions, is an engineering graduate and has more than three decades of experience in the education industry. His wife Dr. Thangam Meganathan, Managing Trustee of Rajalakshmi Education Trust, holds M.A., M.Phil., Ph.D. degrees and has nearly two decades of experience in the education sector. Rajalakshmi Group of Institutions encompasses seven institutions with interests in engineering, management, nursing, architecture, teacher training and a school, managed by different trusts. They are assisted by their sons Mr. Abhay Shankar and Mr. Haree Shankar, the other trustees of RET.

#### ***Long standing operations of the institute with established brand name and healthy students' enrolment level***

Rajalakshmi Engineering College (REC) is the flagship institute of the Rajalakshmi group of institutions. REC has been operational since 1997 and is one of the renowned private engineering colleges in Chennai, with affiliation to Anna University. Further, from AY2017-18, the college attained autonomous status from UGC. This allows the college to formulate new courses/programmes or restructure the existing courses/programmes, with complete administrative autonomy. REC garners near 100% students' enrolment level every year driven by its established brand name and track record for campus placements. For the past five academic batches ended AY2019-20, the college's first year students' enrolment level for UG courses have been in the range of 90%-97%. REC's total number of students stood at 7,485 for the AY2019-20. RET's other institute – Rajalakshmi School of Architecture (RSA) also garners high enrolments of 96% for AY2019-20.

#### ***Stable income and cash accruals***

In FY19, total income of RET grew by 9% y-o-y from Rs.95 crore in FY18 to Rs. 105 crores driven by revision in fee structure. SBID margin moderated to 41.76% in FY19 from 43.68% in FY18 due to higher employee benefit expense, while surplus margin stood at 18.54% in FY19 compared to 19.00% in FY18. The Trust generated GCA of Rs.25.65 crore in FY19 as against Rs.23.86 crores in FY18.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Educational Sector](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity analysis - Non-Financial sector](#)

### **About the Company**

Rajalakshmi Educational Trust (RET) is a minority charitable trust established in November 1995 by Dr. Thangam Meganathan, the Chairperson & Managing Trustee. RET operates two colleges near Chennai, Tamil Nadu - Rajalakshmi Engineering College (REC) and Rajalakshmi School of Architecture (RSA). REC is an autonomous institution, affiliated to Anna University, Chennai and offers under-graduate (UG), post-graduate (PG) and doctoral (Ph.D) programmes in the engineering domain. For the AY2019-20, REC had total strength of 7,485 students. RSA was started in 2010 and has a total strength of 335 students for the AY2019-20.

<b>Brief Financials (Rs. crore)</b>	<b>FY18 (A)</b>	<b>FY19 (A)</b>
Total operating income	95.14	105.65
SBID	43.68	41.76
Surplus	18.08	19.22
Overall gearing (times)	1.49	1.48
Interest coverage (times)	2.35	2.21

A: Audited

**Status of non-cooperation with previous CRA:** CRISIL had suspended RET's ratings (CRISIL BBB-; Stable/ CRISIL A3) on account of non-cooperation by RET, as per its PR dated December 13, 2016.

**Any other information:** Not Applicable

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

**Covenants of rated instrument/ facility:** Not Applicable

**Complexity level of various instruments rated for this company:** Annexure 4

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Sept 2029	132.70	CARE BB+; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Bank Overdraft	-	-	-	59.00	CARE BB+; Stable; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; Based on best available information

#### 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	132.70	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Negative (20-Feb-20)	1)CARE BBB-; Stable (26-Mar-19)	1)CARE BBB-; Negative (23-Mar-18) 2)CARE BBB-; Negative (24-Apr-17)
2.	Fund-based - LT-Bank Overdraft	LT	59.00	CARE BB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BBB-; Negative (20-Feb-20)	1)CARE BBB-; Stable (26-Mar-19)	1)CARE BBB-; Negative (23-Mar-18) 2)CARE BBB-; Negative (24-Apr-17)

\*Issuer did not cooperate; Based on best available information

#### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

#### Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Term Loan	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Name: Mr. Mradul Mishra  
Contact no. – +91-22-6837 4424  
Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name: Mr. Sandeep P  
Contact no.: 044 2850 1000  
Email ID: [sandeep.prem@careratings.com](mailto:sandeep.prem@careratings.com)

### Relationship Contact

Name: Mr. V. Pradeep Kumar  
Contact no. : 044 2850 1001  
Email ID: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings 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. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo 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 is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE'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.careratings.com](http://www.careratings.com)**