

IL&FS Education & Technology Services Limited
November 27, 2017

Rating

Instrument*	Amount (Rs. crore)	Ratings ¹	Rating Action
Commercial Paper	125.00 (Rupees One Hundred and twenty five Crore only)	CARE A1+ (A One Plus)	Reaffirmed

*Details of the instrument in Annexure-III

Detailed Rationale

The rating assigned to the commercial paper of IL&FS Education & Technology Services Limited (IETS) continues to take into account the strong parent, IL&FS Ltd (rated CARE AAA/CARE A1+), track record of demonstrated financial and management support by IL&FS Ltd to IETS, and the available sanctioned credit lines from IL&FS limited amounting to Rs.125crs which are fully unutilised and available as a liquidity support at all times. The rating further takes into account the strong track record of securing tender based projects from state government and their successful implementation, strong order book position and diversified product portfolio. The rating however, continues to be constrained by the working capital intensive operations of the company led by high receivables from state government, high gestation period for projects leading to moderate capital structure and high competition from organized and regional players. Going forward the continued majority shareholding of IL&FS Limited, it's continued operational and financial support to IETS including the availability of credit lines aggregating Rs.125 crs would be key rating sensitivities. Also the ability of the company to improve its collections and efficiently manage its working capital requirement while improving on its capital structure would be key rating sensitivities.

Detailed description of the key rating drivers**Key rating strength****Strong promoter group and demonstrated financial support in the past**

IETS is a 68.93% subsidiary of IL&FS Limited and has top level Board representation of IL&FS. Besides the management support, explicit financial support has been extended in the form a fund based line of credit to IETS (unutilized as on Aug 1, 2017).

Demonstrated track record in securing and executing tender based projects from State Governments

IETS derives around 60% of its business from its education services vertical, of which 25% is from sale of K-Yan and 35% is from ICT business. IETS has successfully won tenders from various state governments viz. Gujarat, Maharashtra, Bihar, Odisha, West Bengal, Himachal Pradesh, Arunachal Pradesh etc. and has demonstrated a successful track record of implementing the same over the past five years. During the 7 months ending Oct 31, 2017, the company has received new order valued at Rs.577cr, which mainly include order of Rs.383cr from West Bengal.

Strong order book position with a Diversified product profile and patented product

The company has a diversified product profile which comprises of the ICT projects, K-yan, K-class (IT enabled classrooms), Schools & Infrastructure management, training services etc. Besides, skills projects and cluster development projects are also undertaken through wholly owned subsidiaries of IETS. IETS on consolidated basis has a total order book position as on October 1, 2017 of Rs.971crs to be executed in the next 1 to 3 years.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.

Key rating weakness

High receivable from state department for ICT projects

ICT projects are long term projects awarded by the state governments through a competitive bidding process. The usual tenor of an ICT project is 5 years. Further, since the counterparties are the respective state governments, the collection period varies from 2-9 months with various state departments once the bills are raised leading to high debtors.

Long gestation period in projects to achieve cash break-even

IETS has to incur upfront expenditure on the hardware while setting up any ICT project and the collections are spread over a period of 5 years. Therefore, due to upfront expenditure and staggered collections, the company has minimum cash break-even of 2.5 years in an ICT project. Presently, majority of ICT projects started during the period of FY13 and FY14 and have achieved their break-even during FY17. Therefore, these projects are expected to generate cash surpluses during their remaining life. In case of any further delay in the collections, the company may have to rely on external borrowing, which may impact its liquidity position adversely.

Moderate financial risk profile

The financial risk profile of the company is characterized by high overall gearing (2.70x as on March 31, 2017) due to its working capital intensive nature of operations and large part of borrowings being raised over the last three years (FY15 to FY17). Also with the stagnant operating profit, the interest coverage has remained at 1.74 and 1.76 during FY17 and FY16 respectively. However the performance has improved during H1FY18 with total operating income of Rs.343cr and PBILDT of Rs.57cr as compared to total operating income and PBILDT of Rs.135cr and Rs.23cr during H1FY17. The increase in sales is due to execution of large orders for West Bengal State government and other state government.

High competition from regional players

IETS faces high competition in its ICT business from established as well as regional players. Therefore with the increasing competition, it becomes important for IETS to maintain its delivery performance standards and keep pricing of its products in line with the competition.

Analytical approach: Consolidated

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's methodology for education institutions](#)

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

About the company

IL&FS Education & Technology Services Ltd (IETS) is engaged in the business of providing education technology and training services in public private partnership (PPP) mode. The company was set up in 1997 and is the social infrastructure development arm of Infrastructure Leasing & Financial Services Limited (IL&FS, CARE AAA / A1+). IETS provides solutions in education and training to educational institutions, state governments and private corporate with a focus on nurturing human capital. The company works in key areas of education, skill development, and cluster development.

IETS reported a total operating income (on a consolidated basis) of Rs.648 crore in FY17 (refers to the period April 01 to March 31) and earned a PBILDT and PAT at Rs.132 crore and Rs.26 crore respectively as compared to PBILDT and PAT of Rs.144 crore and Rs.28 crore respectively on total operating income of Rs.614 crore during FY16.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	614	648
PBILDT	144	132
PAT	28	26
Overall gearing (times)	2.66	2.70
Interest coverage (times)	1.76	1.74

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-IV

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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Annexure-1: Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper	Nov 2017	9.00%	Nov 2018	100.00*	CARE A1+

*outstanding CP as on Nov 24, 2017 out of the total CP limit of Rs.125cr

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Commercial Paper	ST	125.00	CARE A1+	1)CARE A1+ (09-Oct-17) 2)CARE A1+ (09-Aug-17)	1)CARE A1+ (13-Feb-17) 2)CARE A1+ (25-Aug-16) 3)CARE A1+ (20-May-16)	1)CARE A1+ (11-Feb-16)	-

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