IPSAA Holdings Private Limited

August 19, 2019

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long term Bank Facilities	15.64	**CARE BB**; Stable (Double B; Outlook: Stable)	**Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)**
Total	**15.64 (Rupees fifteen crores sixty four lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of IPSAA Holdings Private Limited (IPSAA) considers the continuous losses during the last three years and high financial leverage. The rating is further constrained by small though growing scale of operations, continuous expansion, dependence on availability of requisite manpower, reputation risk associated with childcare industry and IPSAA's presence in the competitive industry. The rating, however, draws comfort from experienced and resourceful management, satisfactory infrastructure, agreements with reputed customer case providing short to medium term revenue visibility, and positive outlook on the industry.

Going forward, the ability of the company to increase its scale of operations and its profitability margins while maintaining its capital structure shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key rating weaknesses

Continuous losses during the period of FY 17 to FY19 leading to tight liquidity position

Due to continuous expansion of opening of new centers coupled with the low capacity utilization, the company has incurred cash losses during the last year of FY17 to FY19. The cash losses along with regular capex and regular debt repayment put pressure on the liquidity of the company. Although the losses and other requirement are met through the equity infusion and unsecured loan, however with the increases losses there is increases reliance on the external financial support.

Small but growing scale of operations

The company has registered high growth in the total operating income of 71% in FY19 and almost 100% in FY18 on the back of increase in number of centers. However due to lower capacity utilization, the total operating income remain small at Rs.25cr in FY19. Therefore going forward, the ability of the company to improve on its scale of operations along with the profitable operations would be key rating sensitivity.

Weak Capital Structure

Despite of the regular equity infusion, the capital structure of the company continues to remain weak due to regular losses and debt being taken to fund the expansion projects. The company has total debt of Rs.20cr as on March 31, 2019 as compared to net worth of Rs.4cr, thereby resulting in overall gearing of 4.88x. Also due to cash losses the interest coverage remains negative during FY19. The weak capital structure and negative interest coverage, limit the company flexibility to raise debt.

Dependence on availability of requisite manpower

The company's services are totally dependent on availability of the requisite manpower. To meet the increasing need of the manpower, the company recruits on the basis of the references from its existing employees. As these are semi-skilled laborers does not require high skill, the company recruits semi-skilled or unskilled labor and provides the requisite training through its training centers. However, due to nature of industry; company's ability to attract and retain quality staff remains a concern.

Reputation risk associated with childcare industry

The industry is a highly sensitive sector where any mishandling or negligence on part of any employee and/or staff of the unit can lead to distrust among the masses. Having a reputation as being a provider of high quality child care services is an important factor in ensuring that the company maintains the occupancy rates and earnings of the child care centres. As the company will be the owner of a large number of child care centres, there is a risk that an isolated incident occurring at one centre may impact on the reputation of the company and impact adversely on the profitability of all.

[1]*Complete definitions of the ratings reaffirmed are available at www.careratings.com and in other CARE publications.*

Presence in the competitive industry
IPSAA operates in a competitive industry marked by the presence of a large number of players in the unorganized sector and a few players like KLAY, Kangaroo Kids, and Footprints etc. in the organized sector. Further, there is low entry barrier in the industry; increased competition from existing and new industry participants may impact company's scale and profits.

Key Rating Strengths
Experienced and Resourceful Management
IPSAA is currently being managed by Mr. Shiv Kumar Mittal, Ms. Kanchan Mittal and Ms. Namrata Bachani. The promoters Mr. Shiv Kumar Mittal and Ms. Kanchan Mittal have experience of more than two and a half decades and around two decades respectively through their association with different companies in various capacities. In addition to this, Ms. Namrata Bachani, CEO of IPSAA, has an experience of more than a decade in the child care industry through Integrated Childcare Pvt. Ltd. On account of expansion of centers across country and resultant cash losses owing to massive expenditure incurred, the management has been resorting to issuance of equity at a premium coupled with infusion of unsecured loans to cater to debt obligations and other requirements arising in the course of business operations.
Further, the advisory board of the company consists of renowned members Kapil Agarwal, (Joint MD of UFO Movies), Mr. Chirag Patel (CEO and Director of KOOH Sports), Mr. Arvind Bali (CEO of Videocon Telecom) and Mr. Sunil Patil (director with Scrabble Entertainment (subsidiary of UFO Movies). All these members have rich experience in diversified business segments.

Satisfactory infrastructure
The daycare centres have satisfactory infrastructure and provide facilities like age appropriate material for activities, playing, relaxing etc., a settling room with comfortable floor seating and access to outdoor areas, an infant room with trained staff and helpers, privacy for nursing mothers, lounges, comfortable resting spaces for children, toddler lounge etc. The centres also have facilities to support activities like pottery, sports, art, dancing, reading, and music etc.
Furthermore, IPSAA has tie-up with Arthemis Hospital which help the company to meet global standards pertaining to safety and healthcare and also ensures medical facilities.

Short to medium term revenue visibility and reputed client base
IPSAA under its capitive model has entered into an agreement with reputed clients viz Snapdeal, MMT, Maruti Udyog Limited, Standard Chartered Bank, and Birla Estates etc. operating in Delhi-NCR, Mumbai and Chennai to provide day care facility. The reputed client base assures the timely payment and lends comfort to the revenue realization. Thus, there is an assured revenue visibility.

Positive outlook
Pursuant to the amendment in the Maternity Benefit (Amendment) Act 2017, every establishment employing 50 or more employees shall have the facility of crèche at the establishment's premises or two or more firms within 500 metres can pool their resources and create a community crèche. The rise of the middle class, higher female participation in the workforce, emergence of nuclear two-income families and the information and technology boom in the country have led to the expansion of this unorganized industry sector, including specialized early learning centres (ELCs), crèches, pre-school and other day care facilities, offering services for a few hours to the entire day.

Analytical Approach: Standalone

Applicable Criteria:
Criteria on assigning 'outlook' and 'credit watch' to credit Ratings
CARE's Policy on Default Recognition
Criteria for short term instruments
CARE's methodology for Service Sector companies
Financial ratios – Non-Financial Sector

About the Firm
IPSAA Holdings Private Limited (IPSAA) was incorporated in 2013 by Mr. Shiv Kumar Mittal and Ms. Kanchan Mittal. IPSAA is running pre-school and daycare centres in Ahemdabad, Bangalore, Chennai, Gurgaon, Hyderabad, Kolkata, Mumbai, New Delhi, Noida, Neemrana and Pune. IPSAA operates under two business models; Company Owned Company Operated (COCO) and Captive (Corporate)-acting as day-care service provider to corporates clients. The company has tie ups with corporates like Snap deal, MMT, Maruti Udyog Limited, Standard Chartered Bank, Birla Estates, Hero moto Corp etc. to operate day care centres in their offices. The centres also have arrangement for recreation and extracurricular activities for the children like pottery, sports, art, music etc.

(Rs. Crore)

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)	FY19(Provisional)
Total operating income	14.72	14.75	25.25
PBILDT	-1.15	-1.25	-0.50
PAT	-1.80	-2.80	-3.68
Overall gearing (times)	4.22	6.39	4.88
Interest coverage (times)	-ve	-ve	-ve

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	September 2024	12.14	CARE BB; Stable
Fund-based - LT-Cash Credit	-	-	-	3.50	CARE BB; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	12.14	CARE BB; Stable	-	1)CARE BB+; Stable (01-Oct-18)	1)CARE BB+; Stable (11-Jul-17)	-
2.	Fund-based - LT-Cash Credit	LT	3.50	CARE BB; Stable	-	1)CARE BB+; Stable (01-Oct-18)	1)CARE BB+; Stable (11-Jul-17)	-

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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