

Karnavati Medical and Educational Trust

September 25, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	84.75 (reduced from 103.86)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed and removed from Issuer not cooperating*
Long-term/Short-term Bank Facilities	2.00	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)	Reaffirmed and removed from Issuer not cooperating*
Total Facilities	86.75 (Rupees Eighty Six Crore and Seventy Five Lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Karnavati Medical and Educational Trust (KMET) continue to derive strength from its established operations in education industry with qualified and experienced management, accredited colleges with diversified course offerings and well established infrastructure, growth in scale of operations with healthy surplus margins and adequate liquidity.

The ratings, however, remain constrained on account of its moderate capital structure, moderation in fee collection owing to disruptions caused by Covid-19 pandemic, presence in a highly regulated and competitive education industry and moderate placement record for few courses.

Rating Sensitivities

Positive Factors

- Sustained increased in scale of operations of the trust above Rs.150 crore supported with healthy enrolment across courses
- Improvement in Surplus before interest and depreciation (SBID) margins to more than 40% on sustained basis
- Improvement in overall gearing to below unity on sustained basis

Negative Factors

- Any debt funded capital expenditure undertaken by the trust which results in deterioration of capital structure and debt coverage indicators
- Any delay in receipt of fees from students which results in elongation in average collection period to more than 30 days and increased dependence on external borrowings
- Any changes in government regulation which adversely impacts fee structure and/or student enrolment affecting the income and surplus of the trust, with SBID margin falling below 20%.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and track record of the trust

KMET was established in 2003 as a charitable trust with an objective to impart education and has a track record of over a decade in running educational institutions in varied courses.

KMET has been granted the status of a Private University by the State of Gujarat in March 2017 under Gujarat Private Universities Act, 2017. The trustees comprise family members of Mittal and Hada family who are also engaged in varied other businesses such as Textile, Real estate, Construction, Hospitality, Trading and Import-export in Ahmedabad, and other educational institutes in Haryana and an international school in Mumbai, viz. Singapore International School.

The policy decisions such as starting new college, new course and investment in infrastructure are decided by a committee comprising trustees in consultation with external consultants and respective administrative/academic staff.

Growth in scale of operations and healthy surplus margins; backed by healthy growth in student enrolment

KMET's Total Operating Income (TOI) registered a healthy growth of over 16% over last two years to around Rs.111.05 crore in FY20. This is largely attributed to healthy y-o-y growth in student enrollment in all the institutes from 2,733

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

*Issuer did not cooperate; Based on best available information

during FY18 to 3,613 during FY20, alongwith routine increase in tuition fee (which is around 10% average increase in fees).

SBID margin of KMET has remained healthy at around 32.41% in FY20; though same has moderated by around 300 bps from FY18 levels higher promotional expenses, alongwith similar reduction in net surplus margin due to increased interest cost on account of debt availed to fund at capital expenditure, which however remains healthy at 12.13% in FY20. Furthermore, with growth in scale of operations, the gross cash accruals improved in last three years to Rs.29.05 crore during FY20.

Accredited colleges with diversified course offerings and well established infrastructure

The university currently offers an array of courses under graduation and post-graduation programs in various professional fields such as management, law, dentistry, design, arts and mass communication at its campuses situated in Gandhinagar and Kolkata, with majority of revenue from the Unitedworld Institute of Design (UID) where KMET has independence to determine the intake of students in various courses alongwith tuition fees.

Further, university has around 250 qualified and experienced professors (including visiting professors), having average experience of 10 to 12 years in their respective fields. The average student to teacher ratio at KMET over past three years ended FY20 was around 12:1.

Infrastructure at the university is well established with five institutes within Gandhinagar campus and one in Kolkata with separate buildings and classrooms for each institute, alongwith related infrastructure such as administration building, staff rooms, hostel, laboratories and OPD to train dental students. All institutes are accredited with their respective regulatory authorities.

Key Rating Weaknesses

Moderate capital structure owing to recently concluded debt-funded capital expenditure (capex)

The capital structure of the trust stood moderate marked by an overall gearing of 1.30 times as on March 31, 2020; on account of the debt availed to fund the capital expenditure undertaken in last three to four years to construct the infrastructure facilities such as hostel, auditorium and academic building.

Debt coverage indicators of KMET remained moderate, as indicated by a TD/GCA of 3.66x as on FY20 (P.Y.: 4.22x) and SBID/Interest Coverage of 3.44x as on FY20 (P.Y.: 4.22x), on account of healthy cash accruals and profitability.

Moderation in fee collection owing to disruptions caused by covid-19 pandemic

Collection of tuition fee has moderated during FY21 owing to disruptions caused by the outbreak of covid-19 pandemic. As against a lean collection period of around 9 days over last three years ended FY20, company has been able to collect only around 70% of its booked fee for the first half of FY21. Extent and timeliness of collection of the balance fee remains to be seen and shall remain crucial from credit perspective.

Further, educational institutes of the trust have been shut down from Mid-March 2020 as per the guidelines of Government to contain the spread of Covid-19 and are expected to remain close till further orders of re-opening of the same. KMET has been providing online classes to its students till the commencement of the regular in-person classes (as per order of the government).

Moderate placement track record

KMET conducts placements for post-graduate management program and design students. University has tie-ups with various prestigious companies such as HDFC AMC Ltd., S&P Global etc. with an average 80-85% students placed in last three years ended FY20, albeit with moderate level of packages. This has also restricted student enrolment in management programme over past few years, though enrolment in design programme has witnessed good growth.

Inherent regulatory risk in education sector

Despite the increasing trend of privatization of education sector in India the education industry remains a highly regulated industry with regulatory control from the Central/State Governments and other regulatory bodies. In addition to central bodies such as All India Council for Technical Education (AICTE), Bar Council of India and Dental Council of India, educational institutions are regulated by respective state governments with respect to various factors such as number of seats, amount of tuition fee, and extension of courses offered by universities. These factors have a significant impact on the revenue and profitability of the institutions. In KMET, seats and tuition fee for dentistry are decided by Dental Council of India, whereas for management and law courses the sanctioned intake and fees is decided by the Karnavati University Fee Committee, however subject to approvals from respective authorities. Thus, educational institutes such as KMET remain susceptible to the norms of the governing authorities.

Highly competitive industry

The sector is highly fragmented with the presence of numerous players due to high growth opportunities and government's thrust on education for all. Therefore, the players in this industry are exposed to competition induced pressures on student enrolments and overall student strength. KMET faces high competition for its post-graduation courses and other popular courses such as management and law from the other educational institutes located in the vicinity, which has resulted in reduction in student intake in few of these courses. However, it has been able to sustain healthy enrolment ratio in courses such as Dentistry and Design.

Liquidity: Adequate

Liquidity of KMET remains adequate owing to receipt of majority of tuition fees on advance basis, resulting into minimal average collection period of 7-10 days and healthy cash flow from operations of Rs.30.38 during FY20 (Rs.22.34 during FY19). KMET registered cash accruals of around Rs.29 crore during FY20 as against scheduled annual debt repayments in the range of Rs.10 to 16 crore, providing sufficient cushion to the liquidity. Further, the average fund based utilization of limits remained moderate at 70% over past twelve months ended August 2020.

Trust however availed a six month moratorium on its bank facilities from April 2020 to September 2020 and also availed additional overdraft limit of Rs.3.00 crore under covid-19 relief package to conserve liquidity amongst Covid-19 induced uncertain operating environment and moderation in collection of tuition fee. While collections witnessed improvement in the months of July and August 2020, timely receipt of full tuition fee for FY21 shall remain crucial.

Analytical Approach: Standalone

Applicable criteria:

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Education Sector](#)

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

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

About the Trust

Gandhinagar, Gujarat based Karnavati Medical and Educational Trust (KMET) was registered as a charitable trust in October 2003 under Bombay Public Trust Act, 1950 with an objective to impart education. The Trust started operations in 2005 with establishment of its first college, namely, Karnavati School of Dentistry in 2005. Gradually, it increased its operations to six colleges/ institutes in Gandhinagar and Kolkata offering degrees in varied faculties including management, design, arts, law and dentistry under graduation and post-graduation programs.

Karnavati University was granted 'Private University' status in March 2017 by the state of Gujarat through the Gujarat Private Universities Act, 2017.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	110.65	111.05
SBID	31.78	35.99
Surplus	9.58	13.47
Overall gearing (times)	1.55	1.30
Interest coverage (times)	3.70	3.44

A: Audited; Prov.: Provisional

As per Q1FY21 (Prov.) the trust has booked an income of Rs.55.62 crore with a surplus of Rs.38.41 crore in Q1FY21.

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	-	-	October 2026*	74.75	CARE BBB-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	10.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	2.00	CARE BBB-; Stable / CARE A3

*to be further extended by six months in light of avilment of moratorium as Covid-19 relief measures

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	74.75	CARE BBB-; Stable	-	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (28-Mar-20)	1)CARE BBB; Stable (25-Feb-19)	-
2.	Fund-based - LT-Bank Overdraft	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable; ISSUER NOT COOPERATING* (28-Mar-20)	1)CARE BBB; Stable (25-Feb-19)	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* (28-Mar-20)	1)CARE BBB; Stable / CARE A3+ (25-Feb-19)	-

* Issuer did not co-operate; based on best available information

Annexure-3 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
3.	Non-fund-based - LT/ ST-Bank Guarantees	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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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.

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