

Karnavati Medical and Education Trust

March 28, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	103.86	CARE BBB-; Stable; ISSUER NOT COOPERATING* (Triple B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BBB; Stable (Triple B; Outlook: Stable); on the basis of best available information
Long-term/ Short-term Bank Facilities	2.00	CARE BBB-; Stable; / CARE A3; ISSUER NOT COOPERATING* (Triple B Minus; Outlook: Stable; A Three; ISSUER NOT COOPERATING*)	Issuer not cooperating; Revised from CARE BBB; Stable/ CARE A3+ (Triple B; Outlook: Stable/ A Three Plus); on the basis of best available information
Total Facilities	105.86 (Rupees One Hundred Five Crore and Eighty Six Lakh Only)		

Details of facilities in Annexure 1

CARE has been seeking information from Karnavati Medical and Educational Trust (KMET) to monitor the rating vide e-mail communications dated February 21, 2020, February 07, 2020, February 03, 2020, January 16, 2020 and December 20, 2019 and numerous phone calls. However, despite our repeated requests, the company 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 KMET's bank facilities will now be denoted as '**CARE BBB-; Stable; ISSUER NOT COOPERATING*/ CARE A3; 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 ratings assigned to the bank facilities of KMET have been revised on account of non-availability of requisite information. The ratings assigned to the bank facilities of KMET takes into account experience of its promoters and established operations in education industry, diversified course offerings along with well-established infrastructure and experienced faculty. The ratings also favorably factor in improvement in the scale of its operations over last three years ended FY18 (refers to the period April 1 to March 31) with growth in student intake, healthy surplus margins, moderate liquidity and healthy debt coverage indicators. The ratings, however, remained constrained on account of moderate capital structure along with the debt funded capital expenditure undertaken by the trust which is expected to elevate the debt levels in near term. The ratings also take into consideration high competition and regulatory risk inherent in the education sector. Ability of the trust to complete the ongoing capex within envisaged time and cost parameters along with generation of envisaged revenues from the same, maintain its profitability and improve its capital structure while effectively managing its working capital requirements would be the key rating sensitivities. This apart, any major unscheduled debt-funded capex adversely affecting the capital structure or debt coverage indicators shall also remain a key rating monitorable.

Detailed description of the key rating drivers

At the time of the last rating on February 25, 2019, the following were the rating strengths and weaknesses

Key Rating Strengths

Experienced promoters and established track record of the trust in education industry

KMET was established in 2003 and has a track record of more than a decade in running educational institutions. In March 2017, it has been granted the status of a Private University by the State of Gujarat and all the courses offered by the university are affiliated by relevant statutory bodies. 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.

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

Diversified course offerings

The University currently operates six educational institutes at its campus situated in Gandhinagar and Kolkata offering an array of courses under graduation and post-graduation programs in various professional fields such as design (44% of tuition fee income), dentistry (24%), management (24%), law (12%), and arts (1%). This apart, the trust also provides accommodation and mess facilities to the students. During FY18, hostel and mess fees contributed around 11% of the trust's TOI.

Well established infrastructure along with reputed faculties

KMET houses six institutes with a capacity of 4000 students, multiple hostels with a capacity to accommodate 1,400 students, multiple laboratories, training OPD for dental students, playground, auditorium, canteen, etc. Furthermore, KMET employs around 250 teaching faculties across all the institutes, along with visiting faculties from reputed institutes of Ahmedabad.

Growth in scale of operations and healthy surplus margin; backed by healthy growth in students

KMET's scale of operations as indicated by Total Operating Income (TOI) registered a healthy CAGR of around 55% over last three years ended FY18, with a 40% y-o-y growth in FY18 to around Rs.83 crore. This is largely attributed to healthy y-o-y growth in student enrolment, which also resulted in growth in aggregate students in all the institutes from 2,333 during FY17 to over 2733 during FY18 and over 3200 in 9MFY19, along with routine increase in fee. During FY18, surplus of the society stood healthy with SBID and Surplus margin of 35.54% and 16.05% respectively and Gross Cash Accruals (GCA) remained healthy at Rs.24.98 crore improving from Rs.20.04 crore in FY17. During 9MFY19, KMET registered an income of Rs.102.33 crore.

Comfortable debt coverage indicators

The debt coverage indicators remained comfortable with a total debt to GCA of around 2.74 times and interest coverage of around 5.51 times as on March 31, 2018, owing to healthy profitability and healthy cash accruals.

Key Rating Weaknesses

Moderate overall gearing with expected elevation in debt levels on account of ongoing debt-funded capital expenditure

KMET is under the process of expanding its infrastructure for which it has undertaken a debt-funded capex of around Rs.100 crore in past two years ended FY18; and plans to undertake capex of around Rs.50 crore in FY19. This has resulted in an increase in the overall gearing of the trust from 0.68 times as on March 31, 2017 to around 1.18 times as on March 31, 2018. Furthermore, the debt level is further expected to be elevated in the near term on account of the balance capex, which is also expected to increase the gearing levels.

Inherent regulatory risk in education sector

Despite the increasing trend of privatization of education sector in India the education industry remains a highly regulated with regulatory control from the Central/State Governments and other bodies with respect to number of seats and amount of tuition fee charged. These factors have a significant impact on the revenue and profitability of the institutions.

Competitive industry

The education sector is highly fragmented with the presence of large number of small and big 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.

Analytical Approach: Standalone

Applicable Criteria

Policy in respect of Non-Cooperation by issuer

Criteria on assigning outlook and credit watch to Credit Ratings

Criteria for Short Term Instruments

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

CARE's methodology for Education Sector

About the Company

Gandhinagar, Gujarat based Karnavati Medical and Educational Trust (KMET) was registered as a charitable trust in October 2003 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. In March 2017, Karnavati University was granted 'Private University' status by the state of Gujarat.

(Rs. Crore)

Brief Financials of KMET	FY17 (A)	FY18 (A)
Total operating income	59.33	83.12
SBID	21.47	29.54
Net Surplus	13.08	13.34
Overall gearing (times)	0.68	1.18
Interest coverage (times)	10.14	5.51

A: Audited; SBIDT: Surplus before Interest and Depreciation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	93.86	CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Bank Overdraft	-	-	-	10.00	CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	2.00	CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

*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 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	93.86	CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BBB; Stable (25-Feb-19)	-	-
2.	Fund-based - LT-Bank Overdraft	LT	10.00	CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BBB; Stable (25-Feb-19)	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2.00	CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE BBB; Stable / CARE A3+ (25-Feb-19)	-	-

*Issuer did not cooperate; based on best available information

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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