

Karnavati Medical and Educational Trust

February 25, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	103.86	CARE BBB; Stable [Triple B; Outlook: Stable]	Assigned
Long Term / Short Term Bank Facilities	2.00	CARE BBB; Stable / CARE A3+ [Triple B; Outlook: Stable / A Three Plus]	Assigned
Total	105.86 (Rupees One Hundred Five Crore and Eighty Six Lakh Only)		

Details of instruments / facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Karnavati Medical and Educational Trust (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

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.

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.

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

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.

Moderate liquidity: Liquidity of KMET remained moderate with growth in cash flow from operations from Rs.9.07 crore in FY16 to Rs.34.13 crore in FY18 and a negative operating cycle, in absence of any inventory and short collection period. The working capital limits however largely remains fully utilized for payment of routine expense and statutory dues; with only periodical receipt of fee income.

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

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Education Sector](#)

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

About the Trust

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.

Brief Financials of KMET

Particulars (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	59.33	83.12
SBID	21.47	29.54
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

During 9MFY19 (Prov.), KMET registered an income of Rs.102.33 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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.

Analyst Contact:

Name: Ms Nikita Goyal

Tel: 079 – 4026 5670

Email: nikita.goyal@careratings.com

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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
Fund-based - LT-Bank Overdraft	-	-	-	10.00	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	2.00	CARE BBB; Stable / CARE A3+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	93.86	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT-Bank Overdraft	LT	10.00	CARE BBB; Stable	-	-	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	2.00	CARE BBB; Stable / CARE A3+	-	-	-	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062

Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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