

Rajalakshmi Educational Trust

February 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	191.70 (enhanced from 158.17)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Total Facilities	191.70 (Rupees One hundred and ninety one crore and Seventy lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Rajalakshmi Educational Trust (RET) continues to derive strength from the established track record and brand image of Rajalakshmi Engineering College (REC) operated by the trust, vast experience of the trustees in running educational institutions, healthy enrollment levels over the years.

The rating is, however, constrained by RET's relatively moderate size of operation with exposure to a single revenue stream, timing differences in cash flows with elongation in collection period over the last three years, moderately leveraged capital structure, exposure to group companies and risks involved in the highly regulated educational sector.

Outlook: Negative

The revision in the outlook assigned to the long-term rating of RET takes into account the expected moderations in the coverage indicators in the near term amid further increase in debt funded capex of the trust, and unfavorable/moderations in engineering admissions scenario across the state.

Rating Sensitivities:

Positive Factors

- Sustained higher enrollment levels and increase in scale of operations marked by overall fee receipts on the upwards of Rs. 150 crores.
- Improvement in capital structure marked by improvement in overall gearing to less than unity.
- Reduction in exposure to the group companies

Negative Factors

- Any large debt funded capex leading to deterioration in capital structure or debt coverage parameters.
- Downturn in enrollment levels below 80%.
- Any further exposure to group companies.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record in the industry

Mr. S Meganathan, Chairman and Founder of Rajalakshmi Group of Institutions, is an engineering graduate and has more than three decades of experience in the education industry. His wife Dr. Thangam Meganathan, Managing Trustee of Rajalakshmi Education Trust, holds M.A., M.Phil., Ph.D. degrees and has nearly two decades of experience in the education sector. Rajalakshmi Group of Institutions encompasses seven institutions with interests in engineering, management, nursing, architecture, teacher training and a school, managed by different trusts. They are assisted by their sons Mr. Abhay Shankar and Mr. Haree Shankar, the other trustees of RET.

Long standing operations of the institute with established brand name and healthy students' enrolment level

Rajalakshmi Engineering College (REC) is the flagship institute of the Rajalakshmi group of institutions. REC has been operational since 1997 and is one of the renowned private engineering colleges in Chennai, with affiliation to Anna University. Further, from AY2017-18, the college attained autonomous status from UGC. This allows the college to formulate new courses/programmes or restructure the existing

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

courses/programmes, with complete administrative autonomy. REC garners near 100% students' enrolment level every year driven by its established brand name and track record for campus placements. For the past five academic batches ended AY2019-20, the college's first year students' enrolment level for UG courses have been in the range of 90%-97%. REC's total number of students stood at 7,485 for the AY2019-20. RET's other institute – Rajalakshmi School of Architecture (RSA) also garners high enrolments of 96% for AY2019-20.

Stable income and cash accruals

In FY19, total income of RET grew by 9% y-o-y from Rs.95 crore in FY18 to Rs. 105 crores driven by revision in fee structure. SBID margin moderated to 41.76% in FY19 from 43.68% in FY18 due to higher employee benefit expense, while surplus margin stood at 18.54% in FY19 compared to 19.00% in FY18. The Trust generated GCA of Rs.25.65 crore in FY19 as against Rs.23.86 crores in FY18.

Key Rating weaknesses

Moderately leveraged capital structure

The capital structure remained moderate with LT debt equity of 1.14x as on March 31st 2019 compared to 1.19x as on March 31, 2018 and the overall gearing has remained at similar levels at 1.49x as on March 31, 2019 as against 1.50x as on March 31, 2018 owing to capex under taken in the last few years pertaining to expansion of classrooms and general refurbishment of campus. Interest coverage indicator remained healthy at 2.21 times in FY19. However, due to lower cash accruals in relation to the total debt, the Trust's total debt to GCA remained moderate at 7.52x as on March 31, 2019. It is to be noted that the dependence of the trust on the short term borrowings viz namely the overdraft facility remains high. Going forward with debt funded capex pertaining to expansion of class rooms to cater to new courses, enhancing R&D facilities and libraries planned in FY20 and FY21 the capital structure and debt coverage indicators are expected to moderate.

Moderate-size of operations of the trust with single revenue stream

The trust has been operational for more than two decades and the scale of operations continuous remain moderate with major dependence on one institute (REC) for its revenue stream. For FY19, REC's fee receipts contributed nearly 96% to the trust's total income with remaining from RSA. Nevertheless, the risk is mitigated to an extent by the favorable brand image and consistently high student enrolment levels at REC.

Exposure to group entities

Rajalakshmi group had floated a new trust named Rajalakshmi Medical Education and Research Foundation (RMEF) in order to acquire a medical college & hospital named Annai Medical College and Hospital which was operated by another trust. Annai Medical College and Hospital affiliated to Dr. MGR Medical University, Chennai commenced intake of first batch of sanctioned 150 students in June 2016. RET had invested Rs.24.20 crore during FY16 in RMEF as corpus and the promoters of Rajalakshmi group infused around Rs.55 crore in RMEF to acquire the college. However, due to compliance and regulatory issues, Annai Medical College has been debarred from admitting students in 2017 for two academic years. Hence the acquisition process was stalled. Apart from the infusion of Rs.24.20 crore in FY16 by RET, there has been no additional exposure in RMEF as on date. Apart from this the trust has extended loans and other advances to group entities for maintenance of hostel, canteen and other amenities. The overall loans and advances of such nature stood at Rs. 17.57 crores as on March 31st, 2019 compared to Rs. 13.66 crores as on March 31st 2018.

Intermittent cash flow mismatch associated with educational institutes

The cash flow management practice adopted by RET assumes significance in light of the intermittent nature of cash inflows as nearly 80% of the fee receipts are collected during the months of June to August (in every academic year) while the trust incurs regular stream of payments for meeting staff salary, maintenance activities, interest expenses, term loan repayments, etc. The intermittent cash flow mismatches faced by the trust throughout the year are bridged by working capital facilities in the form of overdraft facility and unsecured loans from the trustees.

Highly regulated nature of education industry

Higher education sector is one of the highly regulated sectors with both state and central government regulating the industry directly and/or indirectly through various bodies including UGC (University Grants Commission) and AICTE (All India Council for Technical Education). The scope of government regulations is wide, starting from establishment of course/institute, seat sharing, fee fixation and periodical review of the standards followed by the institute. These factors have significant impact on the revenues and profitability of the institutions.

Liquidity-Adequate

The Trust's collection period has been increasing in the last few years owing to increase in fee receipt receivables from the government pertaining to the scholarship offered to students under various government schemes. The collection period has seen an increase from 17 days in FY17 to 32 days in FY18 and to 49 days in FY19. In every academic year, majority of the fee collection happens in the months of June and August. The cash flow mismatches faced by the Trust is bridged by working capital facilities in the form of secured overdraft facility and unsecured loans from the trustees. The trust has sanctioned overdraft (OD) facility of Rs.59 crore. In the past 13 months period ended January 2020, average utilization stood at 98.62% with near full utilization in few months, owing to inherent nature of education industry. With higher dependence on short term borrowings in relation to the size of operations the current ratio is also below unity. The Trust maintains minimal cash balances only, as total cash & bank balance stood at Rs.0.23 crore as on 31 March 2019.

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating Methodology - Education Sector](#)

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

About the Company

Rajalakshmi Educational Trust (RET) is a minority charitable trust established in November 1995 by Dr. Thangam Meganathan, the Chairperson & Managing Trustee. RET operates two colleges near Chennai, Tamil Nadu - Rajalakshmi Engineering College (REC) and Rajalakshmi School of Architecture (RSA). REC is an autonomous institution, affiliated to Anna University, Chennai and offers under-graduate (UG), post-graduate (PG) and doctoral (Ph.D) programmes in the engineering domain. For the AY2019-20, REC had total strength of 7,485 students. RSA was started in 2010 and has a total strength of 335 students for the AY2019-20.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	95.14	105.65
SBID	43.68	41.76
Surplus	18.08	19.22
Overall gearing (times)	1.49	1.48
Interest coverage (times)	2.35	2.21

A: Audited

Status of non-cooperation with previous CRA: CRISIL had suspended RET's ratings (CRISIL BBB-; Stable/ CRISIL A3) on account of non-cooperation by RET, as per its PR dated December 13, 2016.

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 2029	132.70	CARE BBB-; Negative
Fund-based - LT-Bank Overdraft	-	-	-	59.00	CARE BBB-; Negative

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	132.70	CARE BBB-; Negative	-	1)CARE BBB-; Stable (26-Mar-19)	1)CARE BBB-; Negative (23-Mar-18) 2)CARE BBB-; Negative (24-Apr-17)	1)CARE BBB- (13-Apr-16)
2.	Fund-based - LT-Bank Overdraft	LT	59.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (26-Mar-19)	1)CARE BBB-; Negative (23-Mar-18) 2)CARE BBB-; Negative (24-Apr-17)	1)CARE BBB- (13-Apr-16)

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.

Contact Us

Media Contact

Name: Mr. Mradul Mishra
Contact no.: 022-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Name: Mr. P. Sandeep
Contact no.: 044 2850 1000
Email ID: sandeep.prem@careratings.com

Relationship Contact

Name: Mr. V Pradeep Kumar
Contact no. : 044 2850 1001
Email ID: pradeep.kumar@careratings.com

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