

Rajshree Educational Trust

December 25, 2018

| Rating | | | |
|---------------------------|--|--|---|
| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
| Long-term Bank Facilities | 117.01 | CARE BB+; Stable (Double B Plus; Outlook: Stable) | Revised from CARE BB; Stable (Double B; Outlook: Stable) |
| Total facilities | 117.01 (Rs. One hundred and seventeen crores and one lakh only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Rajshree Educational Trust factors the comfort derived from the experience of the management, moderate financial risk profile as reflected by the moderate surplus margins and interest coverage ratio, improved operational performance led by 100% occupancy in MBBS course and comfortable liquidity position. However, the strengths are partially offset by the small scale of operations, high gearing, and decline in the hospital income with high competition and regulatory challenges in the sector.

Going forward, the ability of the trust to continue having higher enrolments with no major debt funded capital expenditure would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management

The Rajshree Educational Trust is managed by the president, 'Mr Rajendra Agarwal' who is a post graduate from Bareilly College and has experience of more than a decade as a government civil contractor. He is well supported by Dr. Rajesh Agarwal who is a doctor and has been practicing in Bareilly for the last 30 years. He is majorly responsible for the technical support required for setting and running a hospital and medical facilities. The top management of the trust are also well supported by qualified and experienced faculty members possessing extensive knowledge of various industries.

Moderate financial risk profile

The total operating income of the trust has risen from Rs. 88.73 cr in FY17 to Rs. 99.53 cr in FY18 on the account of full enrolment (for AY17-18) for the MBBS batch of the medical college. The average fee for the same is ~Rs. 14 lakhs, thereby, generating an incremental income of more than Rs. 21 cr. However, income from the hospital has declined from Rs. 40 cr in FY17 to Rs. 30 cr in FY18. In H1FY19, the trust has generated a total operating income of Rs. 83.71 cr.

The surplus margins have slightly deteriorated with SBID/Total Income at 44.28% (PY: 47.86%) in FY18 on the account of increase in the salaries and wages to the employees. In FY17, the trust had paid Rs. 33.68 cr which has increased to Rs. 36.95 cr in FY18. However, GCA has remained stable with Rs. 28.96 cr (PY: 26.51 cr) in FY18. Moreover, the interest coverage ratio has also remained slightly improved with 2.84x (PY: 2.60x) as on March 31, 2018.

The overall gearing ratio has improved at 1.14x (PY: 1.37x) as on March 31, 2018 due to repayment of debt by the trust but it still remains on the higher side. The ability of the trust to improve the overall gearing ratio remains one of the key rating sensitivity.

Improved operational performance

Over the last 34 years, there has been consistent improvement in the enrolment and total operating income led by 100% enrolment in the MBBS course and annual increase in the fees for the same. The annual fee (excluding the one-time fee and security) for the MBBS course has been increased from ~Rs. 9 lakhs in AY15-16 to ~Rs. 18 lakhs for AY18-19. The consistent operational improvement has improved the financial risk profile of the trust in the last three years. Therefore, going forward it is imperative for RET to continue to have 100% enrolment in MBBS course to maintain its operating performance.

Comfortable liquidity position

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

The trust has total collection of Rs. 83.71 cr in H1FY19, which has helped it to improve its liquidity position. Due to the surplus liquidity position, the trust has prepaid its debt repayment due in Mar'19 and has liquid cash and cash equivalent of Rs. 10 cr as on Dec 19, 2018.

Key Rating Weaknesses

Small scale of operations

RET, established in 2008 commenced its operations from AY09-10 and since its inception it has expanded its operations and has branched out into various functional colleges. However, due to increase in the competition coupled with decline in the demand for the technical courses has led to slowdown in the enrolment for the B. Tech, MBA and other courses except MBBS.

The trust has received full enrolment for its MBBS batch in last three academic years (AY16-17 to AY18-19) which has provided the requisite strength to the trust and improve its scale of operations; which albeit remains small.

During FY18, the trust has reported a total operating income of Rs. 99.53 cr, with an increase of 10% from the total operating income reported in FY17 that is Rs. 88.73 cr. The increase is on the account of new MBBS batch for AY17-18 which had received full enrolment, thereby, generating an incremental income of ~Rs. 21 cr. However, income from the hospital declined from Rs. 40 cr in FY17 to Rs. 30 cr in FY18 due to free treatment offered to the poor patients by the trust.

High competition and regulatory challenges in the sector

The "education" being a subject in the concurrent list of India, is the responsibility of both the state and central governments. The standards and policies for higher and technical education in India are thus, laid down by the Ministry of Human resource development under Central government. The sector is further regulated by the federal agencies viz. University Grants Commission (UGC), All India Council for Technical Education (AICTE) and various other specialised bodies like Medical Council of India etc. The education industry thus faces regulatory challenges as the institutions are bound by the regulations pertaining to fee structure, number of seats and changes in curriculum laid down by the aforementioned authorities.

The university also faces high competition from various smaller and larger educational institutions in the wake of student requirements for quality education along with progressive infrastructure facilities and course curriculum. The competition in the area is intensified by the presence of other established universities such as Amity International University, Sharda University and Galgotias University. The prospects of RET would thus depend on its ability to provide quality education through experience faculty amidst high competition in terms of infrastructure.

Moreover, as per the norms of MCI, there are 4 mandatory yearly inspections for operating a medical college in India. Post clearance, the yearly inspections are replaced by inspections in every five years, thereby, reducing the regulatory risk. However, on the whole, the regulatory risk remains to be high in this sector.

Analytical approach:

Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for education institutions
Financial ratios – Non-Financial Sector

About the Trust

Rajshree Educational Trust was formed in September, 2008 in Bareilly, Uttar Pradesh, and it operates under the banner of 'Rajshree Group of Institutions'. The trust administers 6 colleges under which different disciplines are running such as Engineering, Management, Law and Medical etc. In all, the trust is offering 11 different courses with total student strength of 3091 students being enrolled for AY18-19 as compared to 2928 students in AY17-18.

Initially, the trust started with technical courses under Rajshree Institute of Management & Technology.

Furthermore, the trust is engaged in the operation of 650 bedded hospital located within the campus of the university.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income | 88.73 | 99.53 |
| PBILDT | 42.46 | 44.07 |
| PAT | 11.27 | 14.63 |
| Overall gearing (times) | 1.37 | 1.14 |
| Interest coverage (times) | 2.60 | 2.84 |

A: Audited

Status of non-cooperation with previous CRA:

NA

Any other information:

NA

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.

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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 | - | - | 2025 | 112.01 | CARE BB+; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 5.00 | 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 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 | 112.01 | CARE BB+; Stable | 1)CARE BB; Stable (17-Jul-18) | - | - | - |
| 2. | Fund-based - LT-Cash Credit | LT | 5.00 | CARE BB+; Stable | 1)CARE BB; Stable (17-Jul-18) | - | - | - |

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