

Sabari Foundation

September 18, 2020

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Log-term Bank Facilities	0.00	-	Reaffirmed at CARE BB+ and revised the outlook from Positive to Stable and Withdrawn
Total Facilities	-		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reviewed the rating assigned to the bank facilities of Sabari Foundation to CARE BB+ revising the rating outlook from Positive to Stable and has simultaneously withdrawn it, with immediate effect.

The rating withdrawal is at the request of Sabari Foundation and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

The revision in rating outlook is on account of less than expected growth in total income & SBID margins in FY20 and impact on fee collection in FY21 due to Covid-19 induced lockdown. The rating assigned to the bank facilities of Sabari Foundation (SF) continues to remain constrained by the relatively small size of operations of the trust, moderately leveraged capital structure, intermittent cash flow mismatches due to timing difference in collection of fees and expenses and the risks involved in the highly regulated educational sector. The rating, however, derives strength from the significant experience of the trustees in operating educational institutions and established brand image of 'Rajalakshmi group of institutions'.

Detailed description of the key rating drivers

Key Rating weaknesses

Small-size of operations of the Trust with significant dependence on single institute for income generation

The trust has been operating with two institutes Rajalakshmi Institute of Technology's (RIT) and Rajalakshmi School of Business (RSB) while the majority of the income is contributed by fee receipts of RIT. Nevertheless, the risk is mitigated to an extent by the favorable brand image and consistently high student enrolment levels at RIT. SF's scale of operations is small with a Total Operating Income (TOI) of Rs.32.16 crore during FY20 (Provisional). In the same year, the Trust's SBID margin dropped to 35.97% from 42.32% in FY19.

Moderate leverage indicators albeit marginal improvement in FY20

The overall gearing improved from 1.19x as on 31 March 2019 to 0.92x as on 31 March 2020. The Trust is also financially supported by interest free unsecured loans from the trustees and their group entities.

Intermittent cash flow mismatch associated with educational institutes

The cash flow management practice adopted by SF assumes significance in light of the intermittent nature of cash inflows with majority of fee 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.

Impact on Covid-19

The operations of the institutes of the trust are affected by COVID 19 as the operations were completely suspended as per orders from government from March 22, 2020. The institutions under the trust are, however conducting online classes for existing students and fee collection from students for Academic Year 21 (AY21) is happening in a staggered manner. The trust has collected fee of Rs 4.67 cr till Aug'20 for Academic Year 21 (AY21) as against Rs 14.95 cr during 4MFY20.

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

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 7 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. Apart from education sector, Mr. S Meganathan has also promoted companies, with interests in manufacturing of electrical transmission conductors, power generation, engineering services and civil construction. Further, the Rajalakshmi group has interests in automobile dealerships and renewable energy sectors as well.

Established brand name

Rajalakshmi group of educational institutions has been operational since 1997. The group started an engineering college named 'Rajalakshmi Engineering College (REC)' in 1997 managed under the aegis of Rajalakshmi Educational Trust. Over the years, REC has established itself as one of leading private engineering college in Chennai with a track record for campus placements, which enables high student enrolment levels. Driven by the established brand image of Rajalakshmi institutions, SF's Rajalakshmi Institute of Technology (RIT) also enjoys good patronage from the student community.

Liquidity- Stretched

The liquidity continues to be stretched marked by tightly matched accrual viz-a-viz cash accruals. Further cash flow has been impacted with staggered fee collection from students for Academic Year 21 (AY21) on the back of covid-19 pandemic situation as against usual practice of collecting fees between June and August of every academic year. The total cash & bank balance stood at Rs.1.05 crore as on March 31, 2020. The trust has sanctioned overdraft (OD) facility of Rs.10 crore. In the past 12 months period ended July'20, average utilization stood at 99% with near full utilization in few months. The trust availed the Covid relief moratorium (April 2020 – August 2020) for the interest and principal portion of term-loan & working capital facilities

Analytical approach: Standalone

Applicable Criteria

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

[Policy on Withdrawal of ratings](#)

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

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

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

[Rating Methodology for Educational sector](#)

About the Trust

Sabari Foundation (SF) is part of the Chennai-based Rajalakshmi group of educational institutions which has been operational since 2007. SF is engaged in running educational institutions and is currently operating an engineering college named 'Rajalakshmi Institute of Technology (RIT)' and a business school 'Rajalakshmi School of Business (RSB)', near Chennai in Tamil Nadu. Originally founded in 2000 as Sabari Educational Trust and operating a school, the trust was taken over by the Chennai-based Rajalakshmi group in 2007 and the name was changed to SF. RIT was started in the year 2008 and is affiliated to Anna University, Chennai. RSB was started in 2015 offering 2-year PGDM programme.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total Operating Income	30.55	32.16
SBID	12.93	11.57
Surplus	4.66	4.80
Overall Gearing (times)	1.19	0.92
Interest coverage (times)	1.94	1.98

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Nil

Any other information: NA

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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	-	-	-	0.00	Withdrawn
Fund-based - LT-Bank Overdraft	-	-	-	0.00	Withdrawn

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	-	-	-	1)CARE BB+; Positive (12-Feb-20)	1)CARE BB+; Positive (26-Mar-19)	1)CARE BB+; Stable (23-Mar-18) 2)CARE BB+; Stable (19-Apr-17)
2.	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)CARE BB+; Positive (12-Feb-20)	1)CARE BB+; Positive (26-Mar-19)	1)CARE BB+; Stable (23-Mar-18) 2)CARE BB+; Stable (19-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this Trust

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Term Loan	Simple

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