

August 29, 2022

## DAV College Trust and Management Society: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund Based – Term Loan	80.41	47.63	[ICRA]A+(Stable); Reaffirmed
<b>Total</b>	<b>80.41</b>	<b>47.63</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA's rating continues to factor in the established track record of operations of the DAV College Trust and Management Society (CTMS) including all schools/institutes under DAV College Managing Committee. A track record of over 136 years, its high reputation and established brand name in the education sector support admission at CTMS' schools/institutes. The rating also considers the vast network of educational institutes of the Group. It has over 830 educational institutes, including 769 schools spread across the country and one state private university namely DAV University (university) in Jalandhar, Punjab. Further, the rating reaffirmation continues to draw comfort from the robust financial profile of CTMS, as reflected in its strong cash flows, modest gearing, and healthy liquidity, resulting in strong credit metrics.

The rating is, however, constrained by the highly regulated nature and intense competition in the education sector, which poses a challenge in attracting and retaining quality faculty and students. The rating is also constrained by the financial support required by the university and CTMS to undertake regular capex plans. The Group witnessed a decline in its operating revenue and profitability in FY2021 due to negligible transport fee along with lower annual charges and development fee, owing to the pandemic. However, fixed costs remained stable, which mainly comprised staff salary. Nevertheless, a healthy liquidity buffer and prudent cash flow management shielded the Group from any adverse implications. Further, from FY2022, most of the institutes resumed full operations without any discount in fees. However, ICRA believes that a sustained upward revision in the fees of various institutes under the Group would be critical, considering its high fixed costs. While ICRA notes that CTMS has a sizeable cash reserve, a major part of it is dispersed at various institute levels and a strong fungibility of it would remain important.

The Stable outlook assigned to the long-term rating reflects ICRA's belief that CTMS will continue to maintain its strong operational and financial profiles along with a steady expansion of its network of educational institutes while maintaining healthy liquidity and having low reliance on borrowings.

### Key rating drivers and their description

#### Credit strengths

**Reputed player in Indian education sector with operational track record of over 136 years** – The DAV Group has a strong brand profile in the education sector, supported by its track record of over 136 years and its vast network of educational institutes.

**Stable cash flows underpinned by several matured institutes under the society** – CTMS' strong cash flow is supported by its several institutes, many of which have been operational for a long time.

**Robust financial profile with low gearing, strong liquidity and healthy credit metrics** – The society's strong financial profile is supported by its minimal dependence on debt, resulting in low gearing level and strong coverage metrics. The society also has a healthy liquidity profile, supported by its strong cash flows and a large cash reserve.

## Credit challenges

**Most surplus cash dispersed across multiple institutes** – The major portion of the cash reserve is dispersed across various institutes of the society at different locations, which exposes it to the mobility risk. As the CTMS management manages these balances, fungibility of funds is strong within the Group and can be mobilised by the society on a short notice.

**Highly regulated and competitive sector** – The society and all the institutes under it are exposed to regulatory risks owing to the highly regulated nature of the education sector in India. Besides, the society faces competition from other established brands in the K-XII segment and higher education segment.

**Pressure on revenue and profitability in the recent years** – The Group's operating revenue and profitability declined in FY2021 due to negligible transport fee along with lower annual charges and development fee owing to the pandemic. However, the fixed costs remained stable, which mainly comprised staff salary. Nevertheless, a healthy liquidity buffer and prudent cash flow management shielded the Group from any adverse implications. Further, from FY2022, most of the institutes resumed full operations without any discount in fees. Going forward, a sustained upward revision in the fee of various institutes under the Group would be critical, considering its high fixed costs.

## Liquidity position: Strong

On a consolidated basis, CTMS had a large cash reserve of Rs. 4,495.46 crore as on March 31, 2021, resulting in a strong liquidity position. The cash balance is dispersed across multiple locations with the respective institutes and therefore, the mobility of funds may be lower, though fungibility remains strong. Further, the society generates robust cash from operations as well as treasury income on liquid balances with relatively lower funding commitment for debt servicing (Rs. 35.77 crore repayment in FY2023). The society also receives sizeable amount of grants and donations. The society has a demonstrated track record of generating strong residual cash after meeting all its obligations, including sizeable capex, funded primarily through internal accruals and support extended to weaker institutes in the Group. Hence, the society has a strong liquidity profile. On a standalone basis, it receives management fees from its network of educational institutes.

## Rating Sensitivities

**Positive factors** – The rating may be upgraded if the society demonstrates a sustained improvement in profitability along with an increase in revenue diversification within the education sector.

**Negative factors** – The rating may be downgraded if the funding support to new institutes or the university increases substantially, leading to a stress on its cash flows or liquidity. The rating may also be downgraded if there is any sharp decline in revenues, leading to pressure on its profitability on a sustained basis. Any significant change in the capital structure due to large debt-funded capex could also result in a downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Entities in the Higher Education Sector</a> <a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Approach – Consolidation</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has based its analysis on the consolidated financial statements of CTMS, which includes all the schools, institutes, colleges, head office departments and regional offices run by CTMS, including university.

## About the company

DAV College Trust & Management Society (DAV-CTMS) is a non-Governmental educational organisation, managing a chain of more than 830 educational institutions including 769 schools and one state private university. The first DAV institution was established in Lahore in June 1886. The management has established several senior secondary schools, public schools, management colleges, ayurvedic colleges, dental colleges, law college, agricultural college, engineering institutes, industrial training centres, hospitals, university etc. The operations of the society are managed by the DAV College Management Committee (DAV CMC).

## Key financial indicators (audited)

DAV CTMS	FY2020	FY2021
Operating income (Rs. crore)	4,151.8	3,391.2
PAT (Rs. crore)	374.8	192.4
OPBDIT/OI	4.7%	-0.3%
PAT/OI	9.0%	5.7%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	0.8	-13.6
Interest coverage (times)	11.8	-0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation  
Source: DAV University; ICRA Research

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2022 (Rs. crore)	Date and Rating in	Date & Rating		
						FY2022	FY2021	FY2020
					Aug 29, 2022	May 21, 2021	-	Mar 06, 2020
1	Fund based – Term Loan	Long-term	47.63	47.63	[ICRA]A+(Stable)	[ICRA]A+(Stable)	-	[ICRA]A+(Stable)-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund based – Term Loan	June 2016	NA	Mar 2024	47.63	[ICRA]A+ (Stable)

Source: DAV CTMS

## Annexure II: List of entities considered for consolidated analysis:

Company Name	Status	Ownership	Consolidation Approach
More than 830 educational institutions including 769 schools and one state private university	Institutes in the DAV Group	100%	Full Consolidation

Source: DAV CTMS

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