

May 04, 2023

Gopalan Foundation: Rating Reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Unallocated limits	5.50	-	-
Term loan	0.0	20.50	[ICRA]A-(Stable) reaffirmed/assigned
Total	5.50	20.50	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to Gopalan Foundation (GF) factors in the healthy increase in student enrolments by ~14% YoY in FY2023 (9% CAGR during FY2020 – FY2023), supported by the strong brand position of the Gopalan Group resulting in an estimated revenue growth by 28-30% YoY to Rs. 80 crore in FY2023. The revenue is expected to grow in FY2024 by 15-16% YoY with ramp-up in the existing schools and enrolment of students in the new school. In Q1 FY2023, the company acquired Pillappa College of Engineering, Bangalore, through a debt of Rs. 22.88 crore and internal accruals. The rating continues to consider the strong financial profile of the foundation, characterised by steady accruals and nil external debt till April 2022. The said acquisition will support the company's growth prospects in the medium term. GF's rating derives strength from its established track record of operations including four schools, a pre-university college (PU), a commerce college, an engineering and management college, an architecture school, skill and a sports academy.

The rating, however, is constrained by its modest scale of operations and lack of geographical diversification as all its institutes are in Bangalore. Retention and development of talent, along with student addition in the newly opened school and PU college, will remain important for the foundation, given the heightened competition with the presence of many well-established educational institutes in Bangalore. The rating factors in its exposure to any regulatory changes, which may impact the operational and financial performance of the foundation.

The Stable outlook reflects ICRA's expectation that GF's financial profile will remain strong, supported by stable enrolment levels.

Key rating drivers and their description

Credit strengths

Established track record of institutes run by the foundation – The foundation operates four schools, a PU college, a commerce college, an engineering and management college, an architecture school, skill, and a sports academy. The institutes have an established track record of operations. It is going to open a new school and PU college by converting the recent acquisition - Pillappa College of Engineering for which enrolments will start in the next academic year.

Healthy enrolment numbers – The strong brand position of the Gopalan Group, in Bangalore, helps the institutes to maintain healthy enrolments. The student strength for the Academic Year (AY) 2022-23 was 6,481, which marked a 14% YoY increase. The foundation witnessed a 9% CAGR in enrolment numbers during FY2020 – FY2023.

Strong financial profile – GF’s financial profile remains healthy, characterised by steady accruals, low leverage, and strong coverage metrics. The company reported external debt of Rs. 20.2 crore as on February 28, 2023, which was availed to acquire Pillappa College of Engineering. Despite debt addition in Q1 FY2023, the debt coverage and leverage metrics are expected to remain strong going forward.

Credit challenges

Modest scale and geographically concentrated operations – The scale of operations of the foundation is modest, with revenues in the range of Rs. 48-62 crore over the last three fiscals. Further, it is exposed to geographical concentration risks as all 10 operational institutes are in Bangalore.

Stiff competition, challenges for retention of quality faculties and regulatory risks inherent in education sector – Increasing competition in the education sector from both organised and unorganised players poses significant challenge for addition of new students and teacher retention. The education sector in India remains regulated and GF’s operations may be impacted in case of any adverse regulatory development.

Liquidity position: Adequate

The liquidity is adequate, supported by regular fee collections from the schools. The foundation reported free cash and bank balances of Rs. 24.8 crore as on December 31, 2022. The repayment obligation of Rs. 3.31 crore in FY2024 for the term loan can be comfortably serviced through its estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if GF’s revenues and cash accruals improve significantly while maintaining strong coverage and leverage metrics.

Negative factors – The rating might be downgraded if there is any sustained decline in student enrolments or high debt-funded capital expenditure resulting in increased leverage.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Education
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Gopalan Foundation (GF) was set up in 2004 in Bangalore by Mr. C. Gopalan and his family members. The foundation derives most of the revenues from two schools and an engineering and management institute. It has a PU college, a commerce college, an architecture school and a sports academy among others, all of which are located in Bangalore. GF is a part of the Gopalan Group, which is involved in real estate development with presence in residential and commercial segments as well as operation of multiplexes.

Key financial indicators (audited)

GF Standalone	FY2021	FY2022
Operating income	48.5	62.1
PAT	6.8	14.4
OPBDIT/OI	28.0%	32.4%
PAT/OI	13.9%	23.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	25.1	1586.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				May 04, 2023	April 04, 2023			Nov 06, 2020	Sep 25, 2020
1 Term loan	Long term	20.50	20.50	[ICRA]A-(Stable)	-	-	-	[ICRA]BBB+(Stable)	[ICRA]BB+(Stable) ISSUER NOT COOPERATING
2 Unallocated	Long term	-	-	-	[ICRA]A-(Stable)	-	[ICRA]BBB+(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated	Not Applicable
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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	May 2022	NA	Feb 2029	20.50	[ICRA]A- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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Branches



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