

August 27, 2024

Gopalan Foundation: 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	20.50	15.38	[ICRA]A- (Stable); reaffirmed
Total	20.50	15.38	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the expected growth of Gopalan Foundation's (GF) revenues by 8-11% to Rs. 112-115 crore in FY2025, backed by ramp-up in the existing institutions and enrolment of students in the new institutions, supported by strong brand position of the Gopalan Group. GF's revenues are estimated to grow by 15% YoY to around Rs. 104 crore in FY2024, driven by fee hike of 10% and an increase in student enrolments by 5%. It has acquired an engineering college in Bengaluru in Q1 FY2023 at a cost of Rs. 35 crore and funded by debt of ~Rs. 23 crore and the remaining by internal accruals. The same is currently being operated as a school and is likely to support GF's growth prospects in the medium term. Despite the debt-funded acquisition, the estimated debt protection metrics are strong, led by steady accruals and low debt levels. GF's rating derives strength from its established track record of operations including five 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. Further, the rating is constrained by the high asset concentration with 70%-75% revenues derived from two schools, namely Gopalan International School and Gopalan National School. Also, 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 student enrolments will improve, and GF will sustain the strong debt protection metrics.

Key rating drivers and their description

Credit strengths

Strong debt protection metrics – GF's revenues are estimated to grow by 15% YoY to around Rs. 104 crore in FY2024, supported by fee hike of 10% and an increase in student enrolments by 5%. Further, its revenues are likely to rise by 8-11% to Rs. 112-115 crore in FY2025, backed by ramp-up in the existing institutions and enrolment of students in the new institutions, led by the Gopalan Group's strong brand position. GF has acquired an engineering college in Bengaluru in Q1 FY2023 at a cost of Rs. 35 crore, which was funded by debt of ~Rs. 23 crore and the remaining by internal accruals. GF's total outstanding debt is low at Rs. 14.4 crore as on March 31, 2024. Despite the debt-funded acquisition, the estimated debt protection metrics (TD/OPBIDTA < 0.5 times and DSCR > 6 times) are strong, driven by steady accruals and low debt levels.

Established track record of institutes run by the foundation – The foundation operates five 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.

Credit challenges

Modest scale and geographically concentrated operations – The scale of operations of the foundation is modest, with estimated revenues of Rs. 100-105 crore in FY2024. Moreover, it is exposed to geographical concentration risk as all 11 operational institutes are in Bangalore. Also, 70-75% of the total revenue is being contributed by two schools, namely Gopalan International School and Gopalan National School resulting in high asset concentration risk.

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. GF has free cash and bank balances of Rs. 62.9 crore as on March 31, 2024. The repayment obligation of Rs. 3.61 crore in FY2025 for the term loan will be comfortably met through its estimated cash flow from operations.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if there is a healthy improvement in student enrolments leading to significant improvement in GF's revenues and cash accruals, 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 weakening of debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Higher 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. Under Gopalan Foundation, there are eleven institutes - Commerce College, College of Engineering and Management, International School, National School, PU College, Skill Academy, School of Architecture and Planning, Sports Center, Twinklers & Tiny Twinklers School and Gopalan National School South, Gopalan National School North, all of which are located in Bangalore. The foundation derives most of the revenues from two schools and an engineering and management institute. 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	FY2022	FY2023	FY2024*
Operating income	62.1	90.3	103.7
PAT	14.4	30.2	24.7
OPBDIT/OI	32.4%	40.8%	29.0%
PAT/OI	23.3%	33.4%	23.8%
Total outside liabilities/Tangible net worth (times)	0.2	0.3	0.2
Total debt/OPBDIT (times)	0.0	0.5	0.5
Interest coverage (times)	1586.4	20.4	227.8

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore ; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Aug 27, 2024	Date	Rating	Date	Rating	Date	Rating
Term loan	Long Term	15.38	[ICRA]A-(Stable)	04-May-23	[ICRA]A-(Stable)	-	-	28-Feb-22	-
Unallocated	Long Term	-	-	04-Apr-23	[ICRA]A-(Stable)	-	-	28-Feb-22	[ICRA]BBB+(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: [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	15.38	[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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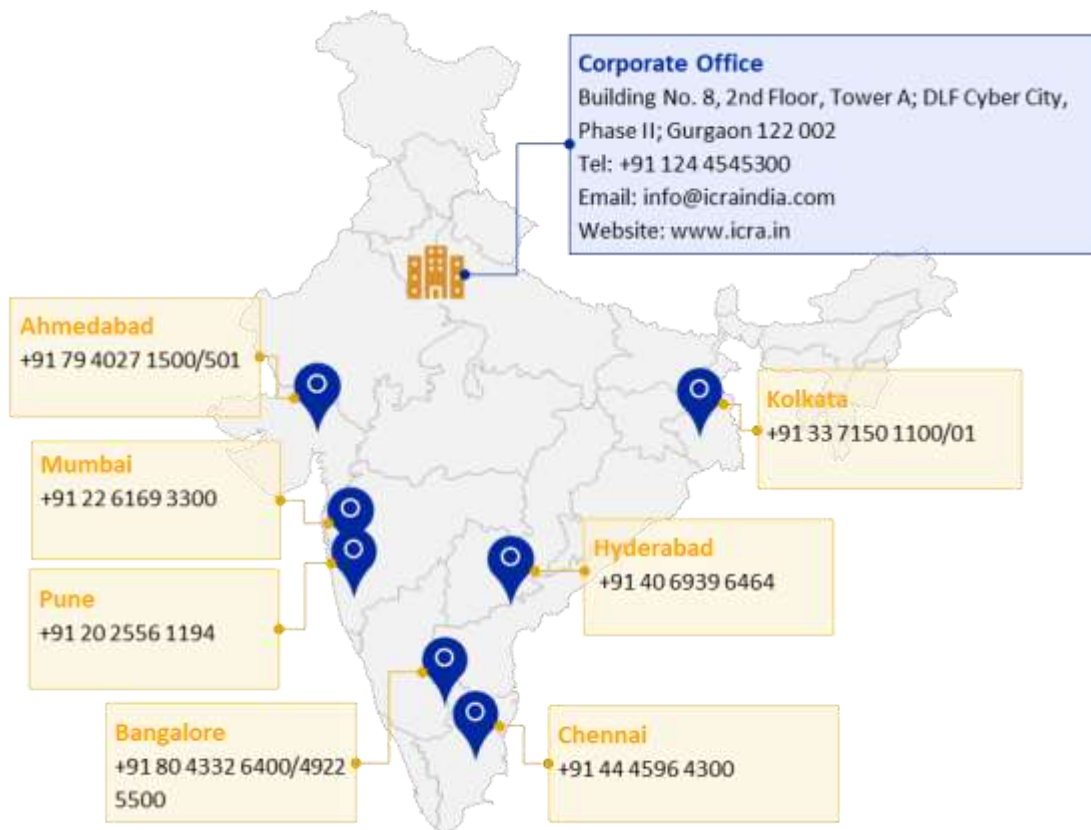
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