February 13, 2024

K12 Techno Services Private Limited: [ICRA]A-(Stable)/[ICRA]A2+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fund based - Term Loan	260.0	[ICRA]A-(Stable) assigned
Long Term/ Short Term- Fund Based -Bank Facilities	36.9	[ICRA]A-(Stable)/[ICRA]A2+ assigned
Long Term/short term - Unallocated Limits	43.1	[ICRA]A-(Stable)/[ICRA]A2+ assigned
Total	**340.0**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings consider K12 Techno Services Private Limited's (K12 or the company) established presence in the business of providing services to schools and other educational institutions under its own brand, Orchids the International School (OIS) and Taproot Colleges. OIS has presence in 80+ schools at present in major cities across the country. In FY2023, the company has tied up with ~25 new schools and another ~15 schools are expected to be tied up in the current fiscal, which are likely to support its scale in the near-to-medium term. In addition, the company follows the asset-light strategy to expand, wherein the investment in land and building is being carried out by the trust and K12's investment is limited to providing long-term security deposit to the trust as well as investment in school infrastructure. ICRA notes that the overall number of students has grown significantly to ~54,493 in the current fiscal from ~23,000 students in FY2020/FY2021. Thus, the benefit of the higher scale would be visible from the current fiscal and the profitability is expected to improve significantly in FY2024 compared to FY2023. The same is already reflected in H1 FY2024 performance. In addition to managing schools, the company is present in the B2B segment, where it provides curriculum and book kits to 700-800 schools under its own brand, Eduvate. While this business is currently at the nascent stage, it will help in brand building for the company. Further, the ratings favourably factor in the company's comfortable capital structure, backed strongly by various private equity (PE) investors. During the last four years, the investors have infused ~Rs. 980 crore equity, including ~Rs. 255 crore in the current year to fund K12's growth plans. ICRA expects the company's capital structure and liquidity position will remain comfortable in the medium term.

The ratings are, however, constrained by the moderate level of debt coverage indicators likely in FY2024, as reflected by the expected interest coverage of 3.2-3.7 times and total debt/operating profits (TD/OPBDITA) of 3.2-3.8 times in FY2024 compared to ~1.2 times and ~13 times, respectively in FY2023. With the improvement in profitability, while the indicators have improved, they continue to remain at moderate levels. The return on capital employed (RoCE) is also expected to remain in single digit in the near term. Nonetheless, as number of students admitted to the newly tied up schools increases, it will lead to improvement in K12's profits, and consequently, the coverage indicators are also expected to improve further from FY2025 onwards. Further, the OIS schools remain exposed to intense competition from established schools, both at the Government and private operating in the region while attracting new students for admissions at its tied up schools. In addition, K12 remains exposed to regulatory risks inherent in the education sector.

The Stable outlook on K-12's rating reflects ICRA's opinion that the company's scale and additional profitability will supported by higher student intake at the newly tied up schools in the last two years. Moreover, the company will continue to benefit from the financial strength of its sponsors.

Key rating drivers and their description

Credit strengths

Healthy financial profile of the shareholders and track record of timely support with consistent capital infusion – K12 is a professional run company with large PE investments from the likes of Sequioa Capital (Now, Peak XV Partners), Navneet

Learning, Sofina Ventures and Kedaara Capital. Sequoia and Navneet have been K12's investors since its inception in 2010 and both continue to hold ~26.3% and 19.47% respectively in the company till date. ICRA notes that all the investors have a healthy financial profile and continue to provide operational as well as financial support to K12 as and when required. During the last four years, shareholders have invested ~Rs. 980 crore of equity, including ~Rs. 255 crore in the current fiscal to support the company's growth plans.

Established presence in education segment with a pan-India reach – K12 is an education service provider providing services to schools and other educational institutions, including admission support, academic support, digital security support, administrative support, examination support and housekeeping services to schools under its own brand name, OIS and Taproot Colleges. OIS has presence in over 80 schools at present at all major regions in India, which is further expected to increase by 7-8 schools each year, in the near term. Apart from this, the company is present in the B2B segment, in which it provides curriculum and book kits to 700-800 schools under its own brand, Eduvate. While this business is currently at the nascent stage, it will help in brand building for the company.

Financial performance expected to improve in FY2024, likely to sustain going forward – The company follows the asset-light strategy to expand, where K12's capital expenditure is limited to investment in school infrastructure and providing long-term security deposit to the trust. ICRA notes that the overall number of students has grown significantly to ~54,493 in the current fiscal from ~23,000 students in FY2020/FY2021. The company has tied up with 25 schools in FY2023 and another 15 schools are expected to be tied up in FY2024, which would support its scale in the near to medium term. The revenues and profitability are expected to improve significantly in FY2024 compared to FY2023, which is already reflected in H1 FY2024 performance, when the company reported revenues of Rs. 249 crore and OPBDITA of Rs. 78.8 crore. In FY2025, the revenue and profits are expected to improve further with a significant increase in revenue contribution from higher student intake at the newly tied up schools.

Credit challenges

Volatility in margins and net losses till FY2023; debt protection metrics remain modest at present – The operating margins remained volatile in the last two years, which resulted in net losses in FY2022 and FY2023. The profitability has improved but continue to remain at moderate levels. In FY2024, the interest coverage is expected to remain in the range of 2.7-3.2 times and total debt/operating profits (TD/OPBDITA) in the range of 3.2-3.8 times, compared to ~1.2 times and ~13 times, respectively in FY2023. The RoCE is also expected to remain in single digit in the near term. Nonetheless, as the number of students increase at the K12 tied up schools, it will result in higher profits, resulting in an improvement in the debt coverage indicators from FY2025.

Inherent regulatory risk and competition in the education sector – K12 remains exposed to regulatory risks inherent in the education sector. Primary and secondary education in India is subject to regulatory controls, and educational institutions need to comply with central as well as state-specific regulations. Moreover, the company is exposed to intense competition from established schools, both at the Government and private while attracting new admissions at its tied up schools.

Liquidity position: Adequate

The liquidity position is adequate. Going forward, the liquidity is expected to be supported by heathy cash flow from operations, cash and liquid investment balance and cushion in WC limits. The debt repayments in the next 2-3 years are expected to be in the range of Rs. 25-35 crore and capital expenditure is likely to be in the range of Rs. 60-100 crore. ICRA expects that the company will be able to meet its debt repayment obligation and capex requirement by internal as well as external sources of funds.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates healthy earnings, profitability and debt coverage metrics on a sustained basis.

Negative factors – The ratings could be downgraded in case of any adverse impact on the revenue/profitability of the company and any large debt-funded growth, leading to a deterioration in debt protection metrics. Specific trigger for ratings downgrade will be an interest cover of less than 4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financials have been considered.

About the company

In 2016, the erstwhile promoters exited K12, and the shares of the erstwhile promoters was acquired by Sequoia Capital India (currently holding ~26.3% of the total shares through its overseas investment vehicles) and Navneet Learning LLP (currently holding a 19.47%). The rest is owned by Sofina Ventures SA (18.3%) and Kedaara Capital (25.6%). Under the new management, KTSPL provides school management services to CBSE schools from kindergarten to class 10/12 under its brand name, Orchids the International School and to pre-University colleges under the brand name, Taproot Colleges. The company has presence in over 80 schools across multiple cities in the country. The schools have witnessed total enrolment of ~54,000 students as of the academic year (AY) 2023-2024. The company also has a B2B business vertical under the brand name, Let's Eduvate, providing academic material and ERP software services to ~800 schools as on date.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	149.6	358.3
PAT	-246.5	-22.0
OPBDIT/OI	-156.1%	5.1%
PAT/OI	-164.8%	-6.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	-0.7	13.0
Interest coverage (times)	-42.3	1.2

Source: Company, ICRA Research; 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

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 13, 2024			
1	**Fund based Term Loan**	Long term	260.0	195.8	[ICRA]A- (Stable)	-	-	-
2	**Fund Based -Bank Facilities**	Long term and short term	36.9	10.8	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

3 Unallocated Limits	Long term and short term	43.1	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term- Fund based Term Loan	Simple
Long Term/ Short Term- Fund Based -Bank Facilities	Simple
Long Term/short term Unallocated Limits	Not Applicable

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	Fund based Term Loan	FY2023	8.7%-9.4%	FY2032	260.0	[ICRA]A-(Stable)
NA	Fund Based -Bank Facilities	-	10%	-	36.9	[ICRA]A-(Stable)/ [ICRA]A2+
NA	Unallocated Limits	-	-	-	43.1	[ICRA]A-(Stable)/ [ICRA]A2+

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

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Rishin Devnath
+91 82400 58424
rishin.devnath@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
Priyesh.ruparelia@icraindia.com

Maitri Vira
+91 79 4027 538
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches