February 15, 2024

MNR Educational Trust: Ratings upgraded to[ICRA]BBB (Stable); removed from Issuer Not Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term-Term loans	51.00	49.00	[ICRA]BBB (Stable); upgraded from [ICRA]BB+ (Stable) ISSUER NOT COOPERATING and Removed from Issuer Not Cooperating category
Long-term-Cash Credit	6.00	8.00	[ICRA]BBB (Stable); upgraded from [ICRA]BB+ (Stable) ISSUER NOT COOPERATING and Removed from Issuer Not Cooperating category
Total	**57.00**	**57.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the rating, ICRA has taken a consolidated view of the MNR Group, which includes MNR Educational Trust (MET) and MNR Research Conventions (P) Ltd. (MNRRCPL), along with its subsidiary, MNR Teach Trillion DMCC (MNRTT).

The rating action reflects an improvement in the Group's revenues in the last two fiscals. The Group's revenue rose 21% to Rs. 209 crore in FY2023 along with a healthy improvement in the operating surplus. The performance is expected to be healthy in the current fiscal as well. The debt coverage indicators improved with an interest coverage of 5.9 times and Total Debt/OPBDITA of 2.8 times as on March 31, 2023, owing to healthy operating surplus and scheduled repayment of loans. With the commencement of Mantena American School (MAS) in Sharjah and the likely increase in admissions, the overall financial profile is expected to improve in the medium term. Further the rating considers the Group's established track record in the education sector and the diversified portfolio of educational institutes ranging from pre-schooling to post-graduation courses in medical, engineering, pharmacy, and nursing etc.

The rating is, however, constrained by the delay in the ramp-up of admissions/revenues in MAS. This led to operating losses in MNRTT, coupled with increased operating expenses in MET. The Group's ability to maintain its surplus margin will remain a key rating sensitivity. This apart, the institutes remain exposed to regulatory risks associated with the stringent compliance requirements of the Medical Council of India and other relevant regulatory authorities. ICRA also notes the likely possibility of mismatch in cash flows as the trust receives lumpsum fees, but the repayment obligations are quarterly, which necessitates prudent cash flow management to ensure regular debt servicing. However, the Group maintains bank balances, along with overdraft limits, which would mitigate the risks arising from volatility in cash flows.

The Stable outlook reflects ICRA's belief that the credit profile of the MNR Group will benefit from the healthy occupancy at its major courses, and commencement of operations at MAS.

Key rating drivers and their description

Credit strengths

Established presence of MNR Group in the education segment and healthy occupancy levels – The MNR Group has more than 40 years of track record in the field of education and offers pre-schooling to PG courses through its institutes. The medical, dental and other allied health science colleges are spread across its 110-acre campus in Sangareddy district, Telangana. The occupancy in courses like MBBS, BDS, BHMS, MDMS and MDS is healthy with above 90% levels, supporting the Group's revenues. Although the revenues declined in FY2021 due to the adverse impact of the pandemic on fee collections for schools and other institutes, the same witnessed a healthy growth in the last two years on the back of an increase in PG seats for medical college and normalcy in school operations.

Comfortable capital structure – The Group has a comfortable capital structure with an estimated gearing of 0.2 times as on March 31, 2023. Further, the coverage indicators improved with an interest coverage of 5.9 times and Total Debt/OPBDITA of 2.8 times in FY2023 due to an increase in the operating surplus. Further, low leverage levels are expected to support the coverage indicators over the medium term.

Credit challenges

Slow ramp-up in Dubai school operations hit profit margins – The Group had completed the construction of MAS in Sharjah and commenced operations from September 2021. However, lower-than-expected occupancy level and the resulting operating losses at MNRTT, impacted the overall operating surplus for the Group in the past few years. However, an increase in fee receipts and other operating revenues in MNRRCPL resulted in an improvement in the overall margins for the Group in FY2023.

Strict regulations in education sector along with intense competition – The education sector in the country has to abide by strict regulations from various regulatory bodies such as the Medical Council of India, the Indian Nursing Council, the University Grants Commission etc. The Group faces intense competition from other colleges and schools in attracting students and faculties. However, this risk is partly mitigated by the Group's established track record of 40 years in operating educational institutions.

Volatility in cash flows – ICRA notes the mismatch in cash flows with the trust receiving lumpsum fees, while the repayment obligations are quarterly, which necessitate prudent cash flow management to ensure regular debt servicing. However, the Group maintains bank balances, along with overdraft limits, which would mitigate the risks arising from volatility in cash flows.

Liquidity position: Adequate

The liquidity position is expected to remain adequate for the Group with cash and liquid investments of Rs. 30 crore and undrawn working capital limits of Rs. 6.2 crore as of December 31, 2023. The Group has repayment obligations of ~Rs.21 crore in FY2024 and the cash flows from operations are expected to be sufficient. Overall, ICRA expects the Group to be able to meet its near-term commitments through internal sources of cash.

Rating sensitivities

Positive factors – The rating may be upgraded if the Group demonstrates a significant growth in revenue receipts and improvement in surplus levels on the back of ramp-up in operations of the Mantena American School in Sharjah.

Negative factors – The ratings may be downgraded if there is a delay in improvement in revenue receipts of Mantena American School and surplus, which would impact the overall Group's finance profile, or any significant debt-funded capex weakens the liquidity position. Also, DSCR of less than 1.3 times on a sustained basis would be a specific negative trigger.

Analytical approach

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

Consolidation/Standalone	For arriving at the rating, ICRA has taken a consolidated view of the MNR Group (MNRG) which includes MNR Educational Trust (MET) and MNR Research Conventions (P) Ltd (MNRRCPL) along with its subsidiary, MNR Teach Trillion DMCC (MNR TT).

About the company

The MNR Group is promoted by Mr. M. N. Raju (Chairman) and his son Mr. M.S. Ravi Verma (Vice Chairman). The MNR Educational Trust (MET) was established in 1992 by Mr. Raju. At present, it runs schools, junior and degree colleges, post-graduate colleges and teacher training colleges. It also provides medical and engineering education and operates a teaching hospital at Sangareddy, Telangana. There are ~25 institutions under the trust, which are located primarily in Hyderabad.

MNR Research Conventions Pvt. Ltd. (MNR RCPL) was incorporated in 2015. It operates 29 play schools under the MNR Golden Kids label and conducts pre-primary teacher training courses in Hyderabad and Navi Mumbai. MNRRCPL has a subsidiary, MNR Teach-Trillion DMCC, which owns a talent and skill development institute in the UAE and has constructed an American curriculum school named Mantena American School in Muwaileh Area, Sharjah.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	172.1	209.1
PAT	4.6	13.1
OPBDIT/OI	19.2%	23.4%
PAT/OI	2.7%	6.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	4.4	2.8
Interest coverage (times)	3.1	5.9

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 March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 15, 2024	Feb 28, 2023	Nov 19, 2021	Aug 27, 2020
1	Term loans	Long term	49.00	24.42	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long term	8.00	--	[ICRA]BBB (Stable)	[ICRA]BB+ (Stable); ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term- Term Loan	Simple
Long-term- Cash Credit	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	Long-term- Term Loan	Dec 2017	NA	Mar 2025	49.00	[ICRA]BBB (Stable)
NA	Long-term- Cash Credit	NA	NA	NA	8.00	[ICRA]BBB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
MNR Research Conventions (P) Ltd*	28% owned by MET	Full Consolidation
MNR Teach Trillion DMCC	97.35% owned by MNRRCPL	Full Consolidation

*Source: MNR Educational Trust; *The trustees of MET hold the remaining 72% stake in MNRRCPL*

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About ICRA Limited:

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