April 05, 2024

GIIS Learning Private Limited: 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	217.0	217.0	[ICRA]BB+ (Stable); reaffirmed
Total	**217.0**	**217.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating of GIIS Learning Private Limited (GIIS/ the company) continues to derive comfort for being a part of the Singapore-based Global Schools Foundation (Group), comprising 64 schools across ten countries with more than 40,000 students, reflecting an extensive experience of the promoters in school management. Apart from management support for running the schools against a fee, the company's financial flexibility is strengthened by the support received from the entities within the Group. Further, all the three schools of the company are fully operational, which provides comfort in terms of stable cash flows and mitigates the risks associated with stabilisation of the school's operational performance. ICRA notes that the cash flows generated by the company may fall short to cover the debt servicing obligations. However, there is fungibility of funds available within the Group in case of any urgent requirement. The same is also evident in the last one year through support in the form of unsecured loans from the Group for timely debt servicing of the bank loans. Also, as per the bank's sanction terms, the repayment of term loans would be given priority over any other payments to the immediate parent or the Group companies.

The rating, however, is constrained by the company's small size of operations along with intense competition faced by the schools under its operations in the Bangalore region, which would impact the overall financial profile. Moreover, the cash flow of the company would be inadequate to cover the debt servicing obligations, if the committed payments are made to the Group companies. Nevertheless, as per the terms of the loans, debt servicing of bank loans would get top priority over all such payments to the Group companies, which is a credit positive. However, the company's debt coverage metrics would remain under pressure, given the large debt service obligations in relation to its cash flows. Additionally, the net worth of the company is likely to remain low because of the limited track record and low accruals estimated in the future. ICRA also notes that the education sector is highly regulated in India, which will continue to pose regulatory risk for the company.

The Stable outlook on the long-term rating reflects ICRA's opinion that the performance of the schools managed by the company will remain steady, resulting in stable cash flows. The outlook also factors in ICRA's opinion that the company will not undertake any unanticipated debt-funded capital expenditure/acquisition or any large unanticipated payout to the parent Group in the medium term, which could impact its financial risk profile.

Key rating drivers and their description

Credit strengths

Part of a large Group having extensive experience in running schools across many countries – The company's parent Group has a vast network of 64 schools spread across India, Singapore, Japan, The Philippines, Korea, Cambodia, Malaysia, the United Kingdom, and the Middle East. This apart, all-round infrastructure, various accreditations, and experienced management across the Group's schools help in retaining existing students and attracting new students. The Group's schools have adequate infrastructure in terms of well-equipped classrooms, playgrounds, laboratories, latest technology, e-learning resources, etc. Supported by such an extensive experience in the education field, the Group is expanding its base by acquiring schools in new geographies, which would further strengthen its overall profile, going forward. The company has strong linkages with its parent Group through various entities, which provide operational and financial support for managing the schools.

Stable cash flows likely to support debt servicing – The three schools managed by the company (two acquired and one existing) are fully operational, which provides comfort in terms of stable cash flows and mitigates the risks associated with stabilisation of the schools' operational performance. ICRA notes that debt servicing of the term loans will be given priority over any other payments, including management and royalty fee to the immediate parent or the Group companies, which is also evident from the past one year. Consequently, the cash flows generated by the company are likely to cover the debt servicing obligations, though with limited cushion or support from the Group. Further, any unanticipated cash outflow could adversely impact the debt coverage metrics of the company.

Credit challenges

Small size of operations – The company was incorporated in April 2022 with three schools under its operations (from October 2022). The company's annual revenue is likely to be less than Rs. 50.0 crore in the near term, which is 90-95% OPBIDTA of the three schools. Further, intense competition in the Bangalore region, along with pressure on the occupancy level in one of the schools could impact the overall financial profile, going forward.

Leveraged capital structure and weak debt coverage metrics – The company has three schools under its operations, out of which two have been acquired with a funding mix of large fresh term loans, equity and loans from the parent Group. Moreover, the cash flow of the company would be inadequate to cover the debt servicing obligations, if the committed payments are made to the Group companies. Nevertheless, as per the terms of the loans, the debt servicing of bank loans would be given priority over all such payments to the Group companies, which is a credit positive. However, the company's debt coverage metrics would remain under pressure, given the large debt service obligations related to its cash flows. Additionally, the net worth of the company is likely to remain low because of the limited track record and low accruals estimated in the future.

Exposed to regulations and intense competition in the education sector – As the education industry is well regulated, the company's schools are susceptible to changes in the policies of regulatory bodies along with both Central and State Governments. This restricts its flexibility and autonomy with respect to fees and student intake, among others. Any non-compliance or violation of these regulations may lead to cancellation of affiliation and may put restrictions on new admissions and occupancy levels, impacting its revenues and cash flows. Further, the company's schools face stiff competition from various Government and private schools offering similar infrastructure in attracting students and faculties. However, this risk is partly mitigated by the extensive experience and brand position of the company's parent Group.

Liquidity Position – Adequate

The company's liquidity is adequate in the near term even though there are large repayment obligations and low cash and cash equivalents. The company would continue to derive advantage for being a part of a large Group, which supports its financial flexibility, as reflected by its ability to raise funds in the past one year. ICRA believes that in case of any cash flow mismatch, the parent Group would support the company in timely debt servicing, as evident from the past one year. However, any unanticipated payout (including management and royalty fee to the Group company) in the future would adversely affect the company's liquidity.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant increase in its revenue and profit while maintaining the existing operational performance on a sustained basis. A material improvement in the capital structure, coverage metrics and liquidity, strengthening the financial risk profile, could lead to a rating upgrade. Specific credit metric that could result in a rating upgrade includes Total Debt/OPBDITA of less than 3.0 times on a sustained basis.

Negative factors – A significant decline in the operational performance, as reflected by low student enrolment or high dropouts, impacting its scale and profitability, could result in a rating downgrade. The rating could also be impacted by a large debt-funded capex/acquisition, leading to a deterioration in its debt coverage metrics and liquidity on a sustained basis. Further, higher-than-anticipated payout to the parent Group could result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Incorporated in FY2023, the company is a part of the Singapore-based Global Schools Foundation (Group), which operates a chain of schools across multiple geographies. The Group has 64 schools across various countries with more than 40,000 students. The company has strong linkages with its parent Group through its various entities, which provide management services to the schools of GIIS. The company has three schools under its operations, all of which are located in Bangalore (Karnataka). It has a total strength of more than 3,850 students.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	-	11.9
PAT	-	(30.1)
OPBDIT/OI	-	22.3%
PAT/OI	-	-252.3%
Total outside liabilities/Tangible net worth (times)	-	(18.3)
Total debt/OPBDIT (times)	-	114.8
Interest coverage (times)	-	0.2

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	Current Rating (FY2025)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on Feb 29, 2024	Date and Rating in FY2025	Date and Rating in FY2024	FY2023	FY2022
					Apr 05, 2024	-	Feb 20, 2023	-
1	**Fund-based – Term loan**	Long-term	217.0	206.4	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (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, is available on ICRA's website: [Click Here]

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based – Term loan	Sep 2022	NA	Sep 2028	217.0	[ICRA]BB+ (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

ANALYST CONTACTS

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

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

Manish Pathak
+91 124 4545397
manishp@icraindia.com

Sandeep Aggarwal
+91 124 4545377
sandeep.aggarwal@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:

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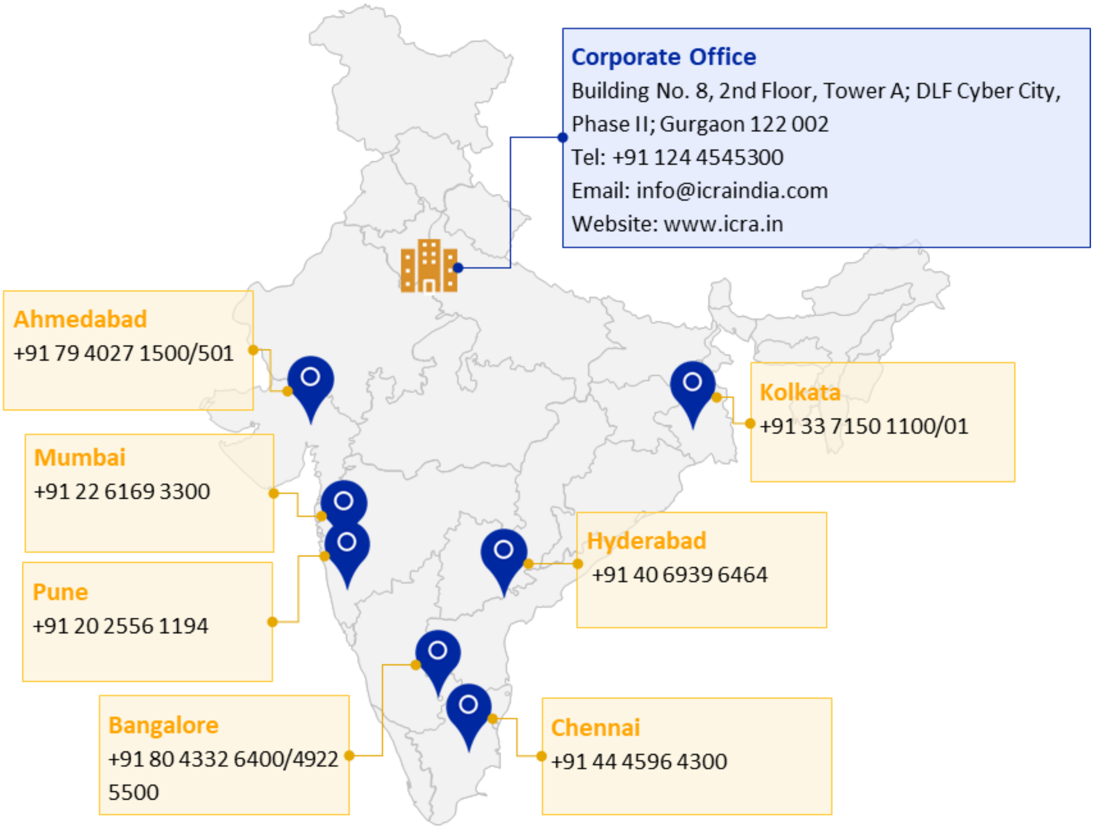
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



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