July 29, 2024

AISECT Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	2.00	2.00	[ICRA]BBB-(Stable); reaffirmed
Long-term – Fund-based – Dropline overdraft	13.89	12.91	[ICRA]BBB-(Stable); reaffirmed
Long-term – Fund-based – Term loan	19.61	9.98	[ICRA]BBB-(Stable); reaffirmed
Short-term – Non-fund based – Bank guarantee	20.00	13.00	[ICRA]A3; reaffirmed
Long-term – Unallocated	0.00	17.61	[ICRA]BBB-(Stable); reaffirmed
Total	**55.50**	**55.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider AISECT Limited's (AISECT) satisfactory debt protection metrics with OPBDITA/Interest at 10.9 times, DSCR at 5.4 times and moderate leverage (TOL/TNW at 0.8 times) as on March 31, 2024 (provisional). A predominant share of its revenue is derived from the banking kiosks and RFID tag services, which is likely to witness healthy growth in the coming years, supported by increasing thrust on banking penetration in the rural market. The ratings favourably factor in its established relationship with a reputed and a diversified customer base, which includes National Skill Development Corporation (NSDC) and nationalised banks. ICRA takes note of AISECT being a part of the AISECT Group[1], led by the AISECT Society, which offers degree, diploma and certificate courses through its various institutions, reflecting an extensive experience of promoters for more than three decades in the education industry. Also, there are multiple institutions of the AISECT Group under its management for providing online services and selling books to the Group's students.

The ratings, however, are constrained by the modest scale of the company's operations, its low net worth base of ~Rs. 65 crore, and sizeable investment planned in the non-core segment. Moreover, its revenue is highly dependent on the income earned from banking kiosk services, RFID tags and skill training courses provided under various Government schemes, which are very competitive and limits its pricing flexibility. The revenue from the banking kiosk service is exposed to the regulatory risk as any adverse change in the Reserve Bank of India (RBI)/bank's guidelines/policies may materially impact the company's revenue and profitability. ICRA notes AISECT is undertaking a capex for non-core activity of building a commercial office complex with a total project cost of Rs. 20 crore, which would be primarily funded through long-term debt. The construction work of the project has already started and it may take ~2-3 years to complete. The company would be exposed to project execution risks and associated market risks with unrelated business such as the commercial office complex and the recently commenced pipe manufacturing facility. The HDPE pipe manufacturing lines currently operates at sub-optimal capacity and remains a drag on the overall profitability and return metrics. Going forward, any large non-core investments, which could materially impact leverage or return metrics will be a credit negative and remains a key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company is likely to sustain its operating metrics and its debt protection metrics commensurate with the rating level, driven by low leverage, steady revenue growth and profitability.

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[1]*AISECT Group includes six Universities, which offers higher education and skill development courses, located in Madhya Pradesh, Chhattisgarh, Bihar and Jharkhand*

Key rating drivers and their description

Credit strengths

Established business linkages with reputed and diversified customer base – The trustees of the AISECT Society, who are promoters of AISECT Limited, have extensive experience in the education industry, which supports its business growth. AISECT has established business track record with NSDC since 2011, which supports skill development programmes under various Government schemes. The company also acts as a business correspondent partner with reputed nationalised banks for its financial inclusion services through banking kiosks. It also sells FASTag on behalf of banks through its agents across India. With multiple institutions of the AISECT Group under its management for providing online services, publishing and selling books to the students, the company has a well-diversified and reputed source of revenue.

Satisfactory debt protection metrics – The company's capital structure is satisfactory with moderate leveraging, as characterised by Total Debt/TNW of 0.3 times and TOL/TNW at 0.8 times as on March 31, 2024 (provisional). This apart, due to low leverage and adequate profitability, it maintains comfortable debt coverage indicators as reflected by interest coverage ratio and DSCR of 10.9 times and 5.4 times, respectively, as on March 31, 2024. Going forward, with a conservative debt profile, the company's debt protection metrics are likely to remain satisfactory in the near term.

Credit challenges

Moderate scale of operations and low net worth base; revenue from banking kiosk service exposed to regulatory risk – The company has well-diversified sources of revenues. However, the scale of operations is small, as reflected by an operating income of Rs. 160.0 crore in FY2024 along with modest profitability. Moreover, the net worth remains low at Rs. 65.3 crore as on March 31, 2024, which limits the ability to absorb any adverse business situation. Its revenue is highly dependent on the income earned from banking kiosk services, RFID tags and skill training courses provided under various Government schemes, which are highly competitive and impacts its pricing flexibility. ICRA also notes that majority of the revenue is generated from the banking kiosk service (~39% in FY2024), which is exposed to risks associated with any adverse changes in the bank's policies or regulatory guidelines. Also, any non-compliance to such policies or guidelines would result in cancellation of affiliation or licence, leading to loss of reputation and revenue of the company.

Project execution and business risks associated with the new businesses and ongoing capex – The company is undertaking capex for building a commercial office building with an overall project cost of ~Rs. 20 crore, out of which ~Rs. 14 crore is expected to be funded from the long-term loans and the remaining amount from its internal accruals. It is exposed to execution risk as any significant delay in the project execution could result in cost overrun leading to requirement of incremental investment. Moreover, AISECT's ability to generate adequate return on these investments will remain a key rating monitorable. Earlier, the company had ventured into HDPE/PVC pipe manufacturing, which is yet to reach optimal capacity utilisation and remain a drag on the profitability and return metrics.

Liquidity position: Adequate

The company's liquidity is likely to remain adequate on the back of steady accruals, free balances and buffer available in its bank limits. Along with buffer in the working capital limits, AISECT maintains free cash and bank balances of around Rs. 10.0-15.0 crore at any point of time. However, with the ongoing capex of commercial office tower, which is funded with a mix of debt and internal accruals, the free balances are likely to reduce in the near to medium term. ICRA expects the company's liquidity to be supported by its promoters in the form of unsecured loan in case of any cash flow mismatch.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a significant scale-up in the company's revenue and profitability, leading to an improvement in liquidity, net worth and debt protection metrics on a sustained basis.

Negative factors – The ratings could be downgraded in case of any adverse impact on the company's revenue/profitability, leading to a deterioration in debt protection metrics on a sustained basis. The ratings could also be impacted by a large debt-funded capex, leading to a deterioration in its liquidity. Specific credit metric for downgrade includes DSCR falling below 1.8 times on a prolonged basis.

Analytical approach

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

About the company

AISECT Limited was incorporated in 2006 by Mr. Siddharth Chaturvedi and Mr. Santosh Choubey. It is a part of the AISECT Group, led by the AISECT Society, which has established universities across the states and is also involved in the areas of skill development, higher education and other technology-based services. The company is mainly involved in providing various services such as banking kiosk services, RFID services, general supplies, along with publishing and selling of educational books. The company also provides coaching and skill training to various aspirants under different Government schemes.

Key financial indicators (Audited/Provisional)

	FY2022	FY2023	FY2024*
Operating income	103.9	139.6	160.0
PAT	5.7	8.5	10.1
OPBDIT/OI	8.0%	10.5%	10.8%
PAT/OI	5.5%	6.1%	6.3%
Total outside liabilities/Tangible net worth (times)	0.9	1.3	0.8
Total debt/OPBDIT (times)	0.8	1.8	1.1
Interest coverage (times)	28.2	10.7	10.9

*PAT: Profit after Tax; OPBDIT: Operating profit before depreciation, interest, taxes and Amortisation; Amount in Rs. crore; *Provisional financials*

Source: Company; ICRA Research

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
Acuite	ACUITE BB+ (IR); reaffirmed, ISSUER NOT COOPERATING	May 29, 2023

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)	Date and Rating in FY2025	Date and Rating in FY2024	Date and Rating in FY2023	Date and Rating in FY2022
				July 29, 2024	Apr 25, 2023	-	-
1	**Fund-based – Cash credit**	Long-term	2.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
2	**Fund-based – Dropline overdraft**	Long-term	12.91	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
3	**Fund-based – Term loan**	Long-term	9.98	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
4	**Non-fund based – Bank guarantee**	Short-term	13.00	[ICRA]A3	[ICRA]A3	-	-
5	**Unallocated**	Long-term	17.61	[ICRA]BBB-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term – Fund-based – Dropline overdraft	Simple
Long-term – Fund-based – Term loan	Simple
Short-term – Non-fund based – Bank guarantee	Very Simple
Long-term – Unallocated	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-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based – Cash credit**	NA	NA	NA	2.00	[ICRA]BBB-(Stable)
NA	**Fund-based – Dropline overdraft**	NA	NA	NA	12.91	[ICRA]BBB-(Stable)
NA	**Fund-based – Term loan**	FY2022	NA	FY2030	2.25	[ICRA]BBB-(Stable)
NA	**Fund-based – Term loan**	FY2023	NA	FY2030	2.35	[ICRA]BBB-(Stable)
NA	**Fund-based – Term loan**	FY2023	NA	FY2030	1.48	[ICRA]BBB-(Stable)
NA	**Fund-based – Term loan**	FY2022	NA	FY2029	3.90	[ICRA]BBB-(Stable)
NA	**Non-fund based – Bank guarantee**	NA	NA	NA	13.00	[ICRA]A3
NA	**Long-term – Unallocated**	NA	NA	NA	17.61	[ICRA]BBB-(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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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.

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