

April 10, 2017

Leo Muthu Educational Trust

Instrument*	Rated Amount (in crore) ¹	Rating Action
Term Loan	27.88 (revised from 10.33)	[ICRA]BBB (Stable) reaffirmed
Unallocated facilities	Nil (revised from 4.67)	
Total	27.88	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating assigned to the Rs. 27.88 crore term loan facilities (revised from Rs 10.33 Crore) of Leo Muthu Educational Trust (“LMET” / “the Trust”) † at [ICRA]BBB (pronounced ICRA triple B). The outlook on the long-term rating is stable.

Rationale

The reaffirmation of rating factors in the steady increase in revenues and healthy operating margins witnessed by the Trust in FY2016 and the current fiscal, driven by increase in fees coupled with growth in student base in all the institutions under the Trust except Sri Sai Ram Polytechnic College on account of sluggish demand for polytechnic courses. ICRA also takes note of the opening of one more CBSE school in Medavakkam, which is expected to support revenue growth in the near to medium term and also aid margin expansion. The rating also considers the established brand name of the Sai Ram Group, the experience of the Trustee in the education sector, the diversified locations of the institutions and comfortable student-teacher ratio of the institutes. ICRA also takes note of the healthy long term demand for primary and secondary education in Tamil Nadu. The rating is, however, constrained by the highly regulated nature of education sector in the state, which limits the Trust’s ability to increase fees; high competition in the sector resulting in pressure to attract quality faculty members. ICRA also takes note of the lumpy nature of cash flows as against more periodic repayment obligations, which necessitates prudent cash flow management to ensure regular debt servicing. Going forward, the capital structure and debt metrics might be impacted to an extent owing to the envisaged debt funded capital expenditure. Ability of the trust to achieve the revenue growth targeted while sustaining its profit margins will be critical to generating strong cash flows and further improving its overall credit profile.

¹ 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths

- Experience of the Chairman in the education sector of more than two decades and established brand name of Sai Ram Group helps attracting students
- Diversified location of schools lends stability to revenues
- Robust demand for primary and secondary education in India to drive revenue growth going forward
- Financial profile characterized by steady growth in revenues and healthy operating margins

Credit Weakness

- High competition exists from other reputed institutions in the vicinity; pressure to attract and retain experienced faculty
- Lumpiness in cash flows could lead to misallocations
- Education sector in India is highly regulated; any adverse government regulations may impact revenue growth and accruals
- Sluggish demand for polytechnic courses resulting in lower intake during AY 2016-17
- With focus on opening of more CBSE school in the near term, the trust is in the midst of a large capital expenditure

Description of key rating drivers highlighted above:

With significant experience of the Trustee for more than 20 years in the education sector and established brand presence of Sai Ram group, the trust has been successful in attracting students year after year. The Trust has six institutions under its gamut currently and the diverse locations of the institutions lend stability to revenues. The Education sector is highly regulated with the government deciding on the maximum student intake, mandatory facilities, faculty strength and even faculty salary to an extent. Any adverse government regulations may impact the trust's revenue growth and accruals. The Trust also faces competition from other reputed institutions in the vicinity to attract and retain experienced faculty. The student strength decreased from 9,197 in AY2015-16 to 9,009 in AY2016-17 on the account of sluggish demand for polytechnic courses. With robust demand for primary and secondary education, the trust is planning to focus on CBSE schools which fetch better margins, as evidenced by the on going debt funded capital expenditure of Rs 36.5 crore (funded by debt of Rs 22.5 crore) towards the setting up of another CBSE school in Medavakkam.

About the Trust:

Leo Muthu Educational Trust, floated in 1989 by Thiru M. Jothiprakasam (alias) Shri. MJF Lion. Leo Muthu, is primarily engaged in offering primary, secondary and technical education. Currently the Trust has three matriculation schools, one CBSE School, one Polytechnic College and one I.T.I institute (added under the gamut recently) located in Madipakkam, West Tambaram, Thiruthuraipoondi, Vedachandur (Tamil Nadu). Two of the three matriculation schools were started in the academic year (AY) 2008-09 and the CBSE School was started in the AY 2010-11. The student base of the Trust for the AY 2016-17 was 9009 as against 9197 students in AY 2015-16.



Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	FY2017	FY2016	FY2015	FY2014	
				April 2017	January 2016	November 2014	December 2013	
1	Term Loan	Long Term	27.88	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Central Bank of India - Term Loan	31/03/2010	-	30/06/2020	5.38	[ICRA]BBB (Stable)
HDFC Bank - Term Loan	31/03/2017	-	31/07/2023	22.50	[ICRA]BBB (Stable)

*Note: * Sub-limits*

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