

July 16, 2021

Rajalakshmi Hostels Private Limited: Rating downgraded to [ICRA]D

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	12.50	12.79	[ICRA]D downgraded from [ICRA]BB-(Negative)
Unallocated limits	7.50	7.21	[ICRA]D downgraded from [ICRA]BB-(Negative)
Total	20.00	20.00	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade of Rajalakshmi Hostels Private Limited (RHPL) factors in the instances of delays in the debt servicing obligations in the recent months owing to liquidity crunch emanating from elongated receivables from Rajalakshmi Educational Trust (RET). For RET, the fee collection from students was elongated due to pandemic which impacted overall liquidity of the group. ICRA has been receiving the No Default Statement (NDS) from RHPL regularly in the prior months, which did not suggest irregularity in debt servicing. However, the latest information suggests that instances of delays by RHPL in recent months. Further, the rating continues to factor in small scale of operations, weak coverage indicators and regulatory risks associated with the higher education sector. ICRA notes the established presence of the group and its promoters in the higher education sector.

Key rating drivers and their description

Credit strengths

Established presence of the Group in the higher education sector – RHPL is a part of the Chennai based - Rajalakshmi Group, whose promoters have rich experience in the higher education sector. The Group has two flagship trusts – Rajalakshmi Educational Trust (which operates Rajalakshmi Engineering College [REC] and Rajalakshmi School of Architecture) and Sabari Foundation (which operates Rajalakshmi Institute of Technology and Rajalakshmi School of Business).

Credit challenges

Delays in debt servicing due to stretched receivables – There were instances of delays in the debt servicing obligations in the recent months owing to liquidity crunch due to elongated receivables from Rajalakshmi Educational Trust (RET), which in turn was because of elongated fee collection from students due to pandemic.

Modest scale of operations and weak coverage indicators– The scale of operations remains modest with revenues declining to Rs. 2.41 crore in FY2021 from Rs. 3.56 crore in FY2020 owing to reduced rental income due to pandemic. RHPL’s coverage indicators remain weak due to high repayment obligations amid small scale of operations.

Regulatory risks associated with the higher education sector – The higher education sector is highly regulated in nature, with the sanctioned student intake, tuition fees and student-faculty ratio primarily controlled by the All India Council for Technical Education (AICTE). This apart, the trusts are required to incur regular capital expenditure towards infrastructural developments. Debt-funded nature of the same tends to result in a leveraged capital structure for the trusts.

Liquidity position: Poor

RHPL’s liquidity position is **poor** because of elongated receivables from RET due to RET’s deferred fee collection from students due to pandemic and a sizeable debt servicing obligation in FY2022. The same led to delays in debt serving in recent months.

Rating sensitivities

Positive factors – ICRA could upgrade RHPL’s rating with regularisation in debt servicing for a period of more than three consecutive months.

Negative factors – Not Applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit Support from Parent or Group Policy on Default Recognition
Parent/Group Support	Parent/Group Company: Rajalakshmi Educational Trust The rating factors in RHPL’s strong operational, managerial and financial linkages with RET, a group trust, as RHPL provides hostel building to RET for which it receives rental income.
Consolidation/Standalone	The rating is based on the standalone financial statements of the company

About the company

Incorporated in 2008, RHPL, owns and lease the hostel building to educational institution – Rajalakshmi Engineering College (REC) run by Rajalakshmi Educational Trust (a Group trust) in lieu of rental income. RHPL is promoted by Mr. S Meganathan family and the promoters are also the trustees at RET.

Key financial indicators

Particulars	FY2020	FY2021*
Operating Income (Rs. crore)	3.6	2.4
PAT (Rs. crore)	0.6	0.1
OPBDIT/OI (%)	84.6%	91.9%
PAT/OI (%)	18.1%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	5.9	5.9
Total Debt/OPBDIT (times)	7.0	10.1
Interest Coverage (times)	1.9	1.5

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					July 16,2021	July 30,2020	-	Feb 21,2019	
1	Term Loans	Long-term	12.79	12.79	[ICRA]D	[ICRA]BB-(Negative)		[ICRA]BB-(Stable)	
2	Unallocated Limits	Long-term	7.21	-	[ICRA]D	[ICRA]BB-(Negative)		[ICRA]BB-(Stable)	

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based– Term Loans	Simple
Long-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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan-1	Feb-2015		Aug-2024	10.34	[ICRA]D
NA	Term loan-2	July-2020		July-2024	2.45	[ICRA]D
NA	Unallocated Limits	--	--	--	7.21	[ICRA]D

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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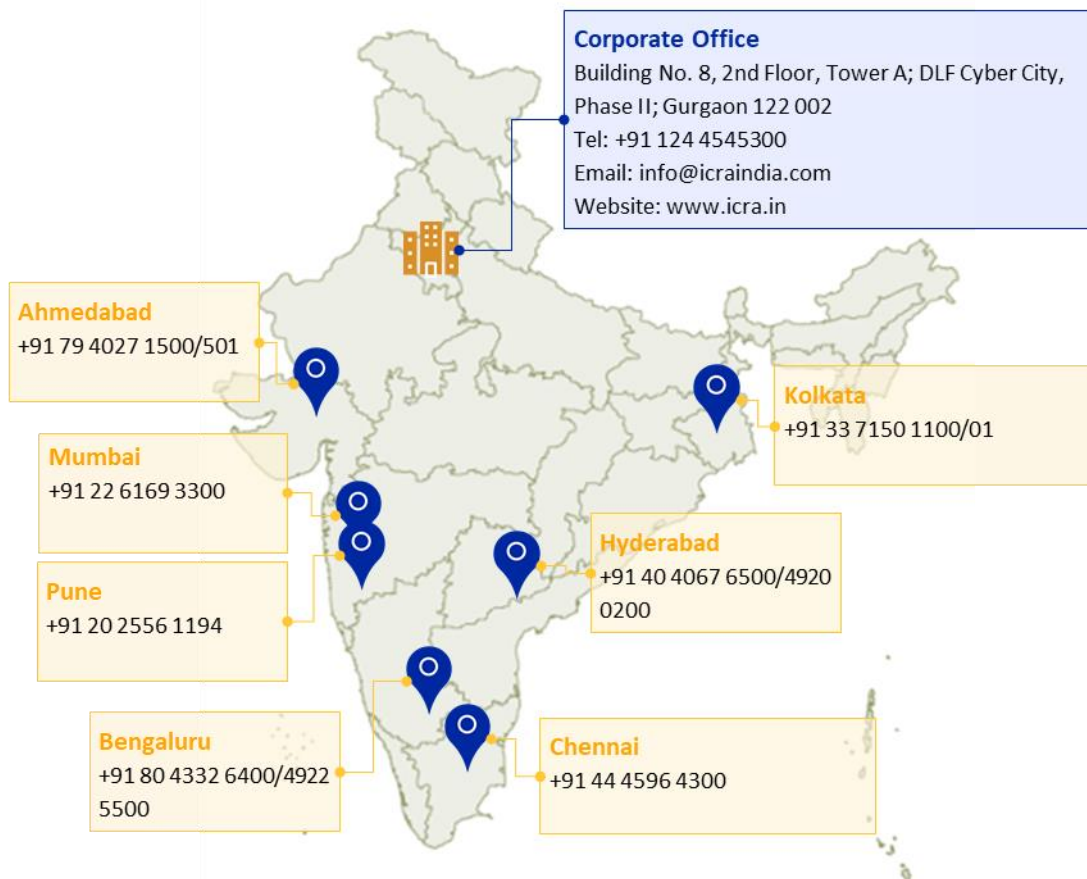
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