May 27, 2022

Rajalakshmi Education Services Private Limited: Rating upgraded to [ICRA]B (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	11.3	15.0	[ICRA]B (Stable); upgraded from [ICRA]D
Unallocated	8.7	5.0	[ICRA]B (Stable); upgraded from [ICRA]D
Total	**20.0**	**20.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating revision for Rajalakshmi Education Services Private Limited (RESPL) considers the regularisation of its debt servicing track record from July 2021, supported by part recovery of receivables from Rajalakshmi Engineering Trust (RET) infusion of unsecured loans from promoter as well as restructuring of term loans with a two-year principal moratorium. The rating favourably factors in the association of RESPL with the Rajalakshmi Group, whose promoters have rich experience in the higher education sector. The rating continues to derive comfort from the fixed rental income from RET, which ensures revenue stability.

The rating, however, is constrained by RESPL's modest scale of operations and coverage indicators, with an elongated receivable cycle from RET, which adversely impacts its liquidity position. Further, with RET being the sole revenue contributor, any deterioration in the financial profile of the trust's educational institutions would affect its ability to pay its rental obligations towards RESPL. ICRA also notes the company's exposure to regulatory risks associated with the higher education sector.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that the company will continue to benefit from the established presence of the Rajalakshmi Group in the higher education sector.

Key rating drivers and their description

Credit strengths

Established presence of the Group in higher education sector – RESPL 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).

Fixed rental income from RET ensures revenue stability – RESPL derives rental income from RET for the canteen and parking space that has been rented out to it. The rental income for RESPL is fixed, based on the area leased out, which ensures stability of contracted revenue.

Timely servicing of debt obligation from July 2021 – The company made timely debt servicing from July 2021, after delay in debt obligations in June 2021 as its liquidity was supported by receipt of receivables from RET and unsecured loans from the promoter. Further, the company's debt was re-structured in October 2021 by allowing 18 months' moratorium on principal repayments and later was taken over by Hinduja Leyland Finance.

Credit challenges

Modest scale of operations and modest coverage indicators – The company's scale of operations remains modest with revenues of Rs. 3.50 crore in FY2022 (PY: Rs. 3.12 crore in FY2021) declining from Rs. 5.32 crore in FY2020 owing to reduced rental income due to pandemic. The scale of operations is likely to be constrained despite the expected increase in revenues to pre-Covid levels in FY2023. RESPL's debt coverage indicators remain modest on account of its sizeable debt servicing obligations amid a small scale of operations and limited operating profits. Further, the timely debt repayments would depend on timely recovery of receivables from RET going forward.

Elongated receivable cycle – The high working capital intensity is attributable to significant increase in receivables as on March 31, 2021 due to delay in payments from RET, as fee collection from students was delayed owing to the pandemic. Despite a reduction in receivables to Rs. 3.80 crore as on March 31, 2022 from Rs. 5.60 crore as on March 31, 2021 on the back of resumption of regular operations at the facilities from October 2021, the same remain high.

Linkage of RESPL's revenue receipts to that of RET's financial profile – RET is the sole revenue driver of RESPL and any deterioration in the performance of RET's educational institutions would affect its ability to pay rentals towards RESPL. The higher education sector is highly regulated in nature, with the sanctioned student intake, tuition fees and student-faculty ratio subject to regulatory norms. This apart, the trusts are required to incur regular capital expenditure towards infrastructural developments.

Liquidity position: Stretched

RESPL's liquidity position is stretched with moderate cash balances of Rs. 0.03 crore and higher receivables from RET. The company has debt repayment obligations of Rs. 0.56 crore in FY2023, which will be funded from its internal accruals and promoter contribution, in case of any shortfall. Nonetheless, the financial support extended by the promoters and the absence of any major debt-funded capital expenditure in the near term provide comfort to an extent.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if there is an increase in the company's earnings and improvement in the working capital cycle resulting in an improvement in debt coverage metrics and liquidity position.

Negative factors – The rating will be downgraded if the company's liquidity position deteriorates because of any stretch in the working capital cycle or lack of timely support from the promoters.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Debt backed by lease rentals
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2008, RESPL owns and leases the canteen block and the parking spaces to an educational institution – REC, which is run by Rajalakshmi Educational Trust (a Group trust) in lieu of rental income. RESPL is promoted by Mr. S. Meganathan and his family. The promoters are also the trustees at RET. REC remains an established engineering college in Chennai.

Key financial indicators (audited)

RESPL	FY2020	FY2021
Operating Income (Rs. crore)	5.32	3.12
PAT (Rs. crore)	1.7	0.4
OPBDIT/OI (%)	73.1%	69.0%
PAT/OI (%)	32.1%	12.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.7
Total Debt/OPBDIT (times)	3.0	5.7
Interest Coverage (times)	3.5	1.9

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 (FY2023)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on March 31, 2022	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 27, 2022	July 16, 2021	July 30, 2020	-
1	Fund-based – Term Loan	Long term	15.0	15.0	[ICRA]B (Stable)	[ICRA]D	[ICRA]BB- (Negative)	-
2	Unallocated	Long term	5.0	-	[ICRA]B (Stable)	[ICRA]D	[ICRA]BB- (Negative)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term Loan	Simple
Unallocated Limits	NA

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	Feb-2022	-	Feb-2032	15.0	[ICRA]B (Stable)
-	Unallocated Limits	-	-	-	5.0	[ICRA]B (Stable)

Source: *Company;*

Annexure-2: 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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