May 16, 2023

Schoolhouse InvIT: Provisional [ICRA]AA+ (Stable) Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action**
Issuer rating	-	Provisional [ICRA]AA+ (Stable); assigned
Total	-	

**Instrument details are provided in Annexure-I*

*** The rating assigned is provisional as of now and is subject to the fulfilment and review of all pending actions/ documentation. The final rating may differ from the provisional rating in case the completed actions/ documentation is not in line with ICRA's expectations.*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

The rating assigned to Schoolhouse InvIT (InvIT) is not a comment on the ability of the InvIT to meet distribution/dividend payouts to unitholders/investors, neither should it be construed as an opinion on the debt servicing ability of the individual project assets or special purpose vehicles (SPVs) held by the InvIT. Schoolhouse InvIT is proposed to be sponsored by Precise Credit Solutions 3 S.a.r.l, which is fund entity advised by Veld Capital. Schoolhouse Investment Managers Private Limited and Schoolhouse Project Managers Private Limited will be the investment manager and project manager, respectively, which are owned by Cerestra Ventures Private Limited.

ICRA has undertaken a consolidated financial analysis of 11 special purpose vehicles (SPVs) proposed to be housed under InvIT. It comprises Purelearn Eduinfra Kanakapura Private Limited, Oaktree Infra Developers Private Limited, Purelearn Eduinfra Bangalore Private Limited, Purelearn Eduinfra Hyderabad Private Limited, Purelearn Eduinfra Ramanagara SH private Limited, Infraschool Services Gurgaon Private Limited, CUIB Eduinfra Bangalore Private Limited, Infraschool Services Chintamani Private Limited, Infraschool Services Tumkur Private Limited, Infraschool Services Kadiri Private Limited and Infraschool Services Korba Private Limited. These 11 SPVs have 10 schools and two student housing assets which are leased to educational institutions (also referred to as tenants), with a total leasable area of 2.25 million square feet (msf).

The SPVs, which are proposed to be part of InvIT, have leased assets (land and buildings) to educational institutions[1] and in turn will receive steady cash flow in the form of monthly rentals. The SPVs have long-term lease agreements ranging between 15 to 30 years and favourable lock-in period of 15 to 20 years, which mitigate the risk of premature termination of the lease by the lessee and reduces vacancy risk to a significant extent. The tenants have more than two decades of experience in operating multiple schools with national/regional presence and are established players in the education sector. The estimated consolidated rent for FY2023 is ~Rs. 102-104 crore with pre-agreed annual escalation of 3%-5% YoY (year on year) throughout lease period for the existing assets. Further, occupancy remained resilient at 100% even during the Covid-19 pandemic, given the high stickiness of tenants and switching costs.

The rating derives comfort from the robust security package, wherein the SPVs have priority charge over fees collected by the tenants which is legally enforceable through deed of hypothecation. As part of the arrangement, the rent payout to the Schoolhouse InvIT gets prioritised and the remaining surplus post rent will be available to tenants which can be utilised for their other expenses. In addition to the priority charge on fees, InvIT has healthy cash flow cover ranging between 1.9 to 2.8

[1]Sri Bhagawan Mahaveer Jain Educational and Cultural Trust (SBMJECT), ARKA Educational and Cultural Trust (AECT, Part of Jain Group), St Mary's Educational Society, Lina Ashar Foundation (part of Kangaroo Kids Education Ltd), St. Louis Educational Society, IFIM Group

times of rentals for 85% of the portfolio. Further, as part of the triple-net lease agreements between the tenants and SPVs, insurance, property tax, repairs and maintenance, applicable GST are fully borne by tenants, thereby resulting in minimal leakage of revenue (i.e., revenue largely translate into net operating income).

The IPO proceeds of InvIT are expected to be utilised to fully prepay the existing debt of SPVs and consequently the InvIT is proposed to have nil external debt. The rating notes the benefit of cash-flow pooling for the SPVs and the proposed InvIT, which ensures that availability of cash flows of all the SPVs for expenses and debt obligations of the InvIT, if any. In addition, SEBI InvIT regulations restrict the aggregate consolidated borrowings and deferred payments for the InvIT, thereby capping the maximum leverage that can be availed by the InvIT. Although the leverage is expected to be nil at the time of listing of the InvIT, the future expansion and acquisitions are expected to be debt funded. As per the management guidance, ICRA is given to understand that post listing, asset expansion and new acquisitions are planned to be funded by external debt while ensuring sub 30% loan-to-vale (LTV). The InvIT's future debt-raise and its impact on the debt protection metrics would remain key monitorable, going forward.

These strengths apart, Edu-infra as an asset class has limited track record globally and in India. The rating is constrained by the moderate scale of operations with an initial total leasable area of 2.25 msf (across 12 assets) and expected annual rental collections at around Rs. 114-116 crore for FY2024. Despite the expected addition of 0.5-1.0 msf in the next one to two years, the scale is expected to remain moderate. However, comfort is taken from resilient occupancy levels, high tenant stickiness, relatively lower market risk and robust security package. The rating considers exposure to high school-operator concentration risk with the top-two operators contributing to around 70% of the rentals and 60% of the leasable area in FY2024. Any significant deterioration in brand strength of the educational institution, may have a material impact on enrolments which could have an adverse effect on the cash flows for the InvIT. However, extensive track record of tenants in the education segment and healthy cash flow security cover for majority of the assets, provide comfort. The investment manager group also has a school operator arm under the brand, Crimson, which is operating seven schools (two out of seven schools are proposed to be part of the InvIT) at present and can act as a mitigant in case any school operations need to be taken over.

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that the InvIT will be supported by stable rental income from the underlying assets, high tenant stickiness, robust security package and low leverage.

Key rating drivers and their description

Credit strengths

Extensive track record of tenants in education segment and long-term lease agreements with steady cash flow – The SPVs, which are proposed to be part of the InvIT, have leased assets (land and buildings) to educational institutions and in turn will receive steady cash flow in the form of monthly rentals. The SPVs have long-term lease agreements ranging between 15 to 30 years and favourable lock-in period of 15 to 20 years, which mitigate the risk of premature termination of the lease by the lessee and reduces vacancy risk to a significant extent. The tenants have more than two decades of experience in operating multiple schools with national/regional presence and are established players in the education sector. The estimated consolidated rent for FY2023 is ~Rs. 102-104 crore and is expected to grow at 3-5% YoY throughout the lease period for the existing assets. Further, occupancy remained resilient at 100% even during the Covid-19 pandemic, given the high stickiness of tenants and switching costs.

Robust security package – The SPVs have priority charge over fees collected by the tenants, which is legally enforceable through deed of hypothecation. As part of the arrangement, rent payout to the School House InvIT gets prioritised and the remaining surplus post rent will be available to tenants, which can be utilised for their other expenses. In addition to the priority charge on fees, the InvIT has healthy cash flow cover ranging between 1.9 to 2.8 times of rentals for 85% of the portfolio. Further, as part of the triple net-lease agreements between the tenants and SPVs, insurance, property tax, repairs and maintenance, applicable GST are fully borne by tenants, thereby resulting in minimal leakage of revenue (i.e., revenue largely translate into net operating income).

Cash pooling benefit of InvIT and regulatory cap on consolidated leverage – The IPO proceeds of the InvIT are expected to be utilised to fully prepay the existing debt of SPVs and consequently the InvIT is proposed to have nil external debt. The rating notes the benefit of cash flow pooling for the SPVs and the proposed InvIT, which ensures that availability of cash flows of all the SPVs for expenses and debt obligations of the InvIT, if any. In addition, SEBI InvIT regulations restrict the aggregate consolidated borrowings and deferred payments for the InvIT, thereby limiting the capping the maximum leverage that can be availed by InvIT.

Credit challenges

Limited track record and moderate scale of operations – Edu-infra as an asset class has limited track record globally and in India. The rating is constrained by the moderate scale of operations, with an initial total leasable area of 2.25 msf (across 12 assets) and expected annual rental collections at around Rs. 114-116 crore for FY2024. Despite the expected addition of 0.5-1.0 msf in next one to two years, the scale is expected to remain moderate. However, comfort is taken from resilient occupancy levels, high stickiness, relatively lower market risk and robust security package.

High tenant concentration risk – The InvIT remains exposed to high tenant concentration risk with the top-two operators contributing to around 70% of the rentals and 60% of the leasable area in FY2024. Any significant deterioration in brand strength of the educational institution, may have an impact on enrollments which could have an adverse effect on the overall cash flows for the InvIT. However, extensive track record of tenants in the education segment and healthy cash flow security cover for majority of the assets, provide comfort. The investment manager also has a school operator arm under the brand, Crimson, which is operating seven schools (two out of seven schools are proposed to be part of InvIT) at present and can act as a mitigant in case any school operations need to be taken over.

Risks related to new asset acquisition by InvIT and its funding pattern – Although the leverage is expected to be nil at the time of listing of the InvIT, the future expansion and acquisitions are expected to be debt funded. As per the management guidance, the leverage at the InvIT is expected to always remain sub 30% of LTV, thereby supporting the InvIT's credit profile. The InvIT's future debt-raising plans, ICRA is given to understand that post listing, asset expansion and new acquisitions are planned to be funded by external debt while ensuring sub 30% loan-to-vale (LTV). InvIT's future debt-raise and its impact on the debt protection metrics would remain key monitorable, going forward. However, regulatory restriction on leverage will mitigate the risk to some extent.

Liquidity position: Strong

The liquidity position of InvIT will be supported by stable rental income from the underlying assets and low operational expenditure.

Rating sensitivities

Positive factors – ICRA could upgrade the rating, if there is any significant improvement in scale with an increase in net operating income and diversification of tenants, while maintaining strong debt coverage and leverage metrics, on a sustained basis.

Negative factors – Negative pressure on the rating may arise, if there is any significant decline in net operating income or significant increase in indebtedness resulting in weakening of debt coverage and leverage metrics and liquidity position, on a sustained basis. Specific credit metrics that could lead to a downward pressure include LTV higher than 25% on a sustained basis. Further, any material weakening of the profile of tenants could also put pressure on rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Methodology Real Estate Investment Trusts (REITs) Issuer Rating Policy on Provisional Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the SPVs (listed of entities in annexure II)

Pending actions/documents required to be completed for conversion of the provisional rating into final

The rating assigned is provisional as of now (as denoted by the prefix Provisional before the rating symbol) and is subject to the transfer of designated entities to the InvIT and raising of the proposed unit capital. The assigned rating is provisional and would be converted into final upon:

A. Transfer of the 11 entities (which are part of the initial asset portfolio) to the InvIT. These entities are:
   1. Purelearn Eduinfra Kanakapura Private Limited
   2. Oaktree Infra Developers Private Limited
   3. Purelearn Eduinfra Bangalore Private Limited
   4. Purelearn Eduinfra Hyderabad Private Limited
   5. Purelearn Eduinfra Ramanagara SH private Limited
   6. Infraschool Services Gurgaon Private Limited
   7. CUIB Eduinfra Bangalore Private Limited
   8. Infraschool Services Chintamani Private Limited
   9. Infraschool Services Tumkur Private Limited
   10. Infraschool Services Kadiri Private Limited
   11. Infraschool Services Korba Private Limited

B. Issuance of unit capital by the InvIT in line with the proposed capital structure.

The provisional rating indicates the final rating that is likely to be assigned to the InvIT after the completion of the pending items mentioned above, ceteris paribus.

Validity of the provisional rating

The validity period shall be computed from the completion date of fundraising and the issuance of units by the InvIT. The validity period shall be 90 days along with the possibility to extend it by up to a further 90 days on a case-to-case basis. In no circumstance shall the validity of provisional rating be extended beyond 180 days from the date of issuance of units by the InvIT. For further details refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/ documents nor the availing of the borrowing facilities is completed after one year of assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating.

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon the review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the InvIT

Schoolhouse InvIT (InvIT) was incorporated on March 10, 2022, and is a registered InvIT approved by SEBI in India. The sponsor is proposed to be Precise Credit Solutions 3 S.a.r.l (Veld Capital). The InvIT is proposed to acquire 11 SPVs which has 10 schools and 2 student housing properties. The SPVs has investment in real estate assets in education infrastructure (Edu-Infra assets) particularly in leasing the infrastructure assets to K-12 school chain operators in India.

Key financial indicators

Key financial indicators are not applicable as Schoolhouse InvIT is a recently formed entity.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 16, 2023	-	-	-
1.	Issuer Rating	-	-	-	Provisional [ICRA]AA+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	Provisional [ICRA]AA+ (Stable)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Purelearn Eduinfra Kanakapura Private Limited	100%	Full Consolidation
Oaktree Infra Developers Private Limited	100%	Full Consolidation
Oaktree Infra Developers Private Limited	100%	Full Consolidation
Purelearn Eduinfra Bangalore Private Limited	100%	Full Consolidation
Purelearn Eduinfra Hyderabad Private Limited	100%	Full Consolidation
Purelearn Eduinfra Ramanagara SH private Limited	100%	Full Consolidation
Infraschool Services Gurgaon Private Limited	100%	Full Consolidation
CUIB Eduinfra Bangalore Private Limited	100%	Full Consolidation
Infraschool Services Chintamani Private Limited	74%	Full Consolidation
Infraschool Services Tumkur Private Limited	74%	Full Consolidation
Infraschool Services Kadiri Private Limited	74%	Full Consolidation
Infraschool Services Korba Private Limited	74%	Full Consolidation

Source: company

**Proposed ownership by Schoolhouse InvIT*

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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.

For more information, visit www.icra.in

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