

February 19, 2024

Maharashtra Samaj Ghatkopar: [ICRA]BBB(Stable); assigned

Summary of rating action

| Instrument* | Current Rated Amount (Rs. crore) | Rating Action |
|----------------------------------|-------------------------------------|-----------------------------|
| Long-term Fund-based – Term Loan | 45.00 | [ICRA]BBB(Stable); assigned |
| Total | 45.00 | |

*Instrument details are provided in Annexure-1

Rationale

For arriving at the rating, ICRA has consolidated the business and financial risk profiles of Vidya Vikas Education Trust, National Education Society, Maharashtra Samaj Ghatkopar, Universal Education Foundation, Super Value Properties Private Limited, SML Supervalue Education Private Limited, SML Properties Private Limited, JND Edu Realty Private Limited, JND Edu Management Services Private Limited, Utopia Hospitality Private Limited, UDAN Recreation Services Private Limited, JND Realcon Private Limited, SML Realtech Private Limited, Almighty Infrastructure Private Limited, SML Edu-Infra Private Limited, SAA Edu-Infra Services LLP, Abraham Memorial Education Trust, Alpha Foundation for Education and Research, Primus Trust, General Computer Services International, Universal Edu Infra Services Private Limited, A. P. Greig Foundation Trust, AJL Edu-Solutions LLP, Agastya Edu-Realty LLP, Bombay Education Trust, Gareeb Vidyarthi Sahayak Mandal Trust, AJL Edu-Infra Services LLP, AJL Buildcon LLP, Sahyog Charitable Trust, JND Edu Infra Services Private Limited, Universal Edu-Realty LLP, Universal Educon Private Limited, Shreeji Education Trust and Bolar Education Trust together referred to as the 'Universal Education Group' (UEG/Group) as these entities have common promoter/management, with strong operational and financial linkages, and most of these are in similar lines of business.

The assigned rating takes into account the established presence of the Group in the education sector, the experienced board of trustees (promoter) along with long track record of operations. Moreover, the promoter has been supporting the Group in the form of substantial unsecured interest-free loans with flexible terms, which indicates strong focus and commitment to the business. The rating is supported by the Group's vast network of educational establishments, comprising 48 institutes (40 schools and 8 colleges) spread across Maharashtra, Karnataka, Tamil Nadu, Sharjah and Dubai. The rating positively factors in the Group's diverse offerings across the education spectrum, which includes K-12 education, degree and technical courses. ICRA notes the consistent increase in scale and operating performance of the Group in the past years, despite the pandemic-induced challenges, as a credit positive. The Group's operating performance improved due to regular annual fee revision and an increase in the intake against incremental seats, which supported the revenue growth and resulted in stable and healthy accruals against relatively lower annual debt repayment obligations. Consequently, the Group has sufficient free balances, resulting in adequate liquidity. Going forward, ICRA estimates that the Group would be able to comfortably meet the planned capex and other requirements from its own accruals, promoters' support and external long-term debt. Also, the Group is expected to benefit from the recently operational three new premium schools in the long run.

The rating is, however, constrained by the Group's moderate scale of operations, high leverage levels on account of a sizeable debt-funded capex and moderate debt-coverage metrics, which also factor in the interest-free unsecured loans. However, the ongoing/future capex would support the consistent increase in student strength, leading to improved revenue for the Group. Further, the Group remains exposed to competition from the existing schools and colleges in the vicinity. ICRA also notes that the education sector is highly regulated in India, which will continue to pose regulatory risks for the Group. Further, the Group had recently undertaken a fresh capex of around Rs. 235 crore for the recently operational three new premium schools, exposing it to the risk of generating adequate returns on these investments. Also, the Group is planning to undertake fresh capex for a private skill university and a new institute, exposing it to execution risks.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group will continue to benefit from its established track record of operations and its promoters' experience in the education sector, supporting revenue growth along with stable

profitability. The outlook also factors in ICRA's opinion that the Group will not undertake any large unanticipated additional debt-funded capital expenditure in the near term.

Key rating drivers and their description

Credit strengths

Experienced promoter with strong presence and track record in education – The Group's promoters have been involved in the education industry for more than two decades. The Group's institutions benefit from the 'Universal' brand name and have scaled up quickly with moderate enrolments across the affiliated schools and colleges. Besides, the Group's all-round infrastructure, several accreditations and experienced management help it in retaining existing students and attracting new students. Also, the promoters support the Group in the expansion of institutes through substantial and unsecured interest-free loans with flexible terms (Rs. 403.1 crore as on March 31, 2023).

Established presence of the group and diversified portfolio of institutes – Universal Education Group has a student strength of around 30,000 across its 48 educational institutes, which are spread across Maharashtra, Karnataka, Tamil Nadu, Sharjah and Dubai. The Group's revenue stream is diversified across schools and colleges with several courses in engineering, management, law and commerce.

Improving operating performance as reflected by increasing cash flows; likely to continue in the near-to-medium term – The Group registered a consistent increase in its scale and operating performance in the past years despite the pandemic-induced challenges. The operating performance of the Group improved due to the annual fee revision and increase in intakes on incremental seats (through acquisition of existing institutes and green field projects), which supported revenue growth and resulted in stable and healthy accruals against relatively low annual debt repayment obligations. Consequently, the Group has sufficient free balances, resulting in adequate liquidity. Also, the Group is likely to benefit from the recently operational three new premium schools in the long term. If the interest-free unsecured loans are adjusted as quasi-equity (also subordinate to bank loans), overall leverage and debt coverage indicators are at comfortable levels. Going forward, ICRA estimates that the Group would be able to comfortably meet the planned capex and other requirements from its own accruals, promoters' support and external long-term debt.

Credit challenges

Moderate scale of operations and highly leveraged capital structure along with moderate debt-coverage indicators – On a Group level, the scale and accruals remain moderate vis-à-vis the debt level due to the ongoing/proposed capex towards new schools/courses, leading to a gearing of 2.6 times as on March 31, 2023. Given the high interest/principal repayment burden and moderate scale, the debt coverage indicators also remained under pressure. Nevertheless, ICRA notes that the promoters support the Group through substantial unsecured interest-free loans with flexible terms (Rs. 403.1 crore as on March 31, 2023). If the interest-free unsecured loans are adjusted as quasi-equity (also subordinate to bank loans), overall leverage and debt coverage indicators are at comfortable levels, i.e. adjusted TOL/TNW of 1.6 times, adjusted debt/ OPBDITA of 5.5 times as on March 31, 2023.

Exposure to regulatory risks and stiff competition inherent in the education sector – As the education industry is well regulated, the Group's schools and colleges are susceptible to changes in the policies of regulatory bodies, including the Central and State Governments. This restricts its flexibility and autonomy with respect to fees and student intake, among others. Any non-compliance or violation of these regulations may lead to cancellation of affiliation and may put restrictions on new admissions, impacting its revenues and cash flows. Further, the company's schools face stiff competition from various Government and private schools offering similar/ better infrastructure in attracting students and faculties. However, this risk is partly mitigated by the promoters' extensive experience and brand position of the Group.

Risks associated with capex and new courses/institutes – The Group's ability to generate adequate return on large investments in new schools/courses/universities will remain a key rating monitorable. Following the acquisition or commercialisation of the institutes/universities and the introduction of new courses, the Group is exposed to risks associated

with the operational performance as reflected by admission and occupancy levels, which could also impact the fee levels and the overall revenue of the Group.

Liquidity Position – Adequate

The Group’s liquidity is adequate, characterised by healthy cash flow from operations of more than Rs. 75.0 crore in FY2024 and beyond. Also, the liquidity is supported by the Group’s reasonable cash and liquid investments (~Rs. 57.4 crore as on March 31, 2023), which is expected to be adequate to meet its near-term commitments. Further, the scheduled debt repayment in FY2024 is around Rs. 65 crore, as compared to projected cash accruals of ~Rs. 97 crore. The Group’s liquidity is also supported by substantial unsecured interest-free loans with flexible terms from its promoters. Overall, ICRA expects the Group to comfortably meet its near-term commitments through internal accruals and significant support from its promoters, on a need basis, as witnessed in the past years. Also, both cash inflows (tuition fees etc) and cash outflows (repayments of bank loans etc) are aligned, supporting the Group in managing its liquidity.

Rating sensitivities

Positive factors – Improvement in student enrolments leading to significant growth in revenue and cash accruals along with improved capital structure and coverage metrics, thereby strengthening the financial risk profile could lead to an upgrade in rating. Specific credit metrics that could lead to an upgrade would be DSCR above 1.6 times on a sustained basis.

Negative factors – A Sharp decline in student enrolments or high dropouts, impacting its scale and profitability could result in a rating downgrade. Further, the rating could be downgraded if the Group undertakes any unanticipated large debt-funded capex or adverse regulatory developments, adversely affecting the liquidity position.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | Not applicable |
| Consolidation/Standalone | ICRA has taken a consolidated view of 34 entities of the Universal Education Group, as all the entities have common promoters/management, with strong operational and financial linkages, as most of these are in similar lines of business. The details of consolidation are there in Annexure II. |

About the Group

Founded by Mr. Jesus Lall, UEG has presence in the education sector since 2003 and runs 48 educational institutes across 34 entities and offers K-12 education, degree, and technical courses. While most of the entities are in the education sector, some of them are asset holding companies and provide support services to the institutes within the Group. The Group has presence in Maharashtra, Karnataka and Tamil Nadu.

About the company

Maharashtra Samaj Ghatkopar (MSG) is a part of the Mumbai-based UEG. Incorporated in 1957, the trust manages a school and college and offers the International General Certificate of Secondary Education (IGCSE).

The details of the institutes managed by the MSG are as follows:

| Institute Name | Curriculum/ Affiliations | Location | Course | Year of establishment |
|--------------------------------------------------|-----------------------------|----------------------|----------------|--------------------------|
| Universal School Ghatkopar | IGCSE | Ghatkopar, Mumbai | Class I to X | 2011 |
| MSG - SGKM College of Arts, Science and Commerce | Mumbai University | Ghatkopar, Mumbai | Degree college | 2009 |

Source: Trust

Key financial indicators (audited)

| Particulars | Maharashtra Samaj Ghatkopar | | Consolidated (UEG)* | |
|------------------------------------------------------|-----------------------------|--------|---------------------|--------|
| | FY2022 | FY2023 | FY2022 | FY2023 |
| Operating income | 23.8 | 23.2 | 244.6 | 299.3 |
| PAT | 3.8 | 1.5 | 58.2 | 67.3 |
| OPBDIT/OI | 26.5% | 27.7% | 45.3% | 43.1% |
| PAT/OI | 15.9% | 6.4% | 23.8% | 22.5% |
| Total outside liabilities/Tangible net worth (times) | 0.9 | 1.8 | 4.1 | 4.0 |
| Total debt/OPBDIT (times) | 3.7 | 10.0 | 10.3 | 8.7 |
| Interest coverage (times) | 2.7 | 2.2 | 2.2 | 2.2 |

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

*Intra Group transactions are adjusted on best effort basis with available information

Source: UEG; ICRA Research

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 on Jan 06, 2024 (Rs. crore) | Date & rating in FY2024 Feb 19, 2024 | Date & Rating | | |
| | | | | | | FY2023 | FY2022 | FY2021 |
| 1 | Fund-based – Term loan | Long-term | 45.00 | 38.50 | [ICRA]BBB (Stable) | - | - | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|----------------------------------|----------------------|
| Long-term Fund-based – Term loan | Simple |

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 / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|---------------------------------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Long-term Fund-based – Term loan - I | April 2023 | NA | March 2028 | 40.0 | [ICRA]BBB(Stable) |
| NA | Long-term Fund-based – Term loan - II | April 2023 | NA | Jan 2034 | 5.0 | [ICRA]BBB(Stable) |

Source: Trust

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-II: List of entities considered for consolidated analysis:

| Company Name | Ownership | Consolidation Approach |
|----------------------------------------------|-----------|------------------------|
| Vidya Vikas Education Trust | 100% | Full Consolidation |
| National Education Society | 100% | Full Consolidation |
| SML Supervalue Education Private Limited | 100% | Full Consolidation |
| Universal Edu Infra Services Private Limited | 100% | Full Consolidation |
| General Computer Services International | 100% | Full Consolidation |
| Super Value Properties Private Limited | 100% | Full Consolidation |
| SML Properties Private Limited | 100% | Full Consolidation |
| Udan Recreation Services Private Limited | 100% | Full Consolidation |
| JND Edu-Management Services Private Limited | 100% | Full Consolidation |
| Utopia Hospitality Private Limited | 100% | Full Consolidation |
| Maharashtra Samaj Ghatkopar | 100% | Full Consolidation |
| JND Realcon Private Limited | 100% | Full Consolidation |
| Universal Education Foundation | 100% | Full Consolidation |
| Almighty Infrastructure Private Limited | 100% | Full Consolidation |
| SML Realtech Private Limited | 100% | Full Consolidation |
| The Abraham Memorial Educational Trust | 100% | Full Consolidation |
| Alpha Foundation for Education & Research | 100% | Full Consolidation |
| JND Edu-Realty Private Limited | 100% | Full Consolidation |
| Primus Trust | 100% | Full Consolidation |
| SML Edu Infra Private Limited | 100% | Full Consolidation |
| SAA Edu-Infra Services LLP | 100% | Full Consolidation |
| AJL Edu-Solutions LLP | 100% | Full Consolidation |
| Agastya Edu-Realty LLP | 100% | Full Consolidation |
| A.P. Grieg Foundation Trust | 100% | Full Consolidation |
| Bombay Education Trust | 100% | Full Consolidation |
| Gareeb Vidyarthi Sahayak Mandal Trust | 100% | Full Consolidation |
| AJL Buildcon LLP | 100% | Full Consolidation |
| AJL Edu-Infra Services LLP | 100% | Full Consolidation |
| JND Edu-Infra Services Private Limited | 100% | Full Consolidation |
| Sahyog Charitable Trust | 100% | Full Consolidation |
| Universal Edu Realty LLP | 100% | Full Consolidation |
| Universal Edu Con Private Limited | 100% | Full Consolidation |
| Shreeji Education Trust | 100% | Full Consolidation |
| Bolar Education Trust | 100% | Full Consolidation |

Source: UEG

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