

September 24, 2024

MeritTrac Services Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Overdraft	34.00	34.00	[ICRA]BB+(Stable); reaffirmed
Long-term non-fund based – Interchangeable	(10.00)	-	-
Long-term fund-based – Term loan	11.90	5.25	[ICRA]BB+(Stable); reaffirmed
Total	45.90	39.25	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in MeritTrac Services Private Limited's (MSPL) strong parentage and the long track record in providing examination management and assessment solutions to educational institutions (India and outside India) and to corporates. MSPL belongs to the Manipal Education and Medical Group (MEMG), which has an established track record and reputation in the field of education and healthcare services. MSPL enjoys strong financial flexibility being part of Manipal Group. Further, the Group has an established track record of extending financial support through infusion of unsecured loans to support its funding requirements, which is likely to continue, as and when need arises. The company provides its services to educational institutions (within India and outside India) and to corporates. With the discontinuation of the orders from the Government segment and likely reduction of costs from this segment, the operating margins are expected to improve in the near to medium term.

However, the rating is constrained by MSPL's modest scale of revenues, operating losses and weak debt protection metrics. The company's revenues declined by 38.8% in FY2024 (PY: Rs.82.3 crore) on account of discontinuation of orders from the Government segment due to relatively lower margins and higher receivable cycle. MSPL continues to make operating losses at Rs. 12.9 crore in FY2024, lower than last year with loss at Rs. 30 crore. The company has been reporting operating losses for the last five financial years, which resulted in a negative tangible net worth as of March 2024. The ability to increase its scale of operations and improve its operating margins, liquidity position, and debt protection metrics would remain the key monitorable. The rating continues to be constrained by the intense competition in the industry from domestic as well as international players, affecting pricing flexibility. The rating also considers the vulnerability of MSPL's earnings to any regulatory and operational risks like system downtime, examination centre-related issues, etc, impacting its reputation.

The Stable outlook on the rating reflects ICRA's opinion that the company will continue to benefit from its established operational track record, improvement in operating margins, supported by discontinuation of lower margin business and Group support for any funding requirements.

Key rating drivers and their description

Credit strengths

Strong parentage; long track record of company in providing examination management and assessment solutions – MSPL belongs to the Manipal Education and Medical Group (MEMG), which has an established track record and reputation in the field of education and healthcare services. MSPL enjoys considerable financial flexibility for being a part of the Manipal Group. It also earns a part of its revenues from educational institutions affiliated to the Manipal Group. In addition, the MEMG Group

has extended financial support through infusion of unsecured loans in MSPL to support operations in the past. ICRA expects the Group to continue to extend financial support as and when required.

Presence across diverse segments – The company provides its services to educational institutions (within India and outside India) and to corporates. With discontinuation of orders from the Government segment and likely reduction of costs from this segment, the operating margins are expected to improve in the near to medium term.

Credit challenges

Weak financial risk profile – The company has reported 38.8% decline in operating income in FY2024 to Rs. 50.4 crore (PY: Rs. 82.3 crore) with operating loss of Rs. 12.9 crore (PY: ~Rs. 30 crore) on account of discontinued orders from the Government segment (owing to low margin and high receivable cycle). Its debt coverage metrics and liquidity position were adversely impacted with accruals turning negative. However, the deficit was supported by tax refund from income tax authorities and funding support from the holding company. Further, MSPL's ability to improve the scale of operations, thereby improving the operating margins, liquidity position and debt protection metrics would remain the key rating monitorable.

Rising competition results in pricing pressure – The company has limited pricing flexibility as it is operating in an industry, which has modest entry barriers leading to intense competition from both domestic and international players. Despite an established market position in the industry, MSPL's scale of operations is relatively moderate. However, the risk is partially mitigated, given its association with the Manipal Group and strong relationship with its customers, along with a diversified segmental presence.

Earnings exposed to regulatory and reputation related risks – The company's earnings remain exposed to industry-related risk such as change in regulation and operational risk including system downtime, examination centre-related issues and others, impacting its reputation.

Liquidity position: Stretched

MSPL's liquidity is stretched due to operating losses over the last five years and high utilisation of working capital limits. Further, the company has debt obligations of ~Rs. 11.5 crore, to be repaid in FY2025 and has maintenance capex of ~Rs. 1.0 crore per annum. The same is expected to be met partly by internal accruals and the remaining by funding from Manipal Group companies. ICRA expects the Group to continue to extend timely and adequate financial support, as and when required.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if there is a sustainable growth in revenue and profitability, leading to an improvement in the liquidity position and debt coverage ratio of the entity. Specific metric which may result in a rating upgrade, includes interest coverage ratio above 2.5 times on a sustained basis.

Negative factors – Pressure on the company's rating could arise if there is any further deterioration in earnings or liquidity position of MSPL and/or any weakening in linkages with the Group.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financial statements of MeritTrac Services Private Limited

About the company

Incorporated in 2000, MSPL is a leading assessment and testing company in India, providing examination management and assessment solutions to educational institutions and corporates. Educational assessment forms the mainstay, followed by the corporate segment. MSPL, with over 20 years of experience, has been designing, developing and delivering tests for over 400 customers in more than 350 cities through 2,000 certified test centres. The service offerings for conducting examinations include application processing, generating admit cards, examination planning and administration till result processing. MSPL has experience of conducting examinations in offline (paper-pencil) as well as online modes. It also offers modular services to address some critical areas of admission, assessment and examination administration, such as candidate authentication using biometrics, and on-screen marking of answer booklets.

Key financial indicators (audited)

MeritTrac Services Private Limited	FY2023	FY2024*
Operating income	82.3	50.4
PAT	-29.1	-12.9
OPBDIT/OI	-23.6%	-2.0%
PAT/OI	-35.3%	-25.5%
Total outside liabilities/Tangible net worth (times)	-18.7	-2.8
Total debt/OPBDIT (times)	-3.3	-37.3
Interest coverage (times)	-2.8	-0.2

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore 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

	Current (FY2025)					Chronology of rating history for the past 3 years					
						FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Sept 24, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based/Overdraft	Long Term	34.0	[ICRA]BB+ (Stable)	15-Apr-2024	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	29-Jun-2023	[ICRA]BB+ (Stable)	04-May-2022	-	01-Jul-2021	-
				26-Apr-2024	[ICRA]BB+ (Stable)						
Fund-based/CC	Long Term	-	-	15-Apr-2024	-	29-Jun-2023	-	04-May-2022	[ICRA]BBB- (Stable)	01-Jul-2021	[ICRA]BBB (Negative)
				26-Apr-2024	-						
Fund-based (Interchangeable)	Short Term	-	-	15-Apr-2024	-	29-Jun-2023	-	04-May-2022	-	01-Jul-2021	[ICRA]A3+; Withdrawn
				26-Apr-2024	-						
Non-fund based limits (Sublimit of OD)	Long Term	-	-	15-Apr-2024	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	29-Jun-2023	[ICRA]BB+ (Stable)	04-May-2022	[ICRA]BBB- (Stable)	01-Jul-2021	[ICRA]BBB (Negative)
				26-Apr-2024	[ICRA]BB+ (Stable)						
Term loan	Long Term	5.25	[ICRA]BB+ (Stable)	15-Apr-2024	[ICRA]BB+(Stable); ISSUER NOT COOPERATING	29-Jun-2023	[ICRA]BB+ (Stable)	04-May-2022	[ICRA]BBB- (Stable)	01-Jul-2021	[ICRA]BBB (Negative)
				26-Apr-2024	[ICRA]BB+ (Stable)						
Unallocated	Long Term	-	-	15-Apr-2024	-	29-Jun-2023	-	04-May-2022	[ICRA]BBB- (Stable)	01-Jul-2021	-
				26-Apr-2024	-						

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based - Overdraft	Simple
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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Overdraft	NA	NA	NA	34.00	[ICRA]BB+(Stable)
NA	Term loan	FY21	NA	FY25	5.25	[ICRA]BB+(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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