

July 03, 2017

Velammal Educational Trust

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long-term: Fund-based facilities – Cash credit	105.50	[ICRA]BBB-(stable); assigned
Long-term: Fund-based facilities – Term-loans	377.39	[ICRA]BBB-(stable); assigned
Long-term: Unallocated limits	122.39	[ICRA]BBB-(stable); assigned
Total	605.28	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus)¹ for the Rs. 482.89-crore² fund-based facilities of Velammal Educational Trust (VET). The outlook on the long-term rating is 'stable'. ICRA has also assigned the long-term rating of [ICRA]BBB- for the Rs. 122.39-crore unallocated limits of VET.

Rationale

For arriving at the rating, ICRA has consolidated the financials of Velammal Educational Trust - the parent trust - Velammal Memorial Welfare Trust (VMWT) and Ramana Educational Trust (RET) (rated at [ICRA]BBB-(Stable)) owing to common management and the strong operational and financial linkages between the Trusts.

The assigned rating factors in the long track record of the Velammal group spanning two decades in the education sector; and, the strong brand image of Velammal with twenty-one schools, three engineering colleges and a medical college spread across various districts of Tamil Nadu. The rating takes comfort from the stable year-on-year income growth of VET aided by both healthy enrolment levels across the various institutions and the yearly revision of school fees which constitutes majority of VET's fee income. The healthy enrolment growth rates at schools is on account of equal mix of CBSE and Matriculation Board schools aiding in absorption of demand for both types of school education, strategic location of schools at suburbs which, in addition to the strong brand image of the group, limits competition to a large extent. The enrollment levels at the colleges have also remained healthy given the reputation of VET's engineering colleges which find place among the top-fifty engineering colleges in Tamil Nadu, and the high demand for medical seats which is driving the enrollment at the Group's medical college. These apart, the rating also takes into account the stable net cash accruals of the trust, supported by the inherent predictability of income and the healthy margins.

The rating is, however, constrained by the highly leveraged capital structure of VET on account of high reliance on external debt funding for the continuous capital expenditure incurred for setting up new schools and upgrading the existing infrastructural facilities across schools and colleges. Also, the trust recently set up a medical college which became operational in FY2013 towards which it availed a term loan of Rs 188.50 crore from banks and the repayment of which has commenced from FY2016. This has

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

increased the debt levels of the trust and the gearing as at March 31, 2016 stood at 3.7 times. The debt-coverage indicators of VET have also remained moderate on account of high interest expenses and large annual debt repayment obligations. The rating is further constrained by the exposure to regulatory risks as any adverse government policy on the highly regulated education sector could have a substantial bearing on the Group.

Key rating drivers

Credit strengths

- Renowned educational group having a strong foothold in Tamil Nadu with 12 schools, 3 engineering colleges and a medical college operational under VET, and 9 schools under various other Trusts
- Brand image of “Velammal” aids in healthy enrolment levels in all schools and colleges
- Favourable demographics in the catchment area of the institutions and investment in infrastructure have supported rapid growth in enrolments and has led to strong operating margins
- Trust has both Matriculation and CBSE boards in equal number, thus enabling to absorb demand from both categories

Credit weaknesses

- High gearing of 3.7 times as on March 31, 2016; the coverage indicators are moderate on account of high interest charges and repayment obligations
- Unplanned debt-funded capital expenditure might impact the gearing and the coverage indicators

Description of key rating drivers:

VET was established in 1986 with a single school, having a strength of 183 students, which has transformed itself into a large educational group (Velammal group) having twenty-one schools, three engineering colleges and a medical college operational under its various trusts with a total student strength of around 88,000 as of date. VET is the flagship trust of the Group operating twelve schools, three engineering colleges and a medical college with a total income of Rs 477.7 crore for the year ended March 31, 2016. The schools and colleges of the trust are spread across various districts of Tamil Nadu including Thiruvallur, Kancheepuram, Sivagangai, Madurai, Theni and Karur and the group has managed to create a strong brand image over the years. VET has both CBSE and Matriculation-board schools in equal number enabling it to absorb demand for both the boards; the favourable location of the schools in suburbs and other developing districts has aided in rapid growth in enrolment levels and has provided scope for healthy annual fee revision. The engineering colleges are also well-reputed and are among the top-fifty engineering colleges in Tamil Nadu which aids in healthy enrolment levels. Also, owing to the huge supply-demand gap in medical education sector, the Group’s medical college has seen 100% enrolment levels. This, coupled with healthy revenues accruing from the teaching hospital associated to the medical college has boosted the revenue growth prospects for the trust.

On account of the healthy enrolment levels and fee revision across schools and colleges, the trust has maintained stable income growth during FY2014-16 coupled with healthy operating margins. However, the net margins of the trust are modest as it is burdened by heavy depreciation and finance cost owing to the large-debt funded capital expenditure incurred over the years. The high finance cost and large-yearly debt repayments have weakened the debt-service coverage metrics. In addition to this, the need for the trusts to incur regular capital expenditure on the infrastructural facilities is expected to keep the capital structure highly leveraged. Nevertheless, the stable margins coupled with strong and growing net cash accruals of the trust are expected to be adequate in meeting its debt repayment obligations, going forward. At the consolidated level, the group (VET, RET & VMWT) achieved a revenue growth of 23.9% in FY2016 against 27.4% in the previous year and the gearing of the group stood at a stable level of 2.7 times as on both March 31, 2015 and March 31, 2016.

**Analytical approach:**

For arriving at the rating, ICRA has consolidated the financials of Velammal Educational Trust - the parent trust - Velammal Memorial Welfare Trust (VMWT) and Ramana Educational Trust (RET) owing to common management and the strong operational and financial linkages between the trusts.

Links to applicable criteria:

[Corporate Credit Ratings: A note on Methodology](#)

[Financial Consolidation and Rating Approach](#)

[Higher Education Sector](#)

About the trust:

Established in 1986 by Mr MV Muthuramalingam, Velammal Educational Trust (VET) operates twelve schools, three engineering colleges and a medical college and has total student strength of around 88,000 as of date. The schools and colleges of the trust are spread across Tamil Nadu in various districts including Thiruvallur, Kancheepuram, Sivagangai, Madurai, Theni & Karur marking a strong foothold in TN in the education space.

VET is a part of Velammal group which operates three other trusts - Veeramakali Memorial Welfare Trust (VMWT), Velammal Madurai Educational Trust (VMET) and Ramana Educational Trust (RET). VMWT operates five schools and has total strength of around 15,500 students as of date, VMET operates two schools and RET operates two schools with a total strength of 4,400 students as of date.

VET achieved a net surplus of Rs 19.6 crore on a total income of Rs. 477.7 crore in FY2016, compared to net surplus of Rs. 10.3 crore on a total income of Rs.391.3 crore during the previous financial year.

At consolidated level, Velammal group (VET, RET and VMWT) achieved a net surplus of Rs 41.0 crore on a total income of Rs. 576.9 crore in FY2016 compared to net surplus of Rs. 22.1 crore on a total income of Rs 465.6 crore during the previous financial year.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017			
1	Cash credit	Long-term	105.50	[ICRA]BBB-(Stable)	-	-	-
2	Term loan	Long-term	377.39	[ICRA]BBB-(Stable)	-	-	-
3	Unallocated limits	Long-term	122.39	[ICRA]BBB-(Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1
Instrument Details**

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Cash credit	-	-	-	105.50	[ICRA]BBB-(Stable)
Term loan:					
Karur Vysya Bank	December 10, 2014	-	June 30, 2019	7.80	[ICRA]BBB- (Stable)
Karur Vysya Bank	May 29, 2015	-	September 30, 2018	18.33	
South Indian Bank	March 5, 2015	-	June 15, 2020	14.29	
South Indian Bank	March 5, 2015	-	June 15, 2021	4.90	
South Indian Bank	March 5, 2015	-	June 15, 2022	12.00	
Karnataka Bank	September 6, 2014	-	July 31, 2021	19.00	
Karnataka Bank	May 12, 2016	-	December 31, 2021	14.50	
Karnataka Bank	March 20, 2017	-	March 31, 2023	19.50	
Indian Bank	May 25, 2012	-	June 1, 2020	8.57	
Indian Bank	October 13, 2015	-	April 1, 2023	18.34	
Indian Bank	April 22, 2016	-	September 30, 2022	9.80	
HDFC Bank	January 1, 2017	-	May 31, 2024	30.00	
Punjab National Bank	September 10, 2013	-	December 31, 2017	11.11	
Punjab National Bank	March 16, 2015	-	September 30, 2019	24.00	
Indian Overseas Bank	September 14, 2011	-	September 30, 2021	133.00	
Indian Overseas Bank	November 27, 2012	-	September 30, 2021	21.50	
Indian Overseas Bank	January 4, 2013	-	September 30, 2021	10.75	
Unallocated limits	-	-	-	122.39	[ICRA]BBB-(Stable)

Source: Velammal Educational Trust

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About ICRA Limited:

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