

October 12, 2017

## M S Ramaiah Foundation

### Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long-term - Fund-based	24.00	[ICRA]BB- (Stable) Assigned
Long-term - Unallocated	1.00	
<b>Total</b>	<b>25.00</b>	

\*Instrument Details are provided in Annexure-1

### Rating action

ICRA has assigned a long-term rating of [ICRA]BB- (pronounced ICRA double B minus)<sup>1</sup> to the Rs. 25.00-crore<sup>2</sup> bank facilities of M S Ramaiah Foundation (MSRF). The outlook on the long-term rating is Stable.

### Rationale

The assigned rating derives comfort from the extensive experience of the trustee member, Mr. Pattabhiram, in the education sector for nearly four decades, and the Group's strong brand image and established market position. The assigned rating positively factors in the significant improvement in revenue receipts and profitability in the recent past supported by increase in intake levels in the trust's flagship college, Ramaiah Institute of Management Studies (RIMS), coupled with addition of new institutions under the trust during the last two academic years.

The assigned rating, however, is constrained by moderate scale of operations of the trust and the competitive pressures exerted by other educational institutions in the vicinity. It also takes into account the regulatory risks associated with the education sector.

Going forward, the ability of MSRF to scale up operations while improving profitability by increasing intake levels coupled with upward revision of fee, and its ability to generate adequate cash flows to meet the debt-servicing obligations in a timely manner will be the key rating sensitivities.

### Key rating drivers

#### Credit strengths

- **Extensive experience of the trustee** – The trustee member, Mr. M R Pattabhiram has vast experience of nearly four decades in the education sector. He was earlier a trustee in Gokula Education Trust, which was established in 1962 by Mr. M S Ramaiah.
- **Established presence of M S Ramaiah Group** – M S Ramaiah Group has an established presence in the education sector since 1960s through institutions under Gokula Education Trust. The trust operates several educational institutions offering various streams including medicine, dentistry, pharmacy, management and engineering, among others. The strong brand image is leveraged to an extent by the institutions under MSRF.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 1 crore = 100 lakhs = 10 million

- **Healthy improvement in revenue receipts and profitability** – The revenue receipts witnessed significant growth in FY2017 due to increase in student intake on the back of commencement of new institutions under the trust and increase in sanctioned intake levels under the existing courses. The increase in revenues also led to improvement in profitability owing to better absorption of fixed overheads.

#### **Credit weaknesses**

- **Competition from established players** – MSRF faces significant competition from other established educational institutions in the vicinity which exerts pressures on the occupancy levels at the institutions under the trust.
- **Seasonality in cash flows** – Although cash accruals are expected to be healthy in the future, the inherent irregularity in cash flows due to seasonality in tuition fee collections could lead to short-term liquidity mismatches.
- **Debt-funded capital expenditure** – The trust envisages a capital expenditure of Rs. 20.00 crore towards construction of new college building, interiors of existing buildings and purchase of furniture and fixture. With a sizeable amount of the aforementioned expansion to be funded by term loans, the capital structure is likely to be impacted in the near term.

#### **Analytical approach**

For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

#### **Links to applicable Criteria**

[Corporate Credit Rating - A Note on Methodology](#)

#### **About the trust**

M S Ramaiah Foundation was set up in 2007 by Mr. M R Pattabiram and is based in Bengaluru. The trust manages three educational institutions at present. The flagship institution under the trust, Ramaiah Institute of Management Studies, offers management courses under affiliation from University of Mysore, Annamalai University and Swiss Business School. Ramaiah Institute of Business School was established in the academic year 2016 and is affiliated to Bangalore University. During the academic year 2017, Ramaiah Institute of Legal Studies was set up and is affiliated to Karnataka State Law University.

In FY2017, the trust reported an operating income of Rs. 20.44 crore and a net profit of Rs. 4.31 crore compared to an operating income and net profit of Rs. 14.81 crore and Rs. 0.72 crore, respectively in FY2016.

**Key Financial Indicators**

Particulars	FY2016	FY2017
Operating income (crore)	14.81	20.44
PAT (crore)	0.72	4.31
OPBDITA/ OI (%)	25.34%	35.18%
RoCE (%)	35.84%	29.66%
Total Debt/ TNW (times)	2.36	1.73
Total Debt/ OPBDITA (times)	6.16	3.39
Interest coverage (times)	1.92	4.26
NWC/ OI (%)	2.22%	7.12%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; NWC: Net Working Capital; OI: Operating Income; RoCE: Return on Capital Employed; TNW: Tangible Net Worth; Source: Financial statements of MSRF and ICRA research

**Status of non-cooperation with previous CRA:** The trust had a rating of CRISIL D with CRISIL, which was moved to 'Issuer Not-Cooperating' category in August 2017.

**Any other information:** Not Applicable

**Rating History for last three years:**
**Table: Rating History**

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month-year & Rating in FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				October 2017			
1	Term Loan	Long term	20.00	[ICRA]BB-(Stable)	-	-	-
2	Cash Credit	Long term	4.00	[ICRA]BB-(Stable)	-	-	-
3	Unallocated	Long term	1.00	[ICRA]BB-(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](http://www.icra.in)

**Annexure-1**
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Term Loan	September 2016	-	March 2025	20.00	[ICRA]BB- (Stable)
Cash Credit	-	-	-	4.00	[ICRA]BB- (Stable)
Unallocated	-	-	-	1.00	[ICRA]BB- (Stable)

*Source: M S Ramaiah Foundation*

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