A.H. Memorial Educational Trust

May 17, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	102.70	140.20	[ICRA]A- (Stable); Reaffirmed
Fund based-Unallocated		130.50	[ICRA]A- (Stable); Reaffirmed
Total	**102.70**	**270.70**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) for the Rs. 140.20-crore (enhanced from 102.70-crore) term loan facilities and Rs. 130.50-crore (earlier nil) unallocated facilities of A.H. Memorial Educational Trust (AHMET or the Trust[1]). The outlook on the long-term rating is 'Stable'.

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of A. H. Memorial Educational Trust along with Presidency University (PU), as they operate in the same line of business, have operational and financial linkages and share a common management.

The reaffirmation of the rating continues to take into account the established track record of the trust with over 40 years of presence in the education sector and its experienced governing council members. The rating reaffirmation derives comfort from healthy occupancy levels and periodic upward fee revisions in the key courses offered by the trust under various schools and colleges coupled with healthy growth in new student enrolments in Presidency University that have ensured steady growth in revenues receipts of the group. The rating reaffirmation also factors in the various accreditations, healthy student-faculty ratio and on-campus placements which help in retaining existing students and attracting new students.

The rating, however, is constrained by the sizeable debt-funded capital expenditure undertaken by the trust over last three years and planned capital expenditure of ~Rs. 230.0 crore (Rs. 205.0 crore for university and Rs. 25.0 crore for AHMET) that is to be undertaken by the trust over FY2019 and FY2020 towards expansion of the Presidency University, and upgradation of facilities and infrastructure in its existing schools and colleges. The rating also considers the lumpiness in cash flows against periodic repayment obligations and operational expenditure, which necessitates prudent cash-flow management to ensure regular debt servicing. Further, the lumpiness in cash flows coupled with outflows towards capex has resulted in increased reliance on short term working capital borrowings for operational expenditure towards the year end in FY2018. Nonetheless, ICRA notes the favourable debt repayment schedule and the Group's healthy internal cash accruals which are expected to support future debt repayments. The rating also considers the Group's exposure to the regulatory structure in the education sector, which may restrict its flexibility to increase fees and student intake. The rating also factors in the intense competition in the sector resulting in pressure to attract students as well as to attract and retain quality faculty.

Outlook: Stable

ICRA believes that the A.H. Memorial Educational Trust will continue to benefit from its established presence with healthy enrolments across key schools and colleges under its umbrella. Also given the status of the admissions and

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

proposed expansion in pipeline, healthy student growth is expected in Presidency University. The group's revenues are likely to witness healthy growth over the near to medium term given the periodic fee revisions and the expected increase in student strength especially in Presidency University. The outlook may be revised to 'Positive' if the sustained growth in student additions aided by capacity additions, results in higher revenues and cash accruals from the current levels; while also improving its capital structure. Conversely, the outlook may be revised to 'Negative' if cash accruals are lower than expected, or if any cost overrun in the proposed expansion project, or if any higher-than-anticipated capital expenditure weakens liquidity and stretches its capital structure.

Key rating drivers

Credit strengths

Healthy occupancy levels across key courses supported by established brand name – The institutions under the trust continue to benefit from the Presidency brand name and have witnessed healthy enrolments across its schools and colleges. The presidency schools have been consistently ranked among the top schools in region and as a result the schools continue to witness healthy occupancy levels. For Presidency College, the occupancy levels for courses like BCA, B. Com, M. Com. and MBA, courses stood healthy with more than 90% occupancy levels during AY2017-18. The overall student strength for AHMET increased to 12187 during AY2017-18, as compared to 11667 during AY2016-17, recording a growth of 4.5%.

Healthy revenue growth in FY2018, coverage indicators remain comfortable – The revenues of the group increased from Rs. 127.5 crore in FY2017 to Rs. 167.7 crore in FY2018, reporting a healthy growth of 31.5%, supported by healthy occupancy levels and upward fee revisions for its key courses for both AHMET and PU. The management undertakes fee revision periodically in the range of 10% to 12%, based on the recommendations of a fee fixation committee which considers course expenses and future growth requirements. The coverage indicators for the group stood comfortable with interest coverage of 3.68 times, and DSCR of 2.80 times, with favourable debt repayment schedule for the current and proposed loans.

Stabilisation of Presidency University – The presidency university started its operations in AY2015-16 with 625 students offering courses in engineering, management and law, and reported revenues of Rs. 7.8 crore in FY2016. Since then, the student strength has increased to 3750 in AY2017-18 from 625 in AY2015-16 owing to healthy new enrolments year on year. The revenues of the university have also increased from Rs. 7.8 crore in FY2016 to 49.8 crore in FY2018. During FY2018, the university recorded OPBDITA of Rs. 5.6 crore, with better absorption of overheads. Further, given the healthy growth in student in-take and planned expansion, Presidency University is expected to record healthy revenue growth and generate positive cash flows from FY2019.

Credit challenges

Moderation in capitalisation and coverage indicators owing to large debt-funded capex under taken in past and proposed towards expansion of Presidency University infrastructure – AHMET has contracted term loans and has incurred significant capex over the past three years towards setting-up and phased expansion of the Presidency University, which was funded through a mix of debt and internal accruals/unsecured loans. Additionally, the Group plans to incur capital expenditure of Rs. 135.0 crore over FY2019 and FY2020 towards construction of engineering block, canteen/food court, auditorium, sports complex, prayer hall etc for PU; which is proposed to be funded through total term loan of Rs. 100.0 crore remaining through internal accruals of the trust. Additionally, the Group plans to incur capex of Rs 70.0 crore towards construction of new hostel for PU and Rs 25.0 crore towards pre-university college under AHMET in FY2020, which is planned to be funded through term loans of ~Rs. 50.0 crore and ~Rs. 20.0 crore respectively. The capital structure and coverage indicators of the Group have been impacted owing to the significant amount of debt-funded capex undertaken. With the additional debt-funded capex plan on the anvil, the same are expected to remain impacted over the medium term.

Lumpiness in cash flows could lead to misallocations- ICRA takes note of the lumpiness in cash flows against more periodic repayment obligations towards term loans, which necessitate prudent cash-flow management to ensure regular debt servicing. Further, ICRA notes that the lumpiness in cash flows coupled with outflows towards capital expenditure has resulted in increased reliance on short-term working capital borrowings for operational expenditure towards the year end in FY2018.

Exposed to high regulatory structure in the educational sector –The operations of the trust and university continue to remain vulnerable owing to high regulatory structure in the higher education sector in India. The trust's various institutes and university must abide by the rules framed by various regulatory bodies such as University Grants Commission (UCG), All India Council for Technical Education (AICTE), Bar Council of India (BCI), Department of Pre-university Courses etc., restricting flexibility and autonomy with respect to fees and student intake, among others.

High competitive intensity –The ratings also take into account the intense competition faced by the various schools and college of the trust from other schools, colleges and universities in attracting students and faculties. However, this risk is partly mitigated by the brand position enjoyed by the 'Presidency Group' in and around Bangalore.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of A. H. Memorial Educational Trust along with Presidency University, as they operate in the same line of business, have operational and financial linkages and share a common management.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Higher Education Sector

About the company:

Registered in 1986, Abdul Hameed Memorial Educational Trust (AHMET) operates 5 schools (four in Bangalore and one in Mangalore) and 1 college (in Bangalore) under its umbrella and offers undergraduate and post-graduate courses in commerce, science, arts, computer applications and business management along with primary and secondary education. The group of institutions under the trust is known by the name "Presidency". It currently has six member trustees, with Mr. Nissar Ahmed as its current chairman. AHMET has recently established 'Presidency University' which commenced operations in academic year 2015-16. The university offers courses in fields of Management, Engineering and Law.

On a standalone basis, A. H. Memorial Educational Trust reported a net profit of Rs. 35.9 crore on an operating income of Rs. 117.9 crore in FY2018, as compared to a net profit of Rs. 30.8 crore on an operating income of Rs. 104.7 crore in the previous year.

On a consolidated basis, the Group reported a net profit of Rs. 21.5 crore on an operating income of Rs. 167.7 crore in FY2018, as compared to a net profit of Rs. 16.6 crore on an operating income of Rs. 127.5 core in the previous year.

Key financial indicators

	FY2017	FY2018*
Operating Income (Rs. crore)	104.7	117.9
PAT (Rs. crore)	30.8	35.9
OPBDIT/ OI (%)	29.3%	34.3%
RoCE (%)	15.3%	12.9%
Total Debt/ TNW (times)	0.7	0.9
Total Debt/ OPBDIT (times)	3.8	4.6
Interest coverage (times)	13.7	28.0
NWC/ OI (%)	1.1%	4.7%

Source: A. H. Memorial Educational Trust; *Provisional

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on? (Rs Crore)	Date & Rating in FY2019 May 2018	Date & Rating in FY2018 Jul 2017	Date & Rating in FY2017 Sept 16	Date & Rating in FY2016 -
1	Term Loan	Long Term	140.2	140.2	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Unallocated	Long Term	130.5	-	[ICRA]A- (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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2013	10.00%	FY2028	140.2	[ICRA]A- (Stable)
NA	Unallocated	NA	NA	NA	130.5	[ICRA]A- (Stable)

Source: A.H. Memorial Educational Trust

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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.

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