

January 13, 2020

Future Education And Research Trust: Ratings downgraded to [ICRA]D/[ICRA]D

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Term Loan	112.57	112.57	[ICRA]D; downgraded from [ICRA]BB+ (Stable)
Fund-based Limits – Overdraft	6.50	6.50	[ICRA]D; downgraded from [ICRA]BB+ (Stable)
Non-fund Based Limits – FLC/LOC/LOU for buyer's credit#	(37.00)	(37.00)	[ICRA]D; downgraded from [ICRA]BB+ (Stable)
Non-fund Based Limits – FLC/LOC/LOU for buyer's credit#	(37.00)	(37.00)	[ICRA]D, downgraded from [ICRA]A4+
Unallocated Limits	0.93	0.93	[ICRA]D; downgraded from [ICRA]BB+ (Stable)
Total	120.00	120.00	

*Instrument details are provided in Annexure-1

#sub-limit of term loan

Rationale

The downward revision of the ratings primarily considers unfavourable debt-servicing track record of Future Education And Research Trust (FERT) in the recent past, as confirmed by the lender. The ratings are also impacted by trust's foray into the unrelated healthcare industry, entailing a large capex of around Rs. 148 crore to set up an oncology hospital in Kolkata. The project cost is larger than FERT's current balance sheet size, thus magnifying the project risk. The capex is proposed to be funded by term loans of Rs. 98 crore and the balance through internal accruals and promoters' contribution. While the financial closure for this project has been achieved, ICRA notes that in addition to internal cash accruals from existing operations, financial support from promoters will remain critical to meet the funding requirement. The ratings also note that the trust remains exposed to project execution risk which along with stabilisation of operations post commencement, recruitment and retention of reputed doctors would remain a key challenge. ICRA notes that FERT has made significant donations to its Group entity in the past and adjusted its own capital base to account for the same. Any further cash outflow towards the same is likely to impact the trust's liquidity position. The ratings also take into consideration limited flexibility in fee fixation for B. Tech courses as the fee structure is decided by the state government.

The ratings however consider the established track record of FERT in successfully running educational institutes for over a decade, which is supported by the experience of the trustees in the field of education, and steady growth in the top line and cash accruals from business over the past few years. The ratings also derive comfort from the long-term demand outlook of the healthcare industry in view of significant demand-supply gap in the country's healthcare service sector and an increasing trend of medical tourism in India.

Key rating drivers

Credit strengths

Established track record of successfully running educational institutions for over a decade – FERT had set up its first college - Future Institute of Engineering and Management (FIEM) in 2002, which offers various undergraduate and postgraduate courses across streams including engineering and management. The trust, at present, runs two colleges and two schools viz. FIEM, Future Institute of Technology (FIT), Future Campus School and Future Think School (FTS) under it. Thus, the trust has an established track record of over a decade in running educational institutions.

Steady growth in top line and cash accruals over the past few years – The operating income of the trust has gradually increased over the past few years primarily on the back of an increase in the number of students. The operating margin has remained healthy over the years and the same improved from 28% in FY2016 to 33% in FY2019 (provisional). ICRA notes that the overall cash accruals from the business have witnessed a steady improvement over the past few years.

Favourable demand outlook of the healthcare industry in the long term – The long-term demand outlook of the healthcare industry remains favourable on the back of a significant demand-supply gap in the country's healthcare service sector and an increasing trend of medical tourism in India.

Credit challenges

Delays in Servicing of debt obligations – The trust has delayed in timely servicing of debt obligations in the recent past due to cashflow mismatch. FERT primarily collects fees on a half-yearly basis, whereas the servicing of debt obligations takes place monthly.

Large capex plans relative to its current balance sheet size; proposed debt would impact the capital structure and coverage indicators over the medium term – The trust is foraying in the healthcare industry with an oncology hospital in Kolkata. The proposed capex for this project is estimated to be around Rs. 148 crore, to be funded by term loans of Rs. 98 crore and the balance through internal accruals and promoters' contribution. While the financial closure for this project has been achieved, ICRA notes that financial support from promoters will remain critical to meet the funding requirement in addition to internal cash accruals from existing operations. The project cost is significant compared to FERT's current balance sheet size, thus magnifying the project risk. The funding pattern of the capex is also aggressive, with a project gearing of 1.96 times, which, in turn, is likely to have an adverse impact on FERT's overall capital structure and coverage indicators over the medium term.

Exposure to project execution and stabilisation risks; recruitment and retention of reputed doctors remain key challenges in the healthcare industry - FERT remains exposed to project execution risk, which along with stabilisation of operations post commencement, and recruitment and retention of reputed doctors would remain key challenges. The proposed hospital is scheduled to become operational during the second half of the current financial year. However, ICRA expects there may be some delay in operationalising the same. Till March 2019, the trust has incurred approximately Rs. 91 crore for the hospital project.

Significant donation to Group entity impacts the liquidity position of the trust – The trust has donated Rs. 4.37 crore in FY2019 (Rs. 8.99 crore in previous years) to its group entity – Future Medical and Research Trust and adjusted its own capital base for the above amount. ICRA notes that any incremental cash outflow towards the same, going forward, may impact the trust's liquidity position.

Limited flexibility in fee fixation for B. Tech courses - The trust has limited flexibility in fee fixation for the B. Tech courses as the fee structure is decided by the state government. Nonetheless, fees for all the other courses are decided by the trust.

Liquidity position: Poor

FERT's liquidity position remains poor as reflected by delays in the debt-servicing by the entity.

Rating sensitivities

Positive trigger - Regularisation of debt servicing on a sustained basis (more than three months)

Negative trigger – Not Applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Higher Education Sector Policy on default recognition
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone financial statement

About the company

Incorporated in 2001, Future Education And Research Trust (FERT) had set up its first college in 2002 under the name, Future Institute of Engineering and Management (FIEM), in Sonarpur, near Kolkata, catering to undergraduate and postgraduate courses across streams including engineering and management. In 2005, the trust had set up a school under the name Future Campus School, affiliated to the Central Board of Secondary Education (C.B.S.E.). In 2015, the trust had set up another college in Garia, Kolkata named Future Institute of Technology (FIT), which offers B. Tech courses across various streams. Both FIEM and FIT are approved by the AICTE and are affiliated to the Maulana Abul Kalam Azad University of Technology, West Bengal, formerly West Bengal University of Technology (WBUT). In 2019, the trust has set up another school in Garia, Kolkata named Future Think School (FTS), providing education up to class VI. In addition, FERT is in the process of setting up an oncology hospital in Sonarpur, near Kolkata.

Key financial indicators

	FY2018 (Audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	36.83	40.38
PAT (Rs. crore)	7.31	8.08
OPBDIT/ OI (%)	30.88%	33.12%
RoCE (%)	14.24%	14.48%
Total Debt/ TNW (times)	0.59	1.10
Total Debt/ OPBDIT (times)	3.14	5.32
Interest Coverage (times)	6.43	7.44

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) March 31, 2019	Current Rating 13-Jan-2020	Earlier rating 26-April 2019	Date & Rating in FY2019	Date & Rating in FY2018 17-Jan-2018	Date & Rating in FY2017
1 Term Loan	Long Term	112.57	34.63	[ICRA]D	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	-
2 Overdraft	Long Term	6.50	-	[ICRA]D	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	-
3 FLC/LOC/LOU for buyer's credit[#]	Long Term	(37.00)	-	[ICRA]D	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	-
4 FLC/LOC/LOU for buyer's credit[#]	Short Term	(37.00)	-	[ICRA]D	[ICRA]A4+	-	[ICRA]A4+	-
5 Unallocated Limits	Long Term	0.93	NA	[ICRA]D	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	-

Source: Future Education And Research Trust
[#]Sub-limit of term loans

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 II	FY2016	-	FY2020	2.83	[ICRA]D
NA	Term Loan III	FY2017	-	FY2021	3.86	[ICRA]D
NA	Term Loan IV	FY2019	-	FY2024	7.88	[ICRA]D
NA	Term Loan V	FY2018	-	FY2028	47.00	[ICRA]D
NA	Term Loan VI	FY2018	-	FY2028	18.00	[ICRA]D
NA	Term Loan VII	FY2018	-	FY2028	33.00	[ICRA]D
NA	Overdraft	-	-	-	6.50	[ICRA]D
NA	FLC/LOC/LOU for buyer's credit [#]	-	-	-	(37.00)	[ICRA]D
NA	FLC/LOC/LOU for buyer's credit [#]	-	-	-	(37.00)	[ICRA]D
NA	Unallocated Limits	-	-	-	0.93	[ICRA]D

Source: Future Education And Research Trust

[#]Sub-limit of term loans

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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