

January 22, 2020

M S Ramaiah Foundation: Long-term rating upgraded to [ICRA]B+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Long Term-Term Loan	10.00	20.00	[ICRA]B+ (Stable); Upgraded from [ICRA]B- (Stable)
Long Term-Cash Credit	0.00	1.25	
Long Term-Unallocated	15.00	3.75	
Total	25.00	25.00	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the rating considers the extended track record of timely debt servicing by M S Ramaiah Foundation (MSRF) and the improvement in MSRF's capital structure following prepayment of its unsecured loans. The rating continues to derive comfort from the extensive experience of its promoters in the education sector for nearly four decades, and the M S Ramaiah Group's strong brand image and established market position.

The rating, however, continues to remain constrained by the seasonality in cash inflows against periodic debt repayment obligations and operational expenditure, which necessitate prudent cash flow management to ensure regular debt servicing. The rating is also constrained by the decline in revenues and margins in FY2019 owing to discontinuation of its management courses affiliated with the University of Mysore resulting in lower occupancy levels. MSRF's operations continue to remain vulnerable to regulatory risks arising from regulatory bodies such as the University Grants Commission (UGC), the All India Council for Technical Education (AICTE), the Bar Council of India (BCI), universities and state governments etc. MSRF is governed on various aspects of its operations including student intake, infrastructure requirements, as well as teaching and training quality of the institutes. The rating also considers stiff competition faced by its institutes from other institutes and colleges in attracting quality students and retaining faculties. Besides, the rating considers MSRF's significant reliance on its management courses for a bulk of revenues and profits. ICRA also not of the planned debt-funded capital expenditure for constructing a college building for Ramaiah Institute of Management Studies.

The Stable outlook on the [ICRA]B+ rating reflects ICRA's opinion that MSRF will continue to benefit from the extensive experience of its promoters and its established track record in the education sector. The financial profile of the trust is likely to remain stable given the high demand for courses offered by MSRF, coupled with periodic fee revisions and addition of new courses.

Key rating drivers and their description

Credit strengths

Extensive track record of trustees in higher education sector: Dr. M R Pattabiram is the Managing Trustee of the foundation and the Founder Director of all the institutions under MSRF. He is also a Trustee Member of Gokula Education Trust (GET) for the past 37 years, which is a family-owned trust of M. S. Ramaiah group and runs various educational institutions offering medical, engineering and management courses, among others.

Comfortable capital structure and debt coverage metrics: MSRF's financial risk profile remained comfortable as characterised by its comfortable capital structure with a gearing of 1.0 times as on March 31, 2019 compared to 1.3 times as on March 31, 2018. Its debt protection metrics also stood comfortable with an interest coverage of 3.8 times, TOL/TNW of 1.1 times, NCA/TD of 21.7% and DSCR of 2.8 times in FY2019.

Credit challenges

Dependence on management courses for bulk of revenues and profits: MSRF has significant reliance on its management courses, which contributed around 77% of revenues in FY2019. Going forward, the management plans to start new courses in its existing colleges to diversify its revenues.

Seasonality in cash flows- Inherent to the educational institutions, the cash flows are seasonal in nature against periodic repayment obligations and operational expenditure, which necessitate prudent cash flow management to ensure regular debt servicing.

Exposed to strict regulations framed by various regulatory bodies: The trust's operations continue to remain vulnerable to strict regulations framed by regulatory bodies such as UCG, AICTE, BCI, universities and state governments etc. These bodies frame regulations on various aspects of its operations including student intake, infrastructure requirements, as well as teaching and training quality of the institutes. Any non-compliance or violation of the regulations may lead to cancellation of affiliation and may put restriction on new admissions, impacting its revenues and cash flows.

Stiff competition from other institutes offering similar courses: The institutes under MSRF face stiff competition from other established institutions offering similar courses in attracting students that could impact the occupancy levels and subsequently the surpluses. However, this risk is partly mitigated by the brand position enjoyed by the M S Ramaiah Group in and around Bangalore.

Liquidity position: Adequate

The liquidity position of trust remains **adequate**, supported by healthy cash flows from operations because of healthy operating margins and low working capital intensity. The average working capital utilisation also remained comfortable at 26% between April 2019 and November 2019. Going forward, its cash accruals are expected to be adequate to meet the debt repayment obligations and the margin requirements for the expected capital expenditure over the near to medium term.

Rating sensitivities

Positive triggers – ICRA may upgrade MSRF's rating if the trust is able to improve its scale of operations and profit margins, while managing its cash flows efficiently.

Negative triggers – Negative Pressure on MSRF's rating may arise, if any reduction in the trust's revenues and profitability leads to tightening of the liquidity position. Any higher-than-estimated capital expenditure or any higher than estimated withdrawal of unsecured loans from promoters, leading to weakening in the liquidity position, may also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Higher Education Sector
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the entity

About the company

M S Ramaiah Foundation was established as a charitable trust in 2007 to focus on the business education sector. The trust offers undergraduate and post-graduate courses in the fields of business management, commerce, arts and law. Dr. M R Pattabiram is the Managing Trustee of the foundation and the Founder Director of all the institutions under MSRF.

In FY2019, the trust reported a net profit of Rs. 1.9 crore on an OI of Rs. 26.1 crore compared to a net profit of Rs. 4.1 crore on an OI of Rs. 29.2 crore in the previous year.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	29.2	26.1
PAT (Rs. crore)	4.1	1.9
OPBDIT/ OI (%)	27.1%	22.0%
RoCE (%)	16.2%	8.4%
Total Debt/ TNW (times)	1.3	1.0
Total Debt/ OPBDIT (times)	3.0	3.4
Interest Coverage (times)	4.1	3.8
DSCR	3.1	2.8

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding as on 31-Mar-19 (Rs. crore)	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017
				22-Jan-20	20-Dec-18	06-Jun-18	12-Oct-17	-
1 Term Loan	Long term	20.00	9.6	[ICRA]B+ (Stable)	[ICRA]B- (Stable)	[ICRA]D	[ICRA]BB- (Stable)	-
2 Cash Credit	Long term	1.25	-	[ICRA]B+ (Stable)	[ICRA]B- (Stable)	[ICRA]D	[ICRA]BB- (Stable)	-
3 Unallocated	Long term	3.75	-	[ICRA]B+ (Stable)	[ICRA]B- (Stable)	[ICRA]D	[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

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	FY2018	12.0%	FY2028	20.00	[ICRA]B+ (Stable)
NA	Cash Credit	-	-	-	1.25	[ICRA]B+ (Stable)
NA	Unallocated				3.75	[ICRA]B+ (Stable)

Source: M S Ramaiah Foundation

ANALYST CONTACTS

K Ravichandran

+91-44-4596 4301
ravichandran@icraindia.com

R Srinivasan

+91-44-4596 4315
r.srinivasan@icraindia.com

Nikhil Mathew

+91-80-4922 5569
nikhil.mathew@icraindia.com

Piyush Mathur

+91-80-4922 5563
piyush.mathur@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents