

K12 Techno Services Private Limited: Downgraded

Facilities	Amount (Rs. Crore)	Rating/Outlook
Secured Redeemable Non-Convertible Debentures	20.00	SMERA B-/Stable (Downgraded from SMERA BB-/Stable)
Proposed Non-Convertible Debentures	20.00	SMERA B-/Stable (Downgraded from SMERA BB-/Stable)

SMERA has downgraded the long term rating on the above mentioned secured redeemable non-convertible debentures of K12 Techno Services Private Limited (K-12) **to SMERA B- (read as SMERA B minus)** from SMERA BB- (read as SMERA double B minus) The outlook is '**Stable**'.

The rating downgrade factors in the substantial fall in profitability indicators of K12 on account of its divestment from the Gowtham Model School (group of schools) business in Hyderabad. Besides, there has been continuous deterioration of its financial risk profile marked by declining debt protection metrics. SMERA believes that K12 shall remain exposed to substantial refinancing risk with regard to its debt servicing obligations. Inability to mobilise adequate financial resources in a timely manner can adversely affect K-12's debt servicing abilities.

Update

K-12 provides school management services to various educational trusts. The company continues to benefit from its experienced management and strong parentage. Mr Venkatanarayana, the Chairman, has over 25 years of experience in the education sector. The rating continues to be supported by marquee shareholders including Sequoia Capital and Navneet Prakashan.

However, the operating income of K-12 declined to Rs.35.18 crore in FY2016 from Rs.41.53 crore in FY2015 on account of its poor performance and subsequent divestment from the Gowtham Model School (group of schools) business. The company, thus wrote off Rs.25 crore from receivables associated with the school (Hyderabad) business in FY2016 resulting in substantial increase in operating level losses to Rs.35.62 crore in FY2016 against Rs.18.89 crore in FY2015.

SMERA expects the profitability margins to remain subdued over the medium term on account of its high operating expenses. Given the substantial shortfall between the operating cash flows of the company vis-à-vis its debt servicing operations, K-12 shall remain exposed to substantial refinancing risk over the medium term.

Outlook-Stable

SMERA believes that K-12 will maintain a Stable outlook over the medium term on account of its experienced management and strong parentage. The outlook may be revised to 'Positive' in case of sustained increase in its scale of operations coupled with improvement in its profitability margins. Conversely, the outlook may be revised to 'Negative' in case K-12 is unable to mobilise resources in a timely manner and/or registers further decline in operating income or profitability indicators.

Rating Sensitivity Factors

- Timely infusion of funds by promoters
- Movement in profitability indicators
- Sustained increase in scale of operations

About the Company

K-12, established in 2010, is a Hyderabad-based company promoted by Mr Venkatanarayana, Mr. GV Ravi Shankar (Sequoia Capital India Investment Holdings) and Mr. Mohinder Pal Bansal (Navneet Learning LLP). The company provides school management services to various educational trusts.

In FY2016, K-12 reported net losses of Rs.45.30 crore on operating income of Rs.35.18 crore against net losses of Rs. 30.81 crore in FY2015 on operating income of Rs.41.53 crore.

Rating History:

Date	Instruments	Amount (Rs. Crore)	Rating		Rating Outlook
			Long Term	Short Term	
11 Dec, 2015	Proposed Non-Convertible Debentures	40.00	SMERA BB- (Assigned)	-	Stable

Contacts:

Analytical	Business Development
Mr.Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr.Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.