

Press Release

Rajeev Education Trust Regd

May 25, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 19.50 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB**' (read as SMERA BBB) on the Rs. 19.50 crore bank facilities of Rajeev Education Trust Regd. The outlook is '**Stable**'.

Rajeev Education Trust (RET) was established in 1998. At present, the trust operates six institutes in Hassan (Karnataka) and offers undergraduate, graduate and post graduate courses in Engineering, Nursing, Polytechnic and Paramedical sciences. RET is headed by Dr. V. Rajeev (President), Dr. B. N. Rathnamma (Secretary), Dr. Ranjith Rajeev (Vice-President), Dr. Rachna Rajeev (Treasurer) and Mrs. Neelamma (Trustee). The total student strength stood at 1564 for academic year 2017-18.

Key Rating Drivers

Strengths

• Established position in the education sector

RET has an established position in the education sector for the last two decades. The trust operates six insititutes including Rajeev Institute of Technology, Rajeev Institute of Nursing, Rajeev School of Nursing, Rajeev Institute of Education, Rajeev Polytechnic and Rajeev Institute of Paramedical Science located at Hassan campus. RET has maintained healthy occupancy level of around 98 percent for the engineering course which contributes majorly to the revenue during the last three years. The other courses have reported comfortable occupancy levels such as nursing (86.22 percent), B.Ed. (65.00 percent), Polytechnic (79.55 percent) and Paramedical Science (92.86 percent). The overall sanctioned intake for all the courses stood at 1791 and the number of students stood at 1564 for FY2018 (Provisional). Thereby reporting comfortable occupancy level of around 87.33 percent for FY2018 (Provisional). The trust has reported marginal growth in the overall student strength from 1504 students in FY2017 to 1564 in FY2018 (Provisional). RET is a trust promoted and managed by Dr. V. Rajeev (President), an established pediatrician in Hassan and has experience of around two decades in the medical and education sector. The other trust members include Dr. Rathnamma (Secretary), Mrs. Neelamma (Trustee), Dr. Ranjith Rajeev (Vice-President) and Dr. Rachana Rajeev (Treasurer). The members are also trustees in another education trust Rathna Education Trust located in Hassan established in 2002 and mainly offers courses in nursing under Rathna College of Nursing and Rathna School of Nursing.

• Healthy capital structure and coverage indicators

The networth (corpus fund) stood at Rs.77.20 crore as on 31 March, 2017 as compared to Rs.65.93 crore in the previous year and Rs.85.12 crore as on as on 31 March, 2018 (Provisional). The improvement in networth (corpus fund) is on account of surplus reported during FY2017 and other development funds. The interest coverage ratio stood at 11.84 times for FY2017 as against 7.95 times in the previous year. The total outside liabilities to total networth stood at 0.12 times as on 31 March, 2017 as compared to 0.16 times in the previous year. The trust undertakes continuous capital expenditure for expansion of existing infrastructure and adding new institutes. These plans are funded by bank borrowings and internal accruals which has been in the range of Rs.9.00 crore to Rs.11.00 crore in the past years. The trust presently is constructing Ayurveda College alongwith undertaking other expansion activities in the existing infrastructure in Hassan Campus. The project is expected to be spread over the next 2 to 3 years. Going forward, SMERA expects RET to maintain comfortable capital structure on back of its robust net cash

accruals.

Weaknesses

• Modest scale of operations coupled with dependence on engineering course

RET has reported moderate scale of operating income inspite of being in operation for the last two decades. The operating income stood at Rs.20.76 crore for FY2017 as against Rs.19.50 crore in the previous year. The operation of the trust is also concentrated only to the Hassan campus. RET also derives majority of its revenue i.e. around 76 percent from single course i.e. engineering followed by nursing (11.39 percent) and polytechnic (10.25 percent) for FY2017. The demand for engineering courses has shown moderation on account of availability of various other courses in the different fields including management, paramedical and medicine. Hence, the trust is not expected to report any major growth in its existing revenue segments. This has also lead the management to diversify into additional courses in paramedical and medicine.

• Stringent regulatory framework for educational sector in India

The operations of the trust are susceptible to stringent regulatory framework in the higher education sector in India.

• Competitive and fragmented industry

The institutes under RET offers nursing, paramedical science, engineering and polytechnic courses in Hassan region where there is high competition between colleges offering similar courses. The institutes providing engineering courses in Hassan include Bahubali College of Engineering, Government Engineering College, Malnad College of Engineering, Yagachi Institute of Technology to name a few. Given the competition, the ability of the institutes to attract requisite students in tune with its sanctioned intake would be a challenge.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of RET for arriving at the rating.

Outlook: Stable

SMERA believes that RET will maintain a 'Stable' business risk profile over the medium term on account of its established position and comfortable occupancy levels. The outlook may be revised to 'Positive' in case RET registers significant growth in revenue and profitability while maintaining healthy capital structure. The outlook may be revised to 'Negative' in case of lower than expected net cash accruals or large debt-funded capital expenditure resulting in deterioration in capital structure or liquidity position.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	20.76	19.50	20.34
EBITDA	Rs. Cr.	9.58	8.83	11.23
PAT	Rs. Cr.	9.55	8.66	10.80
EBITDA Margin	(%)	46.13	45.27	55.19
PAT Margin	(%)	46.01	44.39	53.11
ROCE	(%)	13.12	13.93	40.10
Total Debt/Tangible Net Worth	Times	0.09	0.13	0.22
PBDIT/Interest	Times	11.84	7.95	5.00
Total Debt/PBDIT	Times	0.67	0.89	0.89
Gross Current Assets (Days)	Days	54	47	52

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Services Sector - <https://www.smera.in/criteria-services.htm>
- Complexity Level Of Financial Instruments - <https://www.smera.in/criteria-complexity-levels.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	5.15	SMERA BBB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	9.50	SMERA BBB / Stable
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	4.85	SMERA BBB / Stable

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ABOUT SMERA

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