Press Release

Ajl Edu-Infra Services Llp

December 16, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Negative

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating to '**ACUITE BBB+**' **(read as ACUITE triple B plus)** on the Rs.100.00 crore bank facilities of AJL EDU-INFRA SERVICES LLP (AEISL). The outlook is **'Negative'**.

About AJL Edu-Infra Services LLP

AEISL, established in 2014 is promoted by Mr. Jesus Lall. It is a part of Universal Education Group (UEG). The firm has proposed to acquire two schools currently running under the R S Luth Education Trust. Post-acquisition the pre-primary section will run under AEISL and primary to pre-graduation will run under existing trust i.e. R S Luth Education Trust.

About UEG

UEG has a presence in education since 2003. Mr. Jesus Lall is the founder. The group runs 44 educational institutions across 28 entities and offers K-12 education, degree and technical courses. While most of the entities are in education sector some of them are asset holding and provides supporting services to the institutes. The group has its presence in Maharashtra, Karnataka and Tamil Nadu.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Vidya Vikas Education Trust, National Education Society, Maharashtra Samaj Ghatkopar, Universal Education Foundation, Super Value Properties Private Limited , SML Supervalue Education Private Limited, SML Properties Private Limited, JND Edu-Realty Private Limited, JND Edu-Management Services Private Limited, UTOPIA Hospitality Private Limited, UDAN Recreation Services Private Limited, JND Realcon Private Limited, SML Realtech Private Limited, Almighty Infrastructure Private Limited, SML Edu-Infra Private Limited, SAA Edu-Infra Services LLP, Abraham Memorial Education Trust, Alpha Foundation for Education and Research, Primus Trust, General Computer Services International, Universal Edu Infra Services Pvt Ltd, A. P. Greig Foundation Trust, AJL Edu-Solutions LLP, Agastya Edu-Realty LLP, Bombay Education Trust , Gareeb Vidyarthi Sahayak Mandal Trust, AJL Edu-Infra Services LLP and AJL Buildcon LLP together referred to as the 'Universal Education Group' (UEG) to arrive at the rating.

The consolidation is in view of the common management and significant operational and financial alignment between these entities. The entities considered for consolidation can be broadly divided into three categories. Entities providing education services, entities owning the infrastructure required for running the education courses (asset owning entities) and thirdly entities who are asset owning as well as service providing entities. Mr. Jesus Lall overseas the day-to-day activities of all the institutes. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**
  UEG was established in 1968 largely into informal education segment and providing supporting services related to education sector. Further, they entered into formal education in 2003. The group runs educational institutions across Mumbai, Nashik, Aurangabad, Bangalore and Trichy (Tamil Nadu). The group's service offerings include K-12 education, degree and technical courses. The group has a healthy occupancy ratio of around 85 per cent for academic year 2018-19. The total number of students have increased to more than 40,000 in FY19 from ~ 28,000 in FY16. VVET alone accounts for ~ 16,000 students. Of UEG's student population of ~40,000 students ~65 per cent are school students and the balance comprises other categories. In terms of school education the group's education institutions are affiliated to SSC, ICSE, CBSE and IB (International Baccalaureate). UEG has a presence in both regular segment and the high end segment through IB.

  The group is promoted by Mr. Jesus S. M. Lall, who is a member of the International Advisory Committee of the Educational Institute of India; a Fellow of the Indian Institute of Educational Management; and 2005 "Educational Personality of the Year". Apart from being the CEO of Universal Education, Mr. Lall is also a director of the NGO, S. M. Lall Foundation

  Acuité believes that the group's business risk profile will be supported by its established position in educational sector across Maharashtra, Karnataka and Tamil Nadu and experienced promoter.

- **Increasing demand prospects for education industry**
  Government has always focused on increasing the reach of education services. India has the largest population in the world in the age bracket 5-24 years which presents a large number of opportunities in the education space. There is a high demand and supply gap in the sector in India. India has a huge English speaking population which makes delivery of educational products easy. India was ranked 27 out of 80 countries in English Proficiency Index 2107. 100 per cent FDI (Foreign Direct Investment) is allowed in the education sector in India. The government of India has taken initiatives like National Accreditation Regulatory Authority Bill for Higher Educational and the Foreign Educational Institutions Bill. Between April 2000 and March 2019, Inflow of US $ 2.47 billion has been witnessed as FDI in the education sector.

  The private sector is also playing a significant role in the education sector, especially professional education, in the country. With popularisation of private self-financing colleges and deemed universities, the role of the private sector in education has been accepted and recognised.

  Acuité believes, players like UEG will benefit from such initiatives and increasing demand for better quality education.

Weaknesses

- **Elevated debt levels; subdued asset turnover metrics continue to drag the performance**
  UEG entered the education segment in 1968 with the inception of Universal Beginnings at Mumbai. The group has evolved considerably since then, through a mix of organic and inorganic initiatives. As on March, 2019 the group comprised 44 educational institutions spread across 28 entities in Maharashtra, Karnataka and Tamil Nadu. The entities are engaged in providing education services, some entities are owning the infrastructure required for running the education courses (asset owning entities) and some entities are both asset owning as well as service providing entities.

  The group has been on an expansion spree since past 3 years. The net block has increased from Rs. 363.79 crore as on March, 2016 to Rs.471.70 crore (Provisional) as on March, 2019. Most of the expansion has been debt funded. The total long term debt of the group increased from Rs.367.13 crore as on March 2016 to Rs. 472.90 crore (Provisional) as on 31 March 2019. The total debt has increase as compared to previous year and is expected to increase even further at ~Rs.700 crore. The EBITDA of the group increased from Rs. 50.62 crore for FY2016 to 107.55 crore (Provisional) for FY2019.

Acuité believes that since there is a time lag between capital expenditure and its positive impact on revenues, the debt coverage indicators of players like UEG are likely to be under pressure especially during their growth phase. In case of UEG group, Acuité observes that the fixed asset turnover ratios (i.e. Operating Income/Net block) has been consistently ~0.50 for over past 4 years. This indicates a sub optimal utilisation of the assets. The low fixed asset turnover ratios coupled with peak EBITDA margins of 41.56 per cent (Provisional) for FY2019 has still led to Debt/EBITDA of 4.23 times (Provisional).

The group is presently considering expansion opportunities in the education space which are also expected to be debt funded. Acuité expects the debt funded capex strategy of the group to limit the possibility of any improvement in the debt protection and coverage indicators. The RoCE has sharply improved to 13.61 per cent (Provisional) for FY2019 as compared to 9.22 per cent for FY18 and 6.44 per cent for FY2016. The sustainability of this improvement is uncertain since the group is currently on an aggressive capex mode with additional debt of more than ~Rs.100 crore.

Acuité believes that UEG's credit profile will be linked to its ability to calibrate its debt funded capex plan in phased manner so as to maintain the debt protection and coverage indicators at prudent levels.

- **Significant built up in loans and advances**
  The group's investment in other assets including loans and advances has gone up to Rs. 251.02 crore as on 31 March, 2019 from 150.92 crore as on 31 March, 2016. The management during its discussions with Acuité informed that these advances were mainly towards business purposes.

  Acuité believes that the sharp increase in current assets disproportionate to growth in scale of operations is a matter of concern. The ability to unwind the loans and advances and maintain a current asset level commensurate with scale of operation will be key monitorables.

- **Intense competition and stringent regulatory framework for the educational sector in India**
  The institutes face competition from other private institutions offering similar courses. Given the competition, the ability of the institutes to attract requisite students in tune with its sanctioned intake would be a challenge. This is expected to limit the group's capability to increase fee along with the increase of occupancy. Further, various agencies under the State and Central Government prescribe regulatory framework depending on the professional courses offered. Hence, the group is subject to the stringent regulatory framework for the educational sector in India. Apart from the regulatory framework in India, the various affiliations with international boards like IGCSE also impacts and limits the group's day-to-day business activities.

Rating Sensitivities

- Debt/EBITDA and interest coverage indicators.
- Regulatory environment governing educational institutions.
- Changes in ownership.

Material Covenants

No major covenants apart from gearing and financial indicators.

Liquidity Position – Adequate

The liquidity position of UEG remains adequate with net cash accruals of Rs.61.20 crore (Provisional) in FY2019 with debt obligation of Rs. 43.46 crore (Provisional) during same period. The current ratio of 1.91 times (Provisional) as on March 31, 2019 as compared to 1.37 times as on March 31, 2018. The group receives majority of the income (~80% of the total operating income) through program fees which is received half yearly in the months of June - July (including new admissions) and December - January. Further, for schools the program fee comes on a quarterly or monthly basis. The cash and liquid investments balance has remained stable at Rs 54.64 crore (Provisional) as on March 31, 2019 (Including approx. Rs 28.00 crore FD lien marked with various authorities) vis-à-vis Rs 34.72 crore as on March 31, 2018 (Including approx. Rs 17.00 crore FD lien marked with various authorities).

Outlook: Negative

Acuité believes that UEG's credit profile will be under pressure over near to medium term on account of the continued debt funded capex plans which will limit the management's ability to attain any significant improvement in debt protection and coverage indicators. The rating may be downgraded in case of higher than expected deterioration in the debt protection measures or significant deviation in its operating performance vis-à-vis expectations. The outlook may be revised to 'Stable' in case UEG is able to demonstrate a substantial reduction in its debt levels while maintaining the operating performance as per expectations.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)
Operating Income	Rs. Cr.	258.78	231.96
PAT	Rs. Cr.	37.79	(1.50)
PAT Margin	(%)	14.60	(0.65)
Total Debt/Tangible Net Worth	Times	2.03	3.31
PBDIT/Interest	Times	2.24	1.53

Status of non-cooperation with previous CRA (if applicable)
Not applicable

Any other information
None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-17.htm
- Entities in Services Sector -https://www.acuite.in/view-rating-criteria-8.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm
- Consolidation of Companies -https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument
https://www.acuite.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
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB+ /Negative

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About Acuité Ratings & Research:
Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross

section of industries. It has its Registered and Head Office in Mumbai.