

**Mahendra Educational Trust**

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 100.00 Crores of Mahendra Educational Trust ('MET or the Trust')**

**Particulars**

Facility**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous <sup>^</sup> (Mar 2018)	Present
<b>Fund Based</b>					
Term Loan	58.95	48.69	Long Term	<b>BWR BB/Stable</b>	<b>BWR BB/Stable Reaffirmed</b>
Term Loans - Proposed	31.05	38.31			
Overdraft	5.00	13.00			
Cash Credit	5.00	-			
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>Rupees. One Hundred Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the ratings ; \*\* Details of Bank facilities are provided in Annexure I ; <sup>^</sup> Ratings migrated to Rating Not Reviewed category in Jun 2019

Note: a. The facilities previously rated were availed from Karnataka Bank and Axis Bank, The current bank facilities rated are availed from Karnataka Bank and SVC Bank. The trust has closed its Axis bank CC Facility.

**Rating Action/Outlook**

The reaffirmation of rating continues to reflect the Trust's established presence in the education sector, extensive experience of the trustees, average financial risk profile characterised by consistent growth in receipts, modest corpus fund and moderate debt protection metrics. The rating remains constrained by susceptibility of operations and margins to regulatory changes in the education sector, stiff competition from other educational institutions and geographical concentration risk.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Mahendra Educational Trust's** business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the Trust records significantly better-than-expected enrollment leading to improvement in net receipts and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to Negative if the Trust reports significantly lower than expected enrollments, resulting in lower than estimated coverage indicators and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or any major regulatory changes affecting operating environment may exert a downward pressure on the ratings.

## **Key Rating Drivers**

### **Credit Strengths:**

#### **Experienced management and established track record:**

The Trust has a track record of nearly three decades having commenced its operations in 1978. The trustees have extensive experience and an established track record in the education sector. The Trust manages 13 institutes and 2 schools in and around Tamil Nadu. The institutions are affiliated to Anna University and recognized by AICTE and the schools are affiliated to the State Board of Tamil Nadu.

#### **Average Financial Risk Profile:**

The Trust has shown consistent growth in receipts, with a CAGR of ~ 13.77% over the last three years. Total operating receipts improved from Rs. 63.04 Crs in FY17 to Rs. 82.13 Crs in FY18 and on a provisional basis for FY19, the Trust has achieved receipts of ~Rs. 93 Crs. Profit after Tax improved to Rs. 5.66 Crs in FY18 as against Rs. 0.16 Crs in FY17 on account of improved enrollment across all institutions. Corpus Fund improved to Rs. 60.53 Crs (PY : Rs. 54.87 Crs). Gearing is moderate and improved to 1.45 times (PY - 1.81 times). Debt metrics have improved in FY18 with DSCR at 1.15 times (FY17 - 0.81 times), ISCR at 1.94 times (FY17 - 0.58 times).

#### **Healthy Enrollment ratio:**

The courses offered by the trust are in demand as indicated by the number of students enrolling in the engineering and technology institutions of the Trust. The student enrollment ratio for the trust stood at 73.61% in FY18 as against 71.80% in FY17. On an average, the enrollment ratio has been maintained at 70% for the last three years.

### **Credit Challenges:**

#### **Susceptibility to regulatory changes and intense competition in the education sector:**

The education sector is highly regulated in India. The trust has to comply with specific operational and infrastructure norms laid down by regulatory bodies viz., AICTE and other state educational authorities etc. Any non-compliance will result in cancellation of affiliation, license etc. leading to loss of reputation and revenue for the trust. Further, there are various institutions in the area, thus increasing competition, which exerts pressure on attracting as well as retaining students and faculty.

#### **Geographical Concentration Risk:**

MET derives its revenues from its campus in Tamil Nadu, and the students belong mainly to this region. This leads to a geographic concentration in its revenue profile. Besides, MET, like other colleges in the area, faces competition from many reputed universities and colleges in Tamil Nadu. Any increase in competition and slowdown in student intake because of shift in student preference to other competing institutes can impact the trust's business risk profile.

## **Analytical Approach and Applicable Rating Criteria**



For arriving at its ratings, BWR has considered the standalone financials of Mahendra Educational Trust. and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

### **Rating Sensitivities**

The ability of the trust to increase receipts while maintaining its surplus and liquidity profile would remain the key rating sensitivities.

#### **Positive:**

- Sustained increase in student enrollments, occupancy and thereby revenues while also maintaining its operating profitability could lead to a rating upgrade.
- Substantial increase in accruals and reduction in gearing in TOL/TNW levels.

#### **Negative :**

- Decline in gross enrollment below 70% and weakening of liquidity because of a dip in fees, delays in receipt of fees or if MET undertakes any larger than expected capex.
- Total Debt/TNW exceeding 2.00 times and weakening in debt metrics DSCR and ISCR below 1.00 time

### **Liquidity Position: Adequate**

Utilisation of fund based working capital facilities remained moderate at ~80-85% Current ratio was low at 0.48 times as on 31 Mar 2018. Net cash accruals were moderate at Rs. 25.64 Crs and net cash accruals to total debt were 0.40 times as on 31 Mar 2019(P). Cash and cash equivalents were modest and improved marginally to Rs. 3.74 Crs as on 31 Mar 2019(P). The Trust has long term debt payments of Rs. 12.76 crs in FY19 which are expected to be serviced from cash accruals. The Trust remains exposed to the inherent cash flow mismatches in the educational sector. Timely collection of receipts and financial support from the trustees & associate institutions are key for supporting liquidity and adequate funds flow management.

### **About the Trust**

Mahendra Educational Trust was established in 1978 by Mr. M.G. Bharath Kumar in Kalippatty, Namakkal district, Tamil Nadu. The Trust manages 13 educational institutions viz; Mahendra Engineering College (Engineering), Mahendra College of Engineering (Engineering), Mahendra Institute of Engineering and Technology (Engineering), Mahendra Institute of Technology (Engineering), Mahendra Polytechnic College (Polytechnic) which are located in Salem, while Mahendra Engineering College for Women (Engineering), 3 institutes by the name of Mahendra College of Education (Bachelor of Education) and 3 institutes by the name of Mahendra Teacher Training Institute (D.T.E), Mahendra Arts and Science College (Intermediate and Post graduate courses) are located in Kallipatti, Kumaramangalam and Minnampalli. The engineering colleges are affiliated to Anna University and recognized by AICTE, New Delhi. The teacher training institutes are affiliated to the Department of Technical Education. The Trust also manages 2 schools by the name of Mahendra Matric Higher Secondary School (LKG to HSC) located in Kallipatti and Kumaramangalam. The schools are recognized by the State Government of Tamil Nadu

### Key Financial Indicators

Key Parameters	Units	2017	2018
Result Type		Audited	Audited
Operating Receipts	Rs. Cr	63.04	82.13
SBIDTA	Rs. Cr	7.21	22.56
Net Surplus	Rs. Cr	0.16	5.66
Corpus Fund	Rs. Cr	60.53	54.87
Total Debt/Corpus Fund	Times	1.81	1.45
Current Ratio	Times	0.89	0.48

On a provisional basis, the Company has reported revenue of ~ Rs. 93 Crs for FY19

### Key Covenants of the facility rated:

The terms of sanction include standard covenants normally stipulated for such facilities.

### Status of non-cooperation with previous CRA - NA

### Rating History for the last three years

Facility	Current Rating (Oct 2019)			Rating History		
	Type	Amount (Rs. Crs)	Rating	10 Jun 2019	09 Mar 2018 <sup>^</sup>	06 Oct 2017 <sup>#</sup>
<b>Fund Based</b>						
Term Loan	Long Term	48.69	<b>BWR BB/ Stable</b>	<b>Rating Not Reviewed</b>	<b>BWR BB/Stable</b>	<b>BWR BB-Issuer Not Cooperating*/Stable</b>
Term Loan - proposed		38.31				
Cash Credit		-				
Overdraft		13.00				
<b>Total</b>		<b>100.00</b>	<b>Rupees One Hundred Crores Only</b>			

<sup>^</sup>Rated amount: Rs. 100.00 Crs. <sup>#</sup>Rating Amount: Rs. 122.45 Crs

**Note:** An initial rating of BWR BB(Stable) was assigned to the bank loan facilities of the Company on 21Jun2016.

**Complexity Levels of the Instruments:**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)
- [Short Term Debt](#)

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**Mahendra Educational Trust**  
**Annexure I**  
**Details of Bank Facilities rated**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	<b>Karnataka bank</b>	Term Loan	41.69	-	41.69
		Overdraft	-	5.00	5.00
2.	<b>SVC Bank</b>	Term Loan	7.00	-	7.00
		Overdraft	-	8.00	8.00
3.	<b>Proposed Facility</b>	Term Loan	38.31	-	38.31
<b>TOTAL - Rs. One Hundred Crores Only</b>					<b>100.00</b>



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