Rating Rationale

22 Dec 2021

Marwadi Education Foundation

Brickwork Ratings Reaffirms the ratings with Revision in Outlook to Stable for the Bank Loan Facilities of Rs. 221.70 Crs of Marwadi Education Foundation ('MEF' or 'the Trust')

Particulars

Facility	Amount (Rs in Crs)		Tenure	Rating*	
	Previous	Present		Previous (01/09/2020)	Present
Fund based -Existing - Proposed	194.86 25.00	**173.70** **46.00**	**Long Term**	BWR BBB+ Negative (Reaffirmed; Revision in outlook to Negative)	**BWR BBB+ Stable (Reaffirmed; Revision in outlook to Stable)**
Non Fund Based -Existing - Proposed	- 2.00	- **2.00**	**Short Term**	BWR A3+ (Assigned)	**BWR A3+ Reaffirmed**
Total	221.86	**221.70**	**Rupees Two Hundred Twenty One crore Seventy lakhs**		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

RATING ACTION / OUTLOOK:

The ratings reaffirmation factors in the established presence of the Marwadi Education Foundations group of Institutes and Marwadi Group in Rajkot, Gujarat. The rating also positively factors in the healthy enrolment levels across all courses under Gujarat Technological University (GTU) and Marwadi University (MU).

However, the rating is constrained by the leveraged capital structure and moderate coverage indicators, mismatch in the timings of the cash flows as the fee collections are concentrated in a few months necessitating the trust to rely on working capital borrowings and promoters funding to support the liquidity. Intense competition in the sector resulting in pressure to attract students as well as to attract and retain quality faculty are some of the other major factors.

The outlook revision factors in the sustained recovery in the revenue in 8MFY22 along with healthy increase in student enrollments. BWR also noted that during FY21 MEF's profitability indicators were insulated from the impact of the pandemic and profitability remained stable.

Description of Key Rating Drivers

Credit Strength-:

Established brand name with a wide variety of courses resulting in diversified revenue profile: The promoters have an experience of over two decades in operating educational institutes. This has given them an understanding of the dynamics of the market, and enabled

them to establish a strong market position. MEF under MEF-GTU and MU offers diverse courses at graduate and postgraduate levels which results in a diversified revenue profile.

Recovery in the operating income in 8MFY22 likely to sustain: Marwadi University (MU) has started its operations in 2016. Since then its operations have stabilized resulting in improvement in occupancy levels and student strength. The student on combined basis (MEF GTU+MU) has increased to 10400 in AY 2020-21 from 8574 in AY 2019-20, owing to an increase in new enrolment. On a Combined basis (MEF GTU+MU) the occupancy remained robust with ~ 99%.
Its revenues witnessed a fall in FY21 on account of outbreak of Covid 19 pandemic which impacted the revenue profile. In FY21 revenue declined to Rs 79.19 cr as against Rs 92.46 cr in FY20. This was mainly on account of decline in the hostel income. However in 8MFY22 MEF has shown a steady recovery. As informed by the management; MEF has registered a top line of Rs 57.40Cr as against 26.72 Cr in the corresponding period of FY21. BWR believes that with a steady growth number of students enrolled MEF is likely to achieve a top line of ~Rs100 cr in FY22. The operating margins improved to 38% in FY21 from 28% in FY20. As informed by the management there will not be any change in fees structure till FY22 however, operating Income is expected to improve on account of introduction of new courses, increase in hostel capacity and increase in student strength FY22.

Moreover MEF is undertaking a CAPEX of Rs.62.48 Crs to increase the existing hostel capacity by July 2022. The construction of a new hostel is underway and BWR believes that this will further increase the hostel income and decrease operating expenses from the current year.

Credit Weakness-:
Leveraged Capital structure and moderate coverage indicators: MEF has a leveraged capital structure at 4.23x as on March 31, 2021. The Trust is also financially supported by interest free unsecured loans from the trustees and their group entities. These unsecured loans are long term in nature and will not be withdrawn till the repayment of the loans. MEF recorded interest coverage at 1.79 times and has DSCR at 1 times for FY21. BWR believes that leverage and coverage indicators are likely to improve in FY22 with revival of revenue and profitability.

Exposed to high regulatory structure in the educational sector: MEF's revenues remain vulnerable to the regulatory structure in the higher education sector in India. Marwadi Education Foundation's group of institutes have to abide by the rules framed by various regulatory bodies such as the University Grants Commission (UCG), the All India Council for Technical Education (AICTE) etc. This restricts its flexibility and autonomy with respect to fees and student intake, among others.

Intense competition in the education sector: MEF group of institutes faces stiff competition in attracting students and faculties due to the presence of a large number of quality institutes in

Gujarat offering similar courses. However, this risk is partly mitigated by the brand position enjoyed by the institute in and around Gujarat

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA: BWR has principally relied upon the audited financials of MEF from FY17 to FY21; publicly available information and information/clarification provided by the management.

RATING SENSITIVITIES

Upward: Improvement in the leverage below 3x on a sustained basis along with maintaining revenue profitability and liquidity will be positive for the rating.
Downward: Higher-than-anticipated debt-funded capex thereby weakening the liquidity profile.

LIQUIDITY POSITION
Liquidity profile is adequate, MEF is expected to generate cash accruals of Rs.25.28 Crs in FY22 against the scheduled repayment obligation of Rs.19 Crs. Cash and cash equivalent position improved from Rs.0.68 Crs to Rs3.72 Cr as on 31st March 2021. Average utilisation of working capital facilities over the last 8 months ending November-21 was around ~70%.

About the Entity
Marwadi Education Foundation ('MEF' or 'the Trust') was established in the year 2008 in Rajkot, under the Bombay Public Trust Act 1950. Marwadi Education Foundation is a body promoted by Marwadi Shares and Finance Limited; one of the well known stock broking companies in India and Chandarana Intermediaries Brokers Pvt Ltd. Since its inception Marwadi Education Foundation Group of Institutes has been approved by AICTE and affiliated with Gujarat Technological University (GTU). MEF's major organ Marwadi University (MU) was established under Gujarat Universities Act (Act 9 of 2016) on 9th May, 2016. The institute is spread across 32 acres and situated at Gauridad, Morvi Road, Rajkot which is 10 Km away from the city. Courses offered by the institutes range across degree programs in Engineering (B.E.), Management (MBA and BBA), Computer Application (BCA), Architecture (B. Arch), Science (B.Sc., M.Sc.), and Commerce (B.Com) etc.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Financial Indicators	Unit	FY20 Audited	FY21 Audited
Total Operating Income	(in Rs Cr)	92.46	79.19
EBITDA	(in Rs Cr)	26.21	30.82
PAT	(in Rs Cr)	5.04	3.35
Tangible Net Worth	(in Rs Cr)	69.27	72.62
Total debt/ TNW	Times	4.04	4.23
ISCR	Times	2.57	1.79

KEY COVENANTS OF THE FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY FOR THE LAST THREE YEARS (including withdrawn/suspended ratings) is not available in the heading of the rating history table

Facilities	Current Rating			Chronology of Rating History for previous three years (Rating Assigned & date, rating withdrawn/ suspended if applicable)								
	20 December,2021			1 Sept,2020			23 Dec 2019			30 Oct 2017		
	Tenure	Amt (Rs Cr)	Rating	Tenure	Amt (Rs Cr)	Rating	Tenure	Amt (Rs Crs)	Rating	Tenure	Amt (Rs Crs)	Rating
Fund Based	Long Term	219.7	**BWR BBB+ (Stable) Reaffirmed Revision in outlook to Stable**	Long Term	219.86	**BWR BBB+ Negative (Reaffirmed ; Revision in outlook to Negative)**	Long Term	202.7	**BWR BBB+ Stable**	Long Term	166.54	**BWR BBB+ Stable**
Non Fund Based	Short Term	2.00	**BWR A3+ Reaffirmed**	Short Term	2.00	**BWR A3+ (Assigned)**	Short Term	-	-	Short Term	-	-
	3 Sept, 2021			**2020**			**31 january 2019**			**2018**		
Fund Based	**Rating Advisory released**			-			**Rating Advisory released**			-		
Non Fund Based				-						-		

COMPLEXITY LEVELS OF THE INSTRUMENTS

Bank Loan Rating: **Simple**
For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Manufacturing Companies**
- **Short Term Debt**

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ANNEXURE I

Marwadi Education Foundation
Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs.Crs.)	Short Term (Rs.Crs.)	Total (Rs.Crs.)
	Bank of India	OCC	33.00	-	33.00
		Term loan	91.74	-	91.74
		Term loan (Proposed)	46.00		46.00
		Bank Guarantee - Proposed	2.00		2.00
		TOTAL (A)			172.74
	Axis Bank	Term loan	48.96	-	48.96
		TOTAL (B)			48.96
		Total			221.70

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