

February 15, 2022

## Balaji Educational and Cultural Trust: [ICRA]BB-(Stable)/[ICRA]A4; Assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Overdraft Facilities	1.00	[ICRA]BB- (Stable); Assigned
Long-term Fund-based – Term Loans	2.59	[ICRA]BB- (Stable); Assigned
Long Term/Short Term –Proposed Unallocated Limits	3.41	[ICRA]BB- (Stable)/[ICRA]A4; Assigned
<b>Total</b>	<b>7.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings assigned to the bank facilities of Balaji Educational and Cultural Trust (BECT) consider the experience of the trustees and the management team in the field of education and its comfortable capital structure and coverage indicators. The ratings also factor in the healthy growth in revenue at a CAGR of ~60% to Rs. 6.9 crore in FY2021 (provisional) from Rs. 1.7 crore in FY2018, albeit on a low base. The top line is likely to increase further in the current fiscal as well with addition of new batch in the engineering college. The ratings also draw comfort from the high profitability indicators, as reflected by the operating and net margin of 71.5% and 61.5%, respectively in FY2021 (provisional).

The ratings are, however, constrained by the modest scale of its operations as both the school and the engineering college are new. Besides, the presence of the entire operations of the trust in Belgaum (Karnataka) exposes it to adverse regional developments, which may impact its operations. The ratings are further constrained by sizeable debt-funded capex, in relation to its current balance sheet size, to be undertaken by the trust from FY2023 towards setting up the new MBA college. BECT's ability to tie up the debt and complete the capex along with ramping up of operations in a timely manner would be critical from the credit perspective. The ratings also factor in the highly regulated nature of the education sector and intense competition witnessed in the sector.

The Stable outlook on the [ICRA]BB- rating reflects that BECT will be able to maintain its revenue growth with the launch of additional courses as well as with increased intake in its existing courses, while maintaining the profitability at an acceptable level.

### Key rating drivers and their description

#### Credit strengths

**Year-on-year improvement in revenues, aided by comfortable operating profitability** – BECT's revenues witnessed a healthy growth during the last four fiscals to Rs. 6.9 crore in FY2021 (provisional) from Rs. 1.7 crore in FY2018 at a CAGR of ~60%, supported by the year-on-year addition of new batch in the engineering college, which commenced operation from FY2018-19. Also, introduction of Class II to V in the school run by the trust from FY2018-19, which was earlier operating classes from LKG to II in FY2017-18 added to the overall increase in turnover in FY2021. The trust's operating margin stood at 71.5% in FY2021 (71.8% in FY2020) mainly on account of low administrative and operational overheads owing to the Covid-19 induced lockdown. The operating margin is expected to remain healthy in the current fiscal as well.

**Healthy capital structure and debt coverage indicators** – The trust's capital structure remained comfortable, as reflected by a gearing of 0.3 times as on March 31, 2021. Driven by a comfortable capital structure and healthy level of profitability, the

debt coverage indicators remained strong, as reflected by an interest cover of 9.7 times, total debt to OPBDITA of 0.7 times and net cash accrual to total debt of 128.0% in FY2021 (as per provisional estimates). The trust's ability to scale up operation while maintaining profitability would be a key rating monitorable, going forward.

**Experienced trustees and management team** – The founder and Managing Trustee, Mr. Radheshyam Heda, has an experience of around a decade in the education sector through his earlier association with other trusts wherein he helped in establishing engineering colleges and schools in Bangalore. He is supported by other trustees, who are also his family members for the overall management of the trust's operations.

## Credit challenges

**Modest scale of operations with presence in single location** – While the trust's revenues witnessed a healthy growth in the last four fiscals, the scale of operations remained modest with a total operating income of Rs. 6.9 crore in FY2021. The school and the engineering college started operations from the academic year 2017-18 and 2018-19 respectively. The first batch of engineering students will pass out in 2022 and hence it does not have a placement track record. Further, as the operation of the trust is concentrated in Belgaum, Karnataka, it remains exposed to any adverse regional developments, which may impact its operations.

**Sizeable capex plan; debt tie-up yet to take place** – BECT plans to incur a capex of Rs. 4.8 crore in FY2023 towards setting up a new MBA college adjacent to its current facilities. The capex would be funded through a mix of bank borrowings and internal accruals. While the capex is expected to further support the scale of operations, the same is likely to increase the debt levels and exert pressure on the cash flows in the near term. BECT's ability to tie up debt and complete the capex along with ramping up of operations in a timely manner will be important from the credit perspective.

**Presence in a highly regulated and competitive education sector** – Like other players in the education sector, BECT is exposed to regulatory risks owing to the highly regulated nature of this sector in India. Any adverse Government regulations may impact the trust's operations, revenues and cash flows. Besides, the trust faces competition from other established institutes in the K-12 and higher education segments in Karnataka.

## Liquidity position: Stretched

The entity's liquidity position remains stretched, as reflected by a modest free cash and bank balance of Rs. 0.57 crore as on March 31, 2021, down from Rs. 1.05 crore as on March 31, 2020. Also, the cash flow from operations decreased from ~Rs. 4.0 crore in FY2020 to ~Rs. 2.0 crore in FY2021 due to an increase in the working capital cycle owing to delays in receipt of fees on account of the pandemic. Consequently, the free cash flows also reduced to Rs. 1.3 crore in FY2021 from Rs. 3.5 crore in FY2020. Further, the trust proposes to incur a capex of Rs. 4.8 crore in FY2023 towards the new MBA college, to be funded by debt of Rs. 2.0 crore (yet to be sanctioned) and the balance via internal accruals, which would increase its debt repayment obligations and have a bearing on the liquidity position.

## Rating sensitivities

**Positive factors** – ICRA could upgrade BECT's ratings if the enrolment rate improves significantly on a sustained basis, resulting in an increase in the scale of operations and cash accruals.

**Negative factors** – ICRA could downgrade BECT's rating if the enrolment rate drops, reducing its revenue receipts and cash accruals. Any unanticipated debt-funded capital expenditure, leading to a moderation in liquidity, could result in rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for higher education sector</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Balaji Educational and Charitable Trust (BECT) was formed in March 2013 by Mr. Radheshyam Heda and the members of his family for imparting education. The trust operates an engineering college in the name of Jain College of Engineering and Research (JCER) and offers civil, computer science, electronics and communication and mechanical engineering courses. The college is approved by All India Council for Technical Education (AICTE) and is affiliated to Visvesvaraya Technological University (VTU). Along with the engineering college, the trust also operates a school in the name of Jain Heritage School (JHS), which offers education from Nursery to Class V and is affiliated to Central Board of Secondary Education (CBSE). The school and the engineering college started operations from the academic year 2017-18 and 2018-19, respectively. Both the school and college are located in Belgaum, Karnataka.

## Key financial indicators

BECT Standalone	FY2020 (Aud.)	FY2021 (Prov.)
Operating Income (Rs. crore)	6.1	6.9
PAT (Rs. crore)	3.8	4.2
OPBDIT/OI (%)	71.8%	71.5%
PAT/OI (%)	62.1%	61.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.4
Total Debt/OPBDIT (times)	1.2	0.7
Interest Coverage (times)	7.2	9.7

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in
					Feb 15, 2022	FY2021	FY2020	FY2019
1	Overdraft facilities	Long-term	1.00	--	[ICRA]BB-(Stable)	-	-	-
2	Term Loans	Long-term	2.59	2.40	[ICRA]BB-(Stable)	-	-	-
3	Proposed Unallocated Limited	Long-term and short term	3.41	--	[ICRA]BB-(Stable)/[ICRA]A4	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Overdraft Facilities	Simple
Long-term Fund-based – Term Loans	Simple
Long Term/Short Term – Proposed Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
	Overdraft Facilities	NA	NA	NA	1.00	[ICRA]BB-(Stable)
	Term Loans	FY2022	NA	FY2025	2.59	[ICRA]BB-(Stable)
	Proposed Unallocated Limits	NA	NA	NA	3.41	[ICRA]BB-(Stable)/[ICRA]A4

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure-2: List of entities considered for consolidated analysis: Not Applicable**

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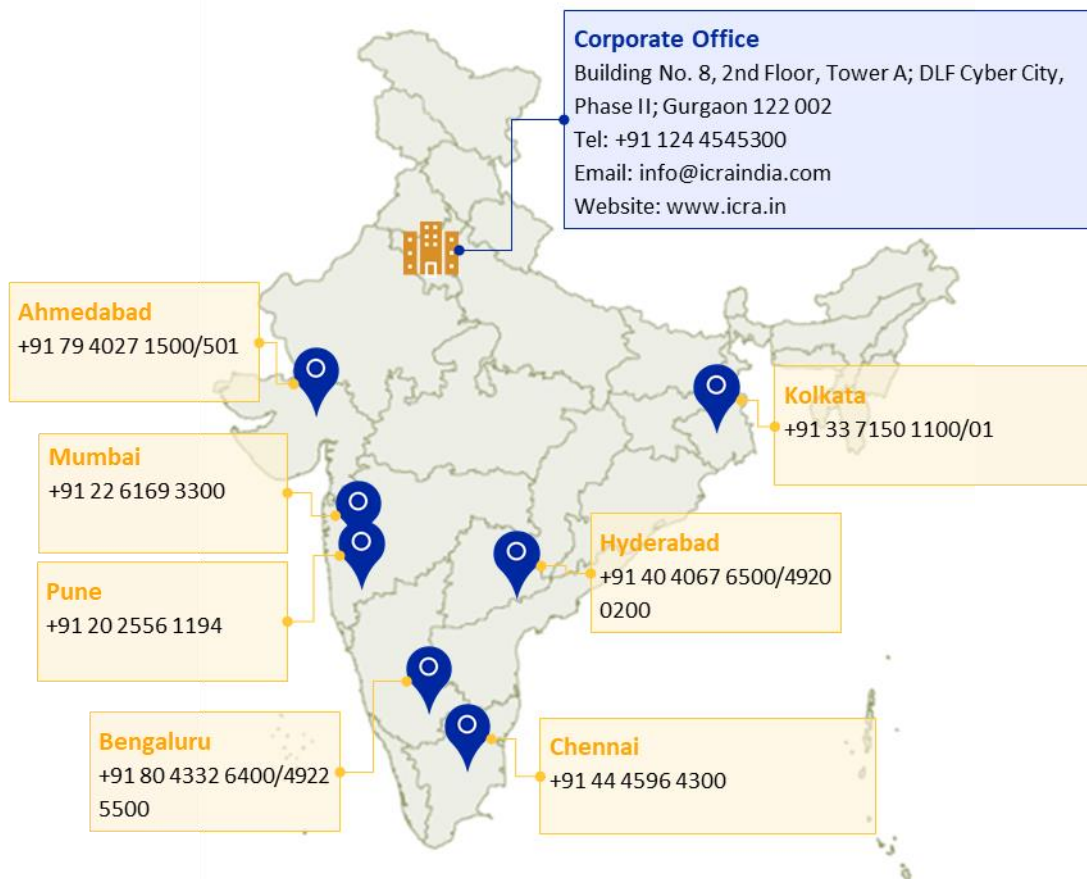
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