April 25, 2023

AISECT Limited: [ICRA]BBB-(Stable)/ [ICRA]A3; Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based – Cash Credit	2.00	[ICRA]BBB-(Stable); assigned
Long Term-Fund Based – Dropline Overdraft	13.89	[ICRA]BBB-(Stable); assigned
Long Term-Fund Based – Term Loan	19.61	[ICRA]BBB-(Stable); assigned
Short Term-Non Fund Based – Bank Guarantee	20.00	[ICRA]A3; assigned
Total	**55.50**	

**Instrument details are provided in Annexure-1.*

Rationale

The assigned ratings consider the comfort derived by AISECT Limited for being a part of the AISECT Group, led by the AISECT Society, which offers degree, diploma and certificate courses through its various institutions across 28 states and 5 Union Territories, reflecting an extensive experience of promoters for more than three decades in the education industry. The major share of the company is derived from the multiple institutions of the AISECT Society under its management for providing online services and selling the books to the Group's students. Going forward, the company is likely to benefit from the increase in institutions under the society. The ratings are supported by the company's established relationship with a reputed and a diversified customer base, which includes National Skill Development Corporation (NSDC) and nationalised banks. The comfortable debt protection metrics of the company, on account of steady accruals and conservative debt profile, provide strong support to the assigned ratings.

The ratings, however, are constrained by the small size of the company's operations and its low net worth base, which would impact the overall financial profile in case of any adverse external scenario. Moreover, the company's revenue is highly dependent on the income earned from banking kiosk services and skill training courses provided under various Government schemes, which are very competitive and impacts the company's pricing flexibility. The ratings are also constrained by the highly regulated nature and intense competition in the education sector and government schemes. Any non-compliance would result in cancellation of affiliation or licence, leading to loss of reputation and revenue of the company. ICRA notes that the company has recently commissioned a high-density polyethylene (HDPE)/ polyvinyl chloride (PVC) pipes manufacturing unit in Madhya Pradesh and has also started an animation academy. Additionally, the company plans to scale up its publishing business. ICRA believes that addition of new businesses will support the company's business growth. However, the company would be exposed to project execution risks and business as well as return risks associated with unrelated business such as pipe manufacturing. ICRA notes the missed payment by the company in April 2022, which occurred solely because of a technical reason, as confirmed by the respective banker, which was later successfully debited by the bank within five days from the due date. As per the information provided by the company and the bank, during the entire transaction duration including before and after the due date, the company had more than adequate balances in its bank accounts and does not reflect lack of ability or willingness of the entity to pay its debt obligations.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its established position and the management's extensive experience, which will support its steady revenue growth and stable profitability, while maintaining comfortable debt protection metrics.

Key rating drivers and their description

Credit strengths

Part of a large educational Group – The company is a part of the AISECT Group, led by the AISECT Society, which offers degree, diploma and certificate courses through its various institutions across the country. The trustees of the society, who are promoters of AISECT Limited, have an extensive experience in the education industry, which supports the company's business growth. Additionally, the company derives the major share of its business from the AISECT Group. The company also expects fresh business from the proposed skill development university being set up by the AISECT Society.

Established business linkages with reputed and diversified customer base – AISECT Limited has established business linkages with the National Skill Development Corporation (NSDC) since 2011, in which it provides various skill development programmes under various Government schemes. The company also acts as a business correspondent partner with the reputed nationalised banks for its financial inclusion services through banking kiosks. With multiple institutions of the AISECT Society under its management for providing online services, publishing and selling the books to the students, the company has well diversified and reputed source of revenue. Further, the company has recently commissioned a HDPE/ PVC pipes manufacturing unit in Madhya Pradesh and started an animation academy, from which it expects to earn reasonable revenue in the near future.

Comfortable debt protection metrics – The company's capital structure is comfortable, as characterised by its gearing of 0.1 times as on March 31, 2022. This apart, supported by low-cost funding from NSDC, the company has comfortable debt coverage indicators. Its interest coverage ratio and DSCR stood at 28.2 times and 24.1 times, respectively as on March 31, 2022. Going forward, with a conservative debt profile, the company's debt protection metrics are likely to remain comfortable in the near term.

Credit challenges

Moderate size of operations – The company has well-diversified sources of revenues, however, the scale of operations is small, as reflected by an operating income of Rs. 103.9 crore in FY2022 along with modest profitability. Moreover, the company's net worth base remains low at Rs. 46.6 crore as on March 31, 2022, which exposes the company to any adverse impact in any revenue stream and the overall financial profile, going forward.

Intense competition associated with the company's key businesses – The major portion of the company's revenue is highly dependent on income earned from banking kiosk services and skill training courses provided under various Government schemes, which belong to an intensely competitive industry due to low entry barriers. Consequently, intense competition impacts the company's pricing flexibility and scale.

Regulatory risks owing to policy changes in education sector and Government schemes – As the education industry is well regulated, AISECT Limited is susceptible to changes in policies of both Central and State governments. This apart, given that a large portion of its training project revenues is derived from programmes under the Government schemes, any change in the same could impact the company's top line. Also, any non-compliance would result in cancellation of affiliation or licence, leading to loss of reputation and revenue of the company. Further, any change in the nationalised banks policy for their financial inclusion schemes, may adversely impact the revenue and profitability of the company.

Project execution and return risks associated with the ongoing and proposed capex – The company is undertaking capex for business expansion and diversification, which exposes it to execution risks. Additionally, the company would be exposed to business and return risks associated with the unrelated business such as manufacturing of HDPE/PVC pipes.

Liquidity Position – Adequate

The liquidity of the company is likely to remain adequate on the back of steady accruals, free balances and buffer available in its bank limits. The utilisation of the available bank limits has remained minimal in the current year. The ongoing and the proposed capex are partially funded by fresh term loans, repayment (Rs. 1.08 crore in FY2024) of which is not significant compared to the future projected accruals of the company. Additionally, the company has availed a fresh cash credit limit of Rs. 2.00 crore for the new HDPE/ PVC pipe manufacturing unit where utilisation is very low till date due to its initial phase of operations. Once the ongoing capex is completed in FY2024, the utilisation of bank limits would increase, though it is likely to remain at a moderate level. The company maintains free cash and bank balances of around Rs. 3.0-4.0 crore at any point of time. ICRA expects the company's liquidity to be supported by its promoters in the form of unsecured loan in case of any cash flow mismatch.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a significant scale-up in revenue and profitability of the company, leading to an improvement in liquidity, net worth and debt protection metrics on a sustained basis.

Negative factors – The ratings could be downgraded in case of any adverse impact on revenue/ profitability of the company, leading to a deterioration in debt protection metrics on a sustained basis. The ratings could also be impacted by a large debt-funded capex, leading to a deterioration in the company's liquidity. Specific credit metric for downgrade includes DSCR falling below 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

AISECT Limited was incorporated in 2006 by Mr. Siddharth Chaturvedi and Mr. Santosh Choubey. It is a part of the AISECT Group, led by the AISECT Society, which has established universities across the states and is also involved in the areas of skill development, higher education and other technology-based services. The company is mainly involved in providing various services such as banking kiosk services, general supplies, along with publishing and selling of educational books. The company also provides coaching and skill training to various aspirants under different Government schemes.

Key financial indicators

	FY2021	FY2022
Operating Income (Rs. crore)	89.7	103.9
PAT (Rs. crore)	3.2	5.7
OPBDIT/OI	5.1%	8.0%
PAT/OI	3.6%	5.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.9
Total Debt/OPBDIT (times)	-	0.8
Interest Coverage (times)	129.2	28.2

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

Source: Company; ICRA Research

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
Acuite	ACUITE BB+ (IR); Downgraded, ISSUER NOT COOPERATING	May 30, 2022

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding crore) as on Jan 31, 2023	Date and Rating on	Date & Rating		
						FY2023	FY2022	FY2021
					Apr 25, 2023	-	-	-
1	Fund Based – Cash Credit	Long-term	2.00	-	[ICRA]BBB-(Stable)	-	-	-
2	Fund Based – Dropline Overdraft	Long-term	13.89	-	[ICRA]BBB-(Stable)	-	-	-
3	Fund Based – Term Loan	Long-term	19.61	10.11	[ICRA]BBB-(Stable)	-	-	-
4	Non-Fund Based – Bank Guarantee	Short-Term	20.00	-	[ICRA]A3	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Dropline Overdraft	Simple
Long-term fund-based – Term Loan	Simple
Short-term non-fund-based – Bank Guarantee	Very Simple

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 analysing 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: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long Term-Fund Based-Cash Credit	NA	NA	NA	2.00	[ICRA]BBB-(Stable)
NA	Long Term-Fund Based-Dropline Overdraft	NA	NA	NA	13.89	[ICRA]BBB-(Stable)
NA	Long Term-Fund Based-Term Loan	30-Sep-2021	NA	April 2029	2.62	[ICRA]BBB-(Stable)
NA	Long Term-Fund Based-Term Loan	27-Sep-2022	NA	December 2029	2.89	[ICRA]BBB-(Stable)
NA	Long Term-Fund Based-Term Loan	27-Sep-2022	NA	March 2030	1.65	[ICRA]BBB-(Stable)
NA	Long Term-Fund Based-Term Loan	16-Mar-2022	NA	February 2029	12.45	[ICRA]BBB-(Stable)
NA	Short Term-Non Fund Based-Bank Guarantee	NA	NA	NA	20.00	[ICRA]A3

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

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

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Manish Pathak
+91 124 4545397
manishp@icraindia.com

Sandeep Aggarwal
+91 124 4545377
sandeep.aggarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

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