



## Press Release

### Arka Educational and Cultural Trust (AECT)

May 15, 2024

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Fund Based Bank Facilities – Term Loans	124.27	IVR BBB / Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Long Term Fund Based Bank Facilities – Overdraft	40.00	IVR BBB / Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
<b>Total</b>	<b>164.27</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

Infomerics has reaffirmed the ratings assigned to the bank facilities of AECT which continues to derive strength from increase in scale of operations, comfortable capital structure, satisfactory enrolment rates in educational institute, experienced board of trustees. However, the ratings are partially constrained by decline in margin at EBITDA level in FY23, moderate debt protection metrics and susceptibility to regulatory risks and intense competition.

#### Key Rating Sensitivities:

##### Upward Factors

- Improvement in enrolment ratio leading to improvement in the operating income and profitability on a sustained basis.
- Improvement in the capital structure with reduction in debt level and/or improvement in debt protection metrics.

##### Downward Factors

- Dip in operating income and/or profitability due to decline in enrolment ratio impacting the debt protection metrics.
- Deterioration in the capital structure and liquidity position.

#### List of Key Rating Drivers with Detailed Description



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### Key Rating Strengths

**Increase in scale of operations:** Group's scale of operations has increased y-o-y by ~34% to Rs. 159.19 crores in FY23 due to higher enrolment of students in the schools and colleges run by the group. As per management, group has achieved operating income of Rs. ~182 crore as per FY24 (unaudited) registering a growth of 20% on y-o-y basis driven by better enrolment of students. Infomerics expects increase in scale of operations over medium term on back of higher enrolment of students in the schools and colleges run by the group and increase in revenue from online courses offered by the university.

**Comfortable Capital Structure:** Group's capital structure is comfortable marked by parameters like overall gearing ratio and TOL / ATNW (total outside liabilities / adjusted tangible net worth) at 0.47x & 1.12x in FY23 respectively (FY22: 0.78x & 1.28x respectively) on account of higher adjusted tangible net worth due to increase in subordinated unsecured loans from trustees / promoters. Infomerics expects group's financial risk profile to remain comfortable on back of continued support from promoters / trustees which will remain a key monitorable factor.

**Satisfactory enrolment rates in educational institute:** Enrolment rate depends upon available infrastructural facilities, composition of experienced faculties, placement records and brand image of the institution. Arka group has maintained a satisfactory enrolment rate (~58% in FY23 – FY24) over the past years in all its Institutes.

**Experienced board of Trustee:** Dr. Chenraj Roychand is the founder & chairman of Jain Group and Arka Group. Established in 1990, Arka Group has presence in the education sector since 2009 and runs 28 Schools and 9 Colleges that offers K-12 education, degree and technical courses. The group has its presence in Karnataka, Maharashtra, and Tamil Nadu.

### Key Rating Weaknesses



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**Decline in margin at EBITDA level in FY23:** Group's EBITDA margin in FY23 decreased to 32.12% (FY22: 46.80%) due to spillover of admissions which led to revenue being booked in June 24 against expectations of March 23 whereas the expenses were booked in March 23. Moreover, margin at EBITDA level in FY21 & FY22 stood at ~47% which was exceptional on account of lower expenses due classes being conducted online which has now rationalized to pre-covid levels of ~32%. Infomerics expects EBITDA margin to improve over medium term on back of higher fee per student and increase in revenue share from the online courses offered by the university with an EBITDA margin of ~75% due to lower expenses on account of mode of communication being online.

**Moderate debt protection metrics:** Group's debt protection metrics is moderate as shown parameters like DSCR and ICR at 0.90x and 1.47x in FY23 (FY22: 1.07x & 1.56x respectively) due to high interest and finance cost vis à vis its net cash accruals with balance repayments in FY23 funded through unsecured loans from trustees / promoters. Infomerics expects group's debt protection metrics to remain moderate over the moderate over medium term with continued support from trustees / promoters which remains a key monitorable factor.

**Susceptibility to regulatory risks and intense competition:** The education sector is highly regulated and compliance with specific operational and infrastructure norms set by regulatory bodies are important. Thus, regular investment in the workforce and infrastructure is needed to conduct the operations efficiently. Also, Group faces intense competition from reputed public and private institutes in the nearby states. This puts pressure on attracting / retaining talented students and faculty.

**Analytical Approach:** Combined Approach

AECT and Arka Eduserve Private Limited (AEPL) collectively referred to as 'Arka Group'. AECT's Objective of Trust allows it to fund or borrow to/from another trust or party in the form



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of donations, grants, loans and advances, or unsecured or secured loans. AEPL holds assets for the trust and major revenue of AEPL generated from rental income from the AECT. Therefore, Infomerics has combined the financial and business risk profile of AECT and AEPL on account of common management team and significant operational and financial linkages.

### **Applicable Criteria:**

[Rating Methodology for Services companies.](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria on Rating Outlook](#)

[Criteria for default recognition](#)

### **Liquidity – Adequate**

Liquidity is adequate marked by expected healthy cash accruals in the range of ~Rs. 68 crores as against repayment obligation of around ~Rs.27 crore during FY24 - 26. Further, the group has maintained a healthy cash balances of Rs. 19.24 crores as on 31<sup>st</sup> March 2024. Also, OD utilization for 12 months ending March 24 for limits worth Rs. 40 crores stood at a ~90%.

### **About the Company**

Arka Educational & Cultural Trust (AECT) was established in the year 2009 by Dr. Chenraj Roychand situated at Bangalore, Karnataka. Trust manages around 28 Schools & 9 colleges offering education from kindergarten to standard 12, Pre-University 4 courses, B.com, M.com, B.A., MBA, PHD etc.

### **Financials (Combined):**

For the year ended* As on	Rs. in Crore	
	31-03-2022	31-03-2023
	Audited	Audited



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Total Operating Income	118.77	159.19
EBITDA	55.58	51.13
PAT	4.74	0.26
Total Debt	271.95	197.46
Tangible Net Worth	349.36	419.16
EBITDA Margin (%)	46.80	32.12
PAT Margin (%)	3.99	0.16
Overall Gearing Ratio (x)	0.78	0.47

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25) – May 15, 2024			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Dated: March 16, 2023)	Date(s) & Rating(s) assigned in 2021-22 (Dated: Feb 21, 2022)	Date(s) & Rating(s) assigned in 2020-21 (Dated: Dec 30, 2020)
1.	Fund Based Bank Facilities – Term Loans	Long Term	124.27	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB/ Rating watch with developing implication	IVR BBB/ Stable
2.	Fund Based Bank Facilities – Overdraft	Long Term	40.00	IVR BBB/ Stable	IVR BBB/ Stable	IVR BBB/ Rating watch with developing implication	IVR BBB/ Stable

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### About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to the best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit [www.infomerics.com](http://www.infomerics.com).

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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	124.27	IVR BBB/ Stable





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Overdraft	-	-	-	40.00	IVR BBB/ Stable
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**Annexure 2: List of companies considered for combined analysis:**

Name of the Company	Extent of Combination
Arka Educational and Cultural Trust	Full
Arka Eduserv Private Limited	Full

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-ArkaEducational-may24.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable**

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).