



## Press Release

### Arka Educational and Cultural Trust (AECT)

February 21, 2022

#### Ratings

Facilities	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long term fund- based Bank Facilities – Term Loans	146.00  (Reduced from 162.00)	IVR BBB/ Credit watch with developing implications  (IVR Triple B credit watch with developing implications)	IVR BBB/ Stable  (IVR Triple B with stable outlook)	Rating Reaffirmed;  Placed under credit watch	Simple
Short term fund- based Bank Facilities – Overdraft	10.00	IVR A3+/ Credit watch with developing implications  (IVR A Three Plus Credit watch with developing implications)	IVR A3+  (IVR A Three Plus)	Rating Reaffirmed;  Placed under credit watch	Simple
<b>Total</b>	<b>156.00</b>				

*Details of facilities are in Annexure 1*

#### Detailed Rationale

The rating reaffirmation to the bank facilities of Arka Educational and Cultural Trust (AECT) continuous to derive comfort from experienced board of trustee, satisfactory enrolment rates in educational institute and stable operating performance of the group. However, these rating strengths remained constrained by susceptibility to regulatory risks and Intense competition. AECT's rating is placed under credit watch with developing implication to monitor the expected revenue as well as profitability growth in projected period and to monitor the variance between provisional & audited financials of FY2021.

#### Key Rating Sensitivities:

Upward Factor:



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- 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 Factor:**

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

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

##### **Experienced board of Trustee**

Dr. Chenraj Roychand is the Founder Chairman of Jain Group and Arka Group. he has been promoting the educational and entrepreneurship sectors in India for more than two decades. Dr. Chenraj Roychand incepted Jain Group 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.

##### **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 over the past years in all its Institutes.

##### **Stable operating performance of the Group**

Despite a sharp fall in the overall top line of the group, a significant reduction in cost such as employee costs (non-teaching staff), electricity expenses etc. improved its operating margin to around 43.44% in FY2021 (provisional) from around 28.34% in FY2020. Further the PAT margin has improved to 7.32% in FY2021 (provisional) from around 6.53% in FY2020. Healthy accretion to reserves and infusion of unsecured loans from promoters over the past few years



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strengthened group's net worth. The overall gearing stood healthy at 0.92x as on March 31, 2021 (Provisional).

### **Key Rating Weaknesses**

#### **Susceptibility to regulatory risks**

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.

#### **Intense competition**

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: Consolidated**

**Arka Educational & Cultural Trust (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 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 consolidated 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 Service Sector Companies](#)

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

### **Liquidity - Adequate**

Arka group has adequate liquidity marked by expected healthy cash accruals in the range of ~Rs.33-46 crore as against repayment obligation of around ~Rs.13-15 crore during FY22-24. Further, the group has maintained a healthy cash balances of Rs.10.81 crore and average



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utilization of overdraft in last 12 months ending December, 2021 remains moderate at ~85.47%.

### **About the Company**

Arka Educational & Cultural Trust (AECT) was established in the year 2009 by Dr. Chenraj Roychand. The Trust is 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. AECT is currently having 21,000+ students enrolled in various institutes.

### **About the Group**

Arka Educational & Cultural Trust (AECT) & Arka Eduserve Private Limited (AEPL) together referred to as “Arka Group”. Both the entity was founded by Dr.Chenraj Roychand to provide educational services. Arka Group has presence in the education sector since 2009.

### **Financials (Consolidated)**

For the year ended* As on	INR in Crore	
	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	156.27	106.07
EBITDA	44.29	46.08
PAT	10.20	7.76
Total Debt	298.49	306.81
Tangible Net Worth	321.00	331.92
EBITDA Margin (%)	28.34	43.44
PAT Margin (%)	6.53	7.32
Overall Gearing Ratio (x)	0.93	0.92

\* Classification as per Infomerics' standards

**Details of Non-Co-operation with any other CRA: Nil**

**Any other information: N.A.**



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### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21 (Dated: December 30, 2020)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	146.00	IVR BBB/ Credit watch with developing implication	IVR BBB/ Stable	-	-
2.	Overdraft	Long Term	10.00	IVR A3+/ Credit watch with developing implications	IVR A3+	-	-

### Name and Contact Details of the Rating Analysts:

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund based – Term Loan 1	-	-	February 2029	82.54	IVR BBB/ Credit watch with developing implication
Long Term Fund based – Term Loan 2	-	-	April 2029	3.80	IVR BBB/ Credit watch with developing implication
Long Term Fund based – Term Loan 3	-	-	February 2029	18.80	IVR BBB/ Credit watch with developing implication
Long Term Fund based – Term Loan 4	-	-	February 2029	26.86	IVR BBB/ Credit watch with developing implication
Long Term Fund based – Term Loan 5	-	-	March 2023	14.00	IVR BBB/ Credit watch with developing implication
Short Term Fund based – Overdraft	-	-	-	10.00	IVR A3+/ Credit watch with developing implications

### Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidation Approach
Arka Educational & Cultural Trust	Full Consolidation
Arka Eduserve Private Limited	Full Consolidation

### Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Arka-Educational-lenders-feb22.pdf>





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**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).