RATING REPORT

Lahore Grammar School (Private) Limited

REPORT DATE:
November 29, 2023

RATING ANALYST:
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Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*November 29, 2023*	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 2013	**CEO:** Mrs. Syeda Sultanat Bukhari
Private Limited Company	**External Auditors:** Grant Thorton Anjum Rahman
Key Shareholders (with stake 5% or more):	
1. *Mrs. Nasrene Shah – 12.5%*	2. *Dr. Neelam Hussain – 12.5%*
3. *Mrs. Sultanat Bukhari – 12.5%*	4. *Mrs. Abida Hussain – 12.5%*
5. *Mrs. Nighat Ali – 12.5%*	6. *Mrs. Fauzia Rashid – 12.5%*
7. *Ms. Samina Rehman – 12.5%*	8. *Mr. Abid Hussain Imam – 12.5%*

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Educational Institutions (September 2023)
https://docs.vis.com.pk/docs/EducationalInstitution-2023.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Lahore Grammar School (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Lahore Grammar School Private Limited ("LGS" or "the Company") was established in 1979. Jointly owned by 8 educationalists, the school was an initiative to encourage education following the rapid decline in educational standards after nationalization in 1972.

Company Profile

Lahore Grammar School Private Limited ("LGS" or "the Company") was established in 1979. Jointly owned by 8 individuals with deep-rooted passion for education, the school was an initiative to encourage quality education following the rapid decline in educational standards after nationalization in 1972.

Ownership of the School is divided equally between 8 individuals (friends & family), namely Mrs. Nasrene Shah, Mrs. Nighat Ali, Mrs. Sultanat Bukhari, Mrs. Abida Hussain, Mrs. Fauzia Rashid, Ms. Samina Rehman, Dr. Neelum Hussain, and Mr. Abid Hussain Imam. Five of the members are Executive Directors while three are Non-Executive, including Abida Hussain, Mrs. Fauzia Rashid, and Mr. Abid Hussain.

At present, LGS has over 90 campuses spread over 15 cities, including Lahore, Islamabad, Multan, and Faisalabad. However, presence has largely been Lahore based. The Company offers different school systems for different curriculums and income groups. Moreover, LGS holds exclusive fellowship with Cambridge International Examination (CIE), enabling direct student exam administration and fee transfers with CIE, bypassing the British Council.

Program	Fee Structure	Course
IB Program	Rs. 45-60K/month	International Baccalaureate
Mainstream project	Rs.30-36K/month	Offering O & A Levels as well as Matriculation
Landmark project	Rs. 14-16k/month	Offering Matriculation & O Levels.

It also operates ILM Schools, which operate as non-profit entities to cater to educational needs of the low-income households. As of 2023, the Mainstream project generates the most significant revenue stream for LGS due to high tuition revenue and student body of 33,881.

LGS is divided into 5 clusters, each administered by a working director. While all clusters operate under the LGS umbrella, there is greater autonomy and independence within each cluster in terms of cash flows and capex plans. The largest cluster is led by Mrs. Nighat Ali, consisting of over 34000 students, 5053 employees, and 55 campuses.

The decentralized decision making structure does partly mitigate the potential risk associated with management and decision making arising from involvement of multiple sponsors. Succession remains a relative risk, considering that all sponsors are aged 70 and above. However, active participation of sponsor's family members in each respective cluster provides comfort.

Industry Review

Pakistan's education system faces major challenges including capacity challenges in the face of growing population, low literacy rates, limited access, poor quality, high dropout rates, lack of facilities, and rote learning methods. Primary enrollment is around 66% but issues persist like high pupil-teacher ratios, teacher absenteeism, and lack of proper facilities. Secondary enrollment further drops to 55% with high dropouts. At higher education level, enrollment is less than 10% due to unaffordability and lack of seats. The main issues are low public spending, lack of push towards literacy, poor curriculum and teaching standards.

Due to concerns over the quality of education sector in Pakistan, private sector schools have expanded rapidly catering to a wide range of socio-economic groups and offering various curricula. The elite private schools group caters to the more affluent classes and often offer international curricula, such as the Cambridge IGSCE/O-Levels and A-Levels or the International Baccalaureate. The low cost private schools cater to the lower-middle class and charge modest fees. They may follow the national curriculum but generally deliver it in a more effective manner than public schools. The Religious schools or madrasas also have sizeable presence. They primarily focus on religious education and generally present a low cost option.

Despite these challenges, the industry's outlook remains promising. Pakistan's population is expected to continue growing, providing a consistent pool of potential students. With prudent management and adaptation to changing market dynamics, educational institutions can leverage this opportunity for sustained growth. However, maintaining financial stability and flexibility is pivotal in navigating the competitive landscape.

Key Rating Drivers

Rating incorporates Low business risk profile of the school segment

VIS categorizes primary and secondary school education as low business characterized by low cyclicality, medium to low competition, low regulatory risk and medium technological risk. Population growth continues to foster demand, and lack of public spend on education generates competition within the sector.

Established brand in the market

Lahore Grammar School is one of the leading educational hubs of Pakistan. Operating for over 3 decades, LGS has built a prominent brand identity and goodwill, through academic excellence. In addition, LGS has maintained a reputation for hiring well-qualified and experienced faculty members, which ensures a high standard of education. The school distinguishes itself by adopting a holistic approach, offering students with a broad range of co-curricular and extracurricular activities, which prepares them well over higher education. Investment in modern school infrastructure over the years has also contributed towards its success, which is reflective in the growth the school has achieved over the years.

Steady topline growth

Steady growth in tuition revenues has been observed in the Company's financials over recent years, driven by an expanding student base and consistent fee increases, resulting in a compounded annual growth rate (CAGR) of ~9%. Although Covid years did see some traction, fee revenues recorded an uptick subsequently largely contributed through fee increases.

Revenues are largely fee based, comprising of tuition, admission, and registration charges, with non-fee-based revenues accounting for 0.95% of total revenue. Within the clusters, Mrs. Nighat Ali's cluster generates the most revenues with an overall student strength of more than 36,000. Going forward, management is projecting a steady growth of ~9-10% in revenues on the basis of fee increase as well as increase in student strength.

Operating margins depict volatility on a timeline basis

On a timeline basis, margins depict volatility. As costs have risen, they have been progressively incorporated into the fee structure, affecting margins in the interim. Moreover, given COVID constraints fee increases remained constrained. In addition, rising debt servicing costs resulting from higher interest rates has also contributed towards downward pressure on margins.

Capitalization profile constrained by low equity.

The majority of LGS's debt, amounting to Rs. 5.42 billion, comprises of lease liabilities of Rs. 3.718 billion, predominantly from operating building leases. These have been recognized on the balance sheet following the adoption of IAS 16. Additionally, increased payouts over time have limited equity growth, affecting both gearing (3.32x in FY22) and leverage (5.31x in FY22) metrics. The adjusted gearing, taking into account long-term debt and financial leases, was at 0.87x for FY22. The business operations' nature also influences the leverage. There's typically an accumulation of outstanding salaries by quarter and year-end, which are subsequently settled early in the following month.

Retention of profits in the business to support capitalization and liquidity profile remains important for ratings.

Rating incorporates adequate liquidity profile

Over the last few years, capex (last 4-year capex recorded at Rs. 1.552 billion) has been funded through internal generation of cash flows. This together with higher payouts has impacted the cash flow available for working capital and resulted in a balance sheet mismatch.

However, ratings draw comfort from adequate FFO generation and DSCR coverage. While DSCR was recorded at 1.0x as of FY22, it is projected to improve to 1.53x in FY23. DSCR trend over time (FY19: 1.3x, FY20: 1.1x, FY21: 1.3x) is reflective of the lagged effect in revenue adjustment, improving over the next year as fee increase takes effect.

Lahore Grammar School (Private) Limited Appendix I

REGULATORY DISCLOSURES	Appendix I				
Name of Rated Entity	Lahore Grammar School (Private) Limited				
Sector	Educational Institute				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	Rating Type: Entity				
	29-11-23	A-	A-2	Stable	Initial
Instrument Structure	N/A.				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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Due Diligence Meetings Conducted	**S.No.**	**Name**	**Designation**	**Date**	
	1	Mr. Waseem Abbas	Company Secretary/CFO	August 22, 2023	