

December 22, 2023

## Bapuji Education Association: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based working capital facilities	30.00	30.00	[ICRA]A+ (Stable); reaffirmed
Short-term non-fund based facilities	10.00	10.00	[ICRA]A1+; reaffirmed
Long-term – Term Loans	150.00	150.00	[ICRA]A+ (Stable); reaffirmed
Long-term/short-term – Unallocated Limits	30.00	30.00	[ICRA]A+ (Stable)/[ICRA]A1+; reaffirmed
<b>Total</b>	<b>220.00</b>	<b>220.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation of Bapuji Education Association (BEA) considers its healthy operating and financial performances in FY2023 and ICRA's expectations of sustained performance over the medium term, driven by its established presence and market position in the medical education sector in Karnataka. BEA's operating receipts surged by ~37% YoY to Rs. 588 crore in FY2023, driven by healthy enrolments and increase in student intake in the recent years. The receipts in FY2023 were also boosted by recovery of fees arrears from the Karnataka Examination Authority (KEA) worth Rs. 80-90 crore pertaining to the previous years' admissions. ICRA expects BEA's operating receipts to sustain at healthy levels over the medium term supported by sustained enrolments across its courses in medical, engineering and others. BEA's flagship medical colleges, which contribute 60-70% to its fee receipts, have a track record of high enrolment levels, which provide adequate revenue visibility. BEA's operating surplus margin jumped to ~44% in FY2023 and is likely to sustain in the range of 35-40% over the medium term, driven by the operating leverage. ICRA notes the delay and likely cost overrun in the expansion of Bapuji Hospital, a teaching hospital attached to JJM Medical College run by BEA owing to adoption of new construction technology. The initial project cost was Rs. 220 crore, partly financed by Rs. 150 crore of term loan, with expected completion in H1 FY2024. The revised cost is estimated at Rs. 400-450 crore with likely completion in H1 FY2026. BEA is expected to fund the additional cost from its existing cash reserves and accruals. However, any further delay or increase in the project cost could impact BEA's liquidity position and remains a key monitorable.

The ratings continue to favourably factor in the healthy enrolment levels across various courses offered by BEA's institutes owing to its established track record of over six decades and strong reputation in the region. BEA's flagship medical colleges (J.J.M Medical College and S.S. Institute of Medical Science and Research) have recorded robust enrolment levels over the past three years, translating into an overall enrolment level of ~85% for BEA. The ratings also derive comfort from the comfortable capital structure and healthy debt protection metrics along with a comfortable liquidity profile. However, its sizeable balance in an unrated cooperative bank limits BEA's financial flexibility to an extent.

The ratings continue to remain constrained by the high concentration of BEA's revenues with its top three institutes contributing ~75% to the aggregate fee receipts and revenue from medical education and allied activities accounting for ~80% of BEA's operating income over the last three years. The ratings also consider the vulnerability of BEA's operations to changes in the regulatory environment and the low autonomy of its institutes as the same are affiliated to a university. The higher education sector in India is intensely competitive and is exposed to stringent regulations, which require regular capital expenditure by the institutes to upgrade their infrastructure and maintain their reputation.

The Stable outlook on the long-term rating reflects ICRA's expectations that BEA's debt coverage metrics will continue to remain comfortable over the medium term, supported by generation of healthy cash flow from operations.

## Key rating drivers and their description

### Credit strengths

**Established track record in higher education sector** – BEA was founded in 1958 and operates more than 50 institutions in and around Davangere, Karnataka, offering courses across diverse disciplines including medical sciences, dental sciences, engineering, nursing and pharmacy along with primary, secondary and pre-university education. The association's institutions enjoy high reputation among students, especially in the field of medical education due to its established track record and quality infrastructure. This benefits the institution in attracting meritorious students and retaining qualified faculties.

**Healthy enrolment levels support revenues** – The enrolment levels across various institutions operated by BEA have improved to ~85% in AY2021-22 and AY2022-23 from ~80% in the preceding three years. Its flagship colleges, J.J.M. Medical College and S.S. Institute of Medical Science and Research, continue to enjoy good reputation, translating into robust enrolment level. The healthy enrolment levels support BEA's operating profile through stability and visibility of fee income over the near term.

**Comfortable capital structure and healthy debt protection metrics** – BEA continues to maintain a strong financial profile, characterised by gearing of 0.1 times, Total Debt/OPBDITA of 0.4 times and TOL/TNW of 0.2 times as on March 31, 2023. Its coverage indicators continue to remain healthy with interest cover of 229.4 times and DSCR of 10.6 times in FY2023. While the total debt/OPBDITA is expected to moderate in the next 1-2 years owing to draw down of the sanctioned term loan, ICRA expects BEA to continue to maintain a comfortable financial profile, supported by healthy cash accruals and a sizeable net worth base.

### Credit challenges

**High concentration of revenue and low degree of autonomy** – BEA's revenue profile is characterised by high concentration in terms of geography, institutes and stream of education. BEA's all 50+ institutes are located in Karnataka, with most of these in and around Davangere, which exposes it to the risk of disruption in operations from local events including natural calamities and social unrest. Further, the top three institutes contributed 70-80% to BEA's fee receipts over the last three years and revenue from medical education and allied activities (hospital and pharmacy receipts) accounted for ~80% of BEA's operating income. BEA's dependence on certain institutes and medical education sector makes it susceptible to changes in the demand-supply scenario and reputational damages. However, this risk is mitigated to an extent by the overall favourable outlook of medical education in India. Moreover, BEA's institutions operate with a low degree of autonomy as its medical colleges are affiliated to the Rajiv Gandhi University of Health Sciences, Bangalore and its engineering colleges are affiliated to Visvesvaraya Technological University, Belgaum. This restricts its flexibility with respect to fees revision, student intake and addition of new courses.

**Exposure to regulatory risk** – The higher education sector in India is highly regulated by multiple regulatory bodies including the University Grants Commission, the National Medical Council, the All India Council for Technical Education, among others. The operations of BEA are vulnerable to changes in regulations, which can have material adverse implications to the functioning of its institutes. Any non-compliance with or violation of such regulations may put operational restrictions on the institutes beside loss of reputation, which could hamper its growth prospects.

**Sizeable capital expenditure planned over the medium term** – BEA has sizeable capital expenditure planned over the medium term. It had announced a capex of Rs. 220 crore towards construction of a new block of Bapuji Hospital to double its bed capacity in FY2022, which was to be part-funded through a term loan of Rs. 150 crore. The estimated cost of the project has doubled to Rs. 400-450 crore owing to adoption of a novel construction technology of using prefabricated slabs/columns with a steel-dominated structure. While this is expected to translate into larger usable area, the sizeable cost overrun would be funded by BEA's internal accruals and cash reserves. Any further delay or cost overrun could put pressure on BEA's liquidity position and remains a key monitorable.

## Liquidity position: Adequate

BEA's liquidity position remains adequate, characterised by free cash and liquid investments of ~Rs. 169 crore as on March 31, 2023. Against this, BEA had availed loans against deposits worth Rs. 42.4 crore as on March 31, 2023. ICRA expects BEA to generate annual cash flow from operations worth ~Rs. 170-180 crore p.a. over the next 2-3 years against the planned annual capital expenditure of Rs. 200-250 crore p.a. Its liquidity profile is supported by undrawn term debt of ~Rs. 54 crore as on March 31, 2023 and buffer from ~15% average utilisation of the sanctioned overdraft limit of Rs. 30 crore over the 12-month period ending in November 2023. While BEA does not have any term debt repayment obligation in FY2024, it is expected to be ~Rs. 8 crore in FY2025 and ~Rs. 21 crore p.a. in FY2025 and FY2026. ICRA notes that BEA continues to maintain a sizeable portion of its unencumbered bank balances with Bapuji Cooperative Bank, which reduces its financial flexibility to an extent.

## Rating sensitivities

**Positive factors** – ICRA may upgrade the ratings if there is a material improvement in the scale of operations and liquidity position along with diversification of revenues on a sustained basis.

**Negative factors** – Pressure on the ratings could arise if there is a material decline in fee collections, adversely impacting the financial profile or liquidity position of BEA. The ratings could also be downgraded in case of a large unanticipated debt-funded capital expenditure or if regulatory developments adversely impact BEA's business prospects. Specific credit metrics that could result in ratings downgrade include total debt/OPBDITA of more than 1.5 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Higher Education</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Bapuji Education Association (BEA) was set up in 1958 for providing quality education in Davangere, Karnataka. The association commenced operations with a single institution in 1958 and now operates more than 50 institutes, offering education in diverse fields including medical sciences, dental sciences, nursing, pharmacy, engineering, management, law, polytechnic, arts, science and commerce. The association also operates five teaching hospitals, 15 hostels and eight schools in and around Davangere. Dr. Shamanur Shivshankarappa is the Hon. Secretary of the trust, who is a sitting MLA in the Karnataka Assembly.

## Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	430	588
PAT	82	239
OPBDIT/OI	24.1%	43.9%
PAT/OI	19.1%	40.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	1.1	0.4
Interest coverage (times)	136.5	229.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

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 as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Dec 22, 2023	Sep 26, 2022	Jan 27, 2022	Oct 30, 2020
<b>1 Working capital facilities</b>	Long-term	30.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
<b>2 Non-fund based facilities</b>	Short-term	10.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
<b>3 Term Loans</b>	Long-term	150.00	58.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	-
<b>4 Unallocated Limits</b>	Long-term/short-term	30.00	-	[ICRA]A+ (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based working capital facilities	Very Simple
Short-term non-fund based facilities	Very Simple
Long-term – Term Loans	Simple
Long-term/short-term – Unallocated Limits	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 are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
N.A.	Working capital facilities	NA	NA	FY2024	30.00	[ICRA]A+ (Stable)
N.A.	Non-fund based facilities	NA	NA	FY2024	10.00	[ICRA]A1+
N.A.	Term Loans	FY2022	NA	FY2030	150.00	[ICRA]A+ (Stable)
N.A.	Unallocated Limits	NA	NA	FY2025	30.00	[ICRA]A+ (Stable)/[ICRA]A1+

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](mailto:jayanta@icraindia.com)

**Kaushik Das**

+91 33 7150 1104

[kaushikd@icraindia.com](mailto:kaushikd@icraindia.com)

**Sujoy Saha**

+91 33 7150 1184

[sujoy.saha@icraindia.com](mailto:sujoy.saha@icraindia.com)

**Raunak Modi**

+91 22 6169 3368

[raunak.modi@icraindia.com](mailto:raunak.modi@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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