September 26, 2022

Bapuji Education Association: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Overdraft Facilities	20.00	30.00	[ICRA]A+(Stable); reaffirmed/assigned
Short-term Non-Fund based - Bank Guarantee	10.00	10.00	[ICRA]A1+; reaffirmed
Long-term Fund based – Term Loans	-	150.00	[ICRA]A+(Stable); assigned
Long-term/Short-term – Unallocated Limits	-	30.00	[ICRA]A+(Stable)/[ICRA]A1+; assigned
Total	**30.00**	**220.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation of Bapuji Education Association (BEA) considers the healthy operating and financial performances of the association in FY2022 and ICRA's expectations of continued stable performance. BEA's operating income grew by 15.7% YoY to Rs. 429 crore in FY2022 on the back of robust growth in receipts from its hospitals in the light of the pandemic, along with healthy growth in fee receipts and pharmacy sales. ICRA expects BEA's operating income to continue to record healthy growth, driven by incremental seat strength in medical courses from AY2021-22 while receipts from its teaching hospitals are expected to moderate in the near term due to a high base. BEA is likely to maintain its operating profit margin above 20% over the medium term on the back of high visibility in revenue and healthy operating leverage. Although BEA's liquidity has recorded some moderation with free cash and bank balances at ~Rs. 36 crore as on June 30, 2022 on account of higher spending on capex, repayment of overdraft and loans against deposits and delay in receipt of 1st year fees, it remains comfortable with sufficient buffer available in the form of undrawn overdraft and term loans of ~Rs. 120 crore.

BEA is undertaking a capital expenditure of ~Rs. 220 crore towards expansion of Bapuji Hospital, a 1,050-bed teaching hospital attached to J.J.M. Medical College. This is being part-financed through a term loan of Rs. 150 crore. The capex entails construction of a new block of the hospital with a capacity of 900 beds, focussed towards offering super-specialty treatment. This is expected to generate additional revenue from the hospital while also enabling J.J.M. Medical College to offer courses in super-specialty medicine (on approval from the National Medical Council). Till June 30, 2022, BEA had spent ~Rs. 90 crore towards this project and drawn down Rs. 58 crore of term loan. BEA is expected to complete construction in FY2023 and the hospital is likely to be operationalised by H1 FY2024.

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 more than 90% enrolment levels over the past three years, translating into an overall enrolment level of ~80% for BEA. The ratings also derive comfort from the comfortable capital structure and healthy debt protection metrics along with a comfortable liquidity profile. However, maintenance of a sizeable bank balance with 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 owing to their status as institutes 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 will continue to benefit from its established position in the higher education sector in Karnataka while maintaining healthy operating and financial profiles with comfortable liquidity.

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 remained healthy at ~80% of the past four academic years till AY2020-21. Its flagship colleges, J.J.M. Medical College and S.S. Institute of Medical Science and Research, continue to enjoy healthy reputation, translating into more than 90% enrolment level over the last three academic years till AY2020-21. 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 1.1 times and TOL/TNW of 0.3 times as on March 31, 2022. Its coverage indicators continue to remain healthy with interest cover of 136 times and DSCR of 5.4 times in FY2022. Although the sanctioned term debt of Rs. 150 crore is expected to moderate its capital structure and coverage indicators going forward, ICRA expects BEA to continue to maintain a comfortable financial profile owing to healthy cash accruals and liquidity.

Credit challenges

High concentration of revenue – 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 ~75% to BEA's fee income 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 over the last three years. BEA's dependence on certain institutes and medical education sector makes it vulnerable to adverse developments and reputational damages. However, this risk is mitigated to an extent by the overall favourable outlook of medical education in India.

Exposed to stringent regulations in the education sector – 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.

Low degree of autonomy – BEA's institutions operate with a low degree of autonomy as its institutes are affiliated to a university. 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, student intake and addition of new courses.

Sizeable capital expenditure planned over the medium term – BEA has sizeable capital expenditure planned over the medium term. It is undertaking a Rs. 220 crore capex towards construction of a new block of Bapuji Hospital to double its bed capacity. This is being part-funded through a term loan of Rs. 150 crore. While this is expected to be completed in FY2023, BEA is also planning to construct another block of the hospital at a proposed cost of ~Rs. 300 crore over three years. Apart from this, various institutes of BEA collectively have a maintenance capex requirement of ~Rs. 30-50 crore p.a. Although BEA is expected to have sufficient cash accruals to finance its capex plans, any large unanticipated debt-funded capex could put pressure on its ratings.

Liquidity position: Adequate

BEA's liquidity position continues to be Adequate, characterised by free cash and liquid investments of Rs. 162 crore as on March 31, 2022. ICRA expects BEA to generate annual cash flow from operations of Rs. 100-120 crore over the next 2-3 years against planned annual capital expenditure of Rs. 150-180 crore. Its liquidity profile is supported by undrawn term debt of ~Rs. 90 crore as on June 30, 2022 and ~46% average utilisation of the sanctioned overdraft limits over the 12-month period ending in June 2022. While BEA does not have any term debt repayment obligation in FY2023, it is expected to be Rs. 3 crore in FY2024 and Rs. 16 crore in FY2025. 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 BEA's long-term rating if there is a material improvement in its scale of operations along with diversification of revenues while maintaining a healthy liquidity profile 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 in case of regulatory developments adversely impacting BEA's business prospects. Specific credit metrics that could result in a downgrade include Total Debt/OPBDITA of more than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Higher Education
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, fifteen 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)*

	FY2021	FY2022
Operating income	371.4	429.5
PAT	54.7	82.1
OPBDIT/OI	19.8%	24.1%
PAT/OI	14.7%	19.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.3
Total debt/OPBDIT (times)	0.3	1.1

Interest coverage (times)	234.6	136.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore
**Note: BEA follows the cash system of accounting*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 26, 2022	Jan 27, 2022	Oct 30, 2020	Apr 30, 2019
1.	**Overdraft Facilities**	Long-term	30.00	NA	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**	**[ICRA]A+(Stable)**
2.	**Bank Guarantee**	Short-term	10.00	NA	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
3.	**Term Loans**	Long-term	150.00	58.00	**[ICRA]A+(Stable)**	-	-	-
4.	**Unallocated Limits**	Long-term/ Short-term	30.00	NA	**[ICRA]A+(Stable)/ [ICRA]A1+**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Overdraft Facilities	Very Simple
Short-term Non-fund based – Bank Guarantee	Very Simple
Long-term fund based – Term Loans	Simple
Long-term/ Short-term – Unallocated Limits	N.A.

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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Overdraft Facilities**	NA	NA	NA	30.00	[ICRA]A+(Stable)
NA	**Bank Guarantee**	NA	NA	NA	10.00	[ICRA]A1+
NA	**Term Loans**	FY2022	NA	FY2030	150.00	[ICRA]A+(Stable)
NA	**Unallocated Limits**	NA	NA	NA	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 – N.A.

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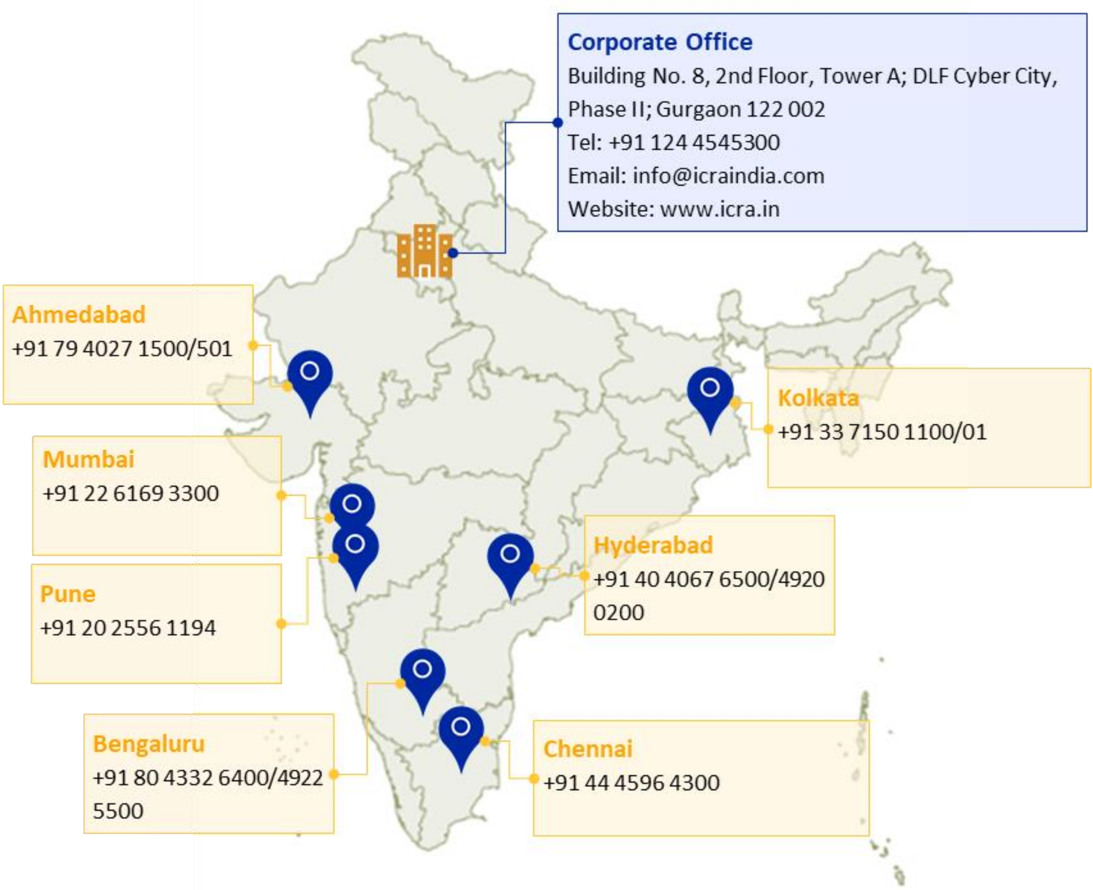

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