

January 27, 2022

## 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 – Overdraft Facilities	20.00	20.00	[ICRA]A+ (Stable); reaffirmed
Short -term – Non-Fund Based – Bank Guarantee	10.00	10.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>30.00</b>	<b>30.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of ratings is driven by the continued healthy operating performance of Bapuji Education Association (BEA) in FY2021 and 9M FY2022, which was largely in line with ICRA's expectations. Although BEA recorded a decline in fee income in FY2021 mainly due to its inability to collect fees from students owing to online classes, the overall operating revenue grew by 0.9% YoY on the back of higher receipts from its teaching hospitals and pharmacies owing to the Covid-19 pandemic. In 9M FY2022, BEA's fee income recovered due to healthy enrolment levels across the courses and collection of fee arrears from students. The fee income is expected to further increase driven by incremental seat strength in its medical courses from AY 2021-22, the admissions for which are yet to take place.

The ratings favourably factor in the healthy enrolment levels across various courses offered by BEA's institutions owing to its established track record of over six decades and strong reputation in the higher education sector. The ratings also derive comfort from the conservative capital structure and healthy debt protection metrics of BEA, characterised by a gearing of 0.02 times as on March 31, 2021 and interest cover of 234.6 times in FY2021. BEA's comfortable liquidity position with sizeable cash and liquid investments of ~Rs. 138 crore on December 31, 2021 continues to support its ratings.

The ratings continue to remain constrained by the high concentration of BEA's revenues. The top three institutes, including two medical colleges and one engineering college, account for ~75% of all fee income of BEA. Further, BEA's all 50 institutes are geographically concentrated in Karnataka. Additionally, fees from medical education and allied activities (hospital and pharmacy collection) together account for ~80% of BEA's operating revenue. The ratings also consider BEA's exposure to strict regulations framed by various regulatory bodies including the University Grants Commission, National Medical Council, All India Council for Technical Education and the vulnerability of its operations to changes in regulatory environment. Further, the ratings consider the limited autonomy of BEA's institutions as they are affiliated to a university. The higher education sector in India is highly competitive, which exposes BEA to stiff competition from private and government institutions along with the continuous requirement to incur capital expenditure to upgrade its infrastructure. The ratings factor in the limitations of BEA's financial flexibility and associated liquidity as the association maintains the major portion of its cash and free deposits with Bapuji Cooperative Bank.

The Stable outlook on the long-term ratings reflects ICRA's expectations that BEA will continue to benefit from its established position in higher education sector in Karnataka and that it will continue to maintain its healthy operating and financial profiles with a conservative capital structure in the near term.

## 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 at present offering courses across diverse disciplines including medical sciences, dental sciences, engineering, nursing, pharmacy and management along with primary, secondary and pre-university education. Additionally, BEA operates five teaching hospitals to meet the training needs of its medical students. The association's institutions enjoy high reputation among students, especially in the medical education field, due to its established track record and high-class infrastructure facilities. This benefits the association by way of attracting students and experienced faculty to its institutions.

**Healthy enrolment levels supporting revenues** – The enrolment levels across institutions operated by BEA remained healthy at ~80% during the past four academic years. The enrolment levels in its flagship medical colleges, J.J.M. Medical College and S.S. Institute of Medical Science and Research, have remained above 90% over the last three academic years, signifying its healthy reputation. High enrolment levels support BEA's operating profile through stability and predictability of fee income in the near term.

**Conservative capital structure and healthy debt protection metrics** – BEA continues to maintain a strong financial profile with a gearing of 0.02 times and TOL/TNW of 0.17 times as on March 31, 2021 and an interest cover of 234.6 times in FY2021 owing to negligible debt levels. The financial profile is further supported by sizeable cash and liquid investments of ~Rs. 138 crore as on December 31, 2021. As these funds are primarily maintained with Bapuji Cooperative Bank, the financial flexibility is reduced to some extent.

### Credit challenges

**High concentration of revenues** – BEA's revenue profile is concentrated 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. These expose BEA to the risk of disruption in operations from localised events including natural calamities. Further, the top three institutes, two medical colleges and one engineering college, contribute ~75% to the fee income of BEA and revenues from medical education and allied activities (hospital and pharmacy receipts) account for ~80% of BEA's operating income. The dependence of BEA's operating performance on certain institutes makes it vulnerable to adverse developments.

**Exposed to stringent regulations in education sector** – The higher education sector in India is highly regulated. BEA's institutions are required to comply with strict regulations enforced by various regulatory bodies including University Grants Commission, National Medical Council, 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 the institutions. Any non-compliance with or violation of such regulations may put operational restrictions on the institutions beside loss of reputation, which can hamper its growth prospects.

**Low degree of autonomy** – BEA's institutions operate with a low degree of autonomy due to their status as affiliated institutes of a university. The medical colleges operated by BEA are affiliated to Rajiv Gandhi University of Health Sciences, Bangalore while the engineering colleges are affiliated to Visvesvaraya Technological University, Belgaum. This restricts the flexibility and autonomy of the institutes with respect to fees, student intake, addition of courses etc.

## Liquidity position: Adequate

BEA's liquidity is expected to remain **Adequate**, as evident from its cash and liquid investments aggregating to approximately Rs. 138 crore as of December 31, 2021. Although the association has a healthy liquid surplus, the funds are primarily maintained with Bapuji Cooperative Bank, which reduces its financial flexibility to some extent. However, BEA's liquidity is further enhanced by no term debt repayment obligations and an additional buffer of Rs. 30 crore in the form of unutilised working capital facilities. ICRA expects BEA to generate cash accruals of ~Rs. 120 crore per annum in the near term against a capital expenditure requirement of Rs. 100-150 crore per annum.

## Rating sensitivities

**Positive factors** – ICRA may upgrade the ratings if there is a material improvement in BEA's 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 affecting 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Higher Education Sector</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the financial statements of Bapuji Education Association.

## About the company

Bapuji Education Association was set up in 1958 with the objective of providing quality education in Davangere, Karnataka. The association commenced operations with a single institution in 1958 and operates more than 50 colleges/institutes at present, offering education in diverse fields including medical sciences, dental sciences, nursing, pharmacy, engineering, management, law, polytechnic, arts, science and commerce. The association also runs five teaching hospitals for the training needs of its medical colleges. It operates 15 hostels in Davangere to cater to the boarding requirements of students studying in various institutions of the association. BEA also manages eight schools in and around Davangere providing education from kindergarten to class XII.

## Key financial indicators (Audited)

BEA	FY2020	FY2021
Operating Income (Rs. crore)	368.1	371.4
PAT (Rs. crore)	68.7	54.7
OPBDIT/OI (%)	23.0%	19.8%
PAT/OI (%)	18.6%	14.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.23	0.17
Total Debt/OPBDIT (times)	0.58	0.26
Interest Coverage (times)	2764.9	234.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jan 27, 2022	Oct 30, 2020	Apr 30, 2019	-
1	Overdraft Facilities	Long-term	20.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2	Bank Guarantee	Short-term	10.00	-	[ICRA]A1+	[ICRA]A1+	[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

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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Overdraft Facilities	NA	NA	NA	20.00	[ICRA]A+ (Stable)
-	Bank Guarantee	NA	NA	NA	10.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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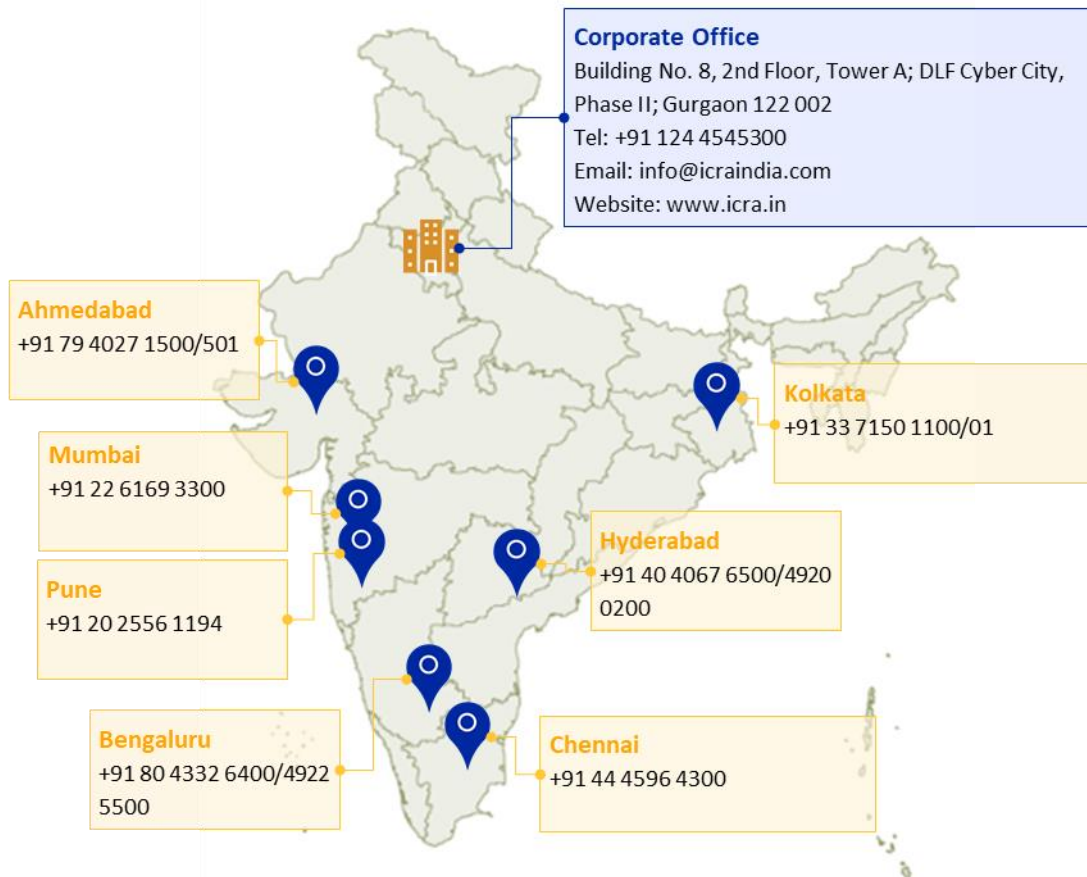
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