June 10, 2022

MS Ramaiah University of Applied Sciences: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Overdraft	32.00	32.00	[ICRA]A+(Stable); reaffirmed
Long-term Fund-based – Term Loans	18.00	18.00	[ICRA]A+(Stable); reaffirmed
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of MS Ramaiah University of Applied Sciences (MSRUAS) and Gokula Education Foundation (Medical) (GEFM) while assigning the credit rating, given the managerial linkages and a common trustee profile. GEFM is the sponsoring body of MSRUAS and has extended corporate guarantee towards the bank facilities of the latter.

The rating reaffirmation continues to draw comfort from the four-decade long track record of the Group[1] in the education and healthcare sectors in India. The proven track record, bolstered by the brand image associated with the Group's medical colleges and hospitals, has resulted in healthy enrolments in the medical courses and occupancy in the hospitals of the Group. The rating further derives strength from the Group's strong financial profile, marked by a low gearing at 0.1 times as on March 31, 2022 (provisional) and robust debt coverage metrics. The Group continues to have a strong liquidity profile, characterised by free cash and liquid investments of ~Rs. 92 crore as on March 31, 2022 (provisional). Additionally, the unutilised working capital facilities stood at ~57% of sanctioned limits at year end, which provides further liquidity buffer.

MSRUAS's rating continues to favourably factor in the high degree of autonomy and operational flexibility due it its status as a state private university. The university's dental and pharmacy courses have been consistently ranked among the top 50 in the National Institutional Ranking Framework (NIRF) rankings released by the Ministry of Human Resource Development (MHRD), Government of India. Owing to its healthy reputation, the university's enrolment levels have improved to ~70% in AY2021 and AY2022 from ~58% in AY2019, despite significant addition in the sanctioned seat strength. The rating also draws comfort from the university's low reliance on external debt, with outstanding bank debt of Rs. 1.5 crore as on March 31, 2022 (provisional), and healthy liquidity profile, with free cash and liquid investments of ~Rs. 39 crore as on March 31, 2022 (provisional). The university has negligible debt repayment obligations and its sanctioned working capital facilities of Rs. 32 crore have remained largely unutilised during FY2022.

The rating, however, remains constrained by the significant regulatory risks in the education and healthcare sectors. The Group is heavily dependent on the medical college for its revenue, wherein the student intake and fee fixation are regulated by the Government. The Group is also exposed to regulatory risks in the form of restrictive pricing regulations from the Central and State Governments in the hospital segment. Moreover, restrictions on upfront fee collection for the entire course from management/NRI seats, and receivables from scheme patients in hospitals and income tax have increased the working capital intensity of the Group. The Group has also experienced some cash flow mismatches during FY2022 due to delays in admissions to medical courses for AY2022, attributable to deferment of the NEET. However, a healthy liquidity buffer and prudent cash flow management shielded the Group from any adverse implications.

[1] Group refers to the consolidated profile of GEFM and MSRUAS

The Stable outlook on the long-term rating reflects ICRA's expectations that the Group will continue to benefit from the long track record of operations, its established position in the education sector and the healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Healthy enrolment levels across educational institutions backed by strong reputation and brand name – The flagship medical college operated by GEFM, MS Ramaiah Medical College, enjoys a high reputation in medical education in India. It has been consistently recognised among the top-50 medical colleges in the country in the NIRF rankings released by MHRD, Government of India (#37 in medical education as per the NIRF-2021 rankings). It enjoys a strong brand name and demand in Karnataka (among top 5-10 medical colleges), as evident from the NEET cut-off ranks. The enrolment levels across medical colleges of GEFM have remained robust at ~95% over the last two academic years.

MSRUAS, the state private university sponsored by GEFM, has also demonstrated healthy ramp-up in its student strength in recent years with enrolment levels improving to ~70% in AY2022. Its dental and pharmacy courses have been ranked 15th and 52nd, respectively, in the NIRF-2021 rankings. The university is expected to continue to benefit from the strong linkages with the Ramaiah Group of Institutions, which enjoy a strong brand name in Karnataka.

Conservative capital structure and healthy debt protection metrics – The Group continues to maintain a conservative capital structure, characterised by a gearing of 0.1 times and TOL/TNW of 0.3 times as on March 31, 2022 (provisional). Over the years, the Group has repaid most of its term debt and has been using internal accruals to fund its capex. The debt protection metrics continue to remain robust with interest cover of 16.2 times and DSCR of 12.8 times in FY2022 (provisional). Although the Group is expected to fund its capex in FY2023 with a fresh term debt of ~Rs. 30-40 crore, it is not expected to have a material impact on the Group's capital structure and financial risk profile.

MSRUAS's gearing has drastically improved over the years to 0.1 times in FY2022 (provisional) from 4.1 times in FY2017, driven by healthy accretion to reserves and substantial repayment of debt. The university's interest coverage and DSCR have also improved to 64.1 times and 16.2 times, respectively, in FY2022 (provisional) from 2.9 times and 3.4 times, respectively, in FY2018. Given the low reliance on external borrowings and expectations of healthy cash accruals, MSRUAS's capital structure and debt protection metrics are likely to remain strong.

Diversified operations – The Group has operations in the higher education and healthcare segments. Besides teaching hospitals, the Group operates a super-speciality hospital – MS Ramaiah Memorial Hospital – which enjoys healthy demand and contributes significantly to the Group's revenues and profitability, thereby lending diversification to its business profile.

Long track record in education sector – The Group was established by Late Dr. M.S. Ramaiah in 1979. The long track record and experience of the board of trustees in the Indian education and healthcare sectors is expected to benefit the Group's institutions in cementing their reputation for quality, translating into healthy demand over the long term.

Credit challenges

Intense competition and vulnerability to changing regulations – Higher education in India, especially medical education, is highly regulated and is subject to stringent compliance with operational and infrastructural requirements. The Group is highly dependent on the medical colleges wherein the student intake and fee fixation are regulated by the Government. The Group is exposed to significant regulatory risks associated with unanticipated changes in regulations, including restrictions on fees, state quota in admissions, etc., which could adversely impact the operating and financial profiles of the Group. Further, the Group is exposed to significant competition from other universities in the region, which puts pressure on attracting meritorious students and faculty. This is, however, mitigated to an extent by established brand and healthy reputation of the Group.

Delays in medical admissions in AY2022, translating into cash flow mismatches – The admissions to medical courses were significantly delayed for AY2022 due to the pandemic-led delay in conduct of the National Eligibility-cum-Entrance Test (NEET) and the litigation-led delays in subsequent student counselling. As the tuition fees for the first year is collected by Government authorities post counselling and later transferred to the colleges, the medical college operated by GEFM did not receive the first year fees, amounting to Rs. 35-40 crore, in FY2022. The Group has, however, been able to tide over the cash flow mismatches through healthy free cash and bank balances and unutilised working capital limits. MSRUAS, being a state private university, was not materially impacted by the delays in conduct of NEET, except for admissions to courses in dental science, as it follows an independent admissions process.

High working capital intensity of operations – An increase in the number of State/Central Government scheme patients elongate the collection cycle of the Group's hospitals. Additionally, restrictions on upfront fee collection from the management/NRI quota students post the implementation of NEET and sizeable build-up of income tax receivables have increased the Group's working capital intensity with NWC/OI at 25.7% in FY2022 (provisional). The working capital intensity (NWC/OI) of MSRUAS increased to 5.5% in FY2022 (provisional) from 0.9% in FY2021 due to higher fee receivables from the authorities for first year admissions. However, given the nature of operations of the university, the working capital intensity is expected to moderate with normalisation of the admissions cycle.

Liquidity position: Strong

On a consolidated basis, the Group's liquidity profile remains strong, characterised by free cash and liquid investments of ~Rs. 92 crore and undrawn working capital facilities of ~Rs. 46 crore as on March 31, 2022 (provisional). ICRA expects the Group to generate cash flow from operations of ~Rs. 100 crore per annum over the next 2-3 years with scheduled debt repayment of Rs. 1.5 crore in FY2023. The Group has a capex plan of ~Rs. 125 crore in FY2023, which is likely to be partly funded by a fresh term debt of ~Rs. 30-40 crore. The low average utilisation of working capital facilities further cushions the Group's liquidity. On a standalone basis, MSRUAS's liquidity is supported by sizeable free cash and liquid investments of ~Rs. 39 crore as on March 31, 2022 (provisional). The university has minimal debt repayment obligations of Rs. 1.5 crore in FY2023 and annual capex plans of Rs. 30-40 crore over the next 2-3 years. Against this, the university is expected to generate annual cash flow from operations of Rs. 35-45 crore. The large unutilised working capital limits of Rs. 32 crore further provide liquidity buffer.

Rating sensitivities

Positive factors – ICRA could upgrade the rating of GEFM and MSRUAS if, on a consolidated basis, there is a sustained improvement in enrolment at the Group's educational institutions and occupancy in the hospitals, which translates into higher profitability while maintaining healthy liquidity. Specific credit metrics which could lead to a rating upgrade include return on capital employed (RoCE) above 20% on a sustained basis.

Negative factors – Pressure on the rating of GEFM and MSRUAS could arise if there is a substantial decline in the enrolment levels or delays in collection of fees, adversely impacting the liquidity profile. Any significant debt-funded capex and/or regulatory developments adversely impacting the operating and financial profiles could also result in a downgrade. Specific credit metrics which could lead to a rating downgrade include Total Debt/OPBDITA more than 1.0 time on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Approach - Consolidation Rating Methodology for Entities in the Higher Education Sector Rating Methodology for Hospitals
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GEFM and MSRUAS (as specified in Annexure – 2). GEFM is the sponsoring body of MSRUAS and has provided corporate guarantee for the bank facilities of MSRUAS

About the company

Gokula Education Foundation (Medical) is a public charitable trust established in 1979 by Late Dr. M.S. Ramaiah. The trust runs three medical colleges and four hospitals (including a teaching hospital) in Bengaluru, Karnataka. MS Ramaiah Medical College is the flagship medical college of the trust, while MS Ramaiah Memorial Hospital is the flagship super specialty hospital operated by GEFM.

MS Ramaiah University of Applied Sciences (MSRUAS) was established in 2013 as a state private university in Karnataka. It offers undergraduate, postgraduate and doctoral courses in engineering, dental science, pharmacy, social science and management, among others. MSRUAS is sponsored by GEFM. Dr. M.R. Jayaram, son of Late Dr. M.S. Ramaiah, is the Chairman of GEFM and Chancellor of MSRUAS.

Key financial indicators (audited)

GEFM and MSRUAS (Consolidated)	FY2021	FY2022*
Operating Income (Rs. crore)	491.4	542.2
PAT (Rs. crore)	23.2	31.1
OPBDIT/OI (%)	7.5%	13.1%
PAT/OI (%)	4.7%	5.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3
Total Debt/OPBDIT (times)	0.8	0.5
Interest Coverage (times)	8.9	16.2

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*
Note: ICRA has combined the financial profile of GEFM and MSRUAS given the significant business, financial and managerial linkages

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	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jun 10, 2022	-	Mar 05, 2021	Oct 09, 2019
1	Fund-based Working capital facilities	Long-term	32.00	-	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Fund-based – Term Loans	Long-term	18.00	1.50	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Overdraft	Simple
Long-term Fund-based – Term Loans	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: 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
NA	Overdraft	NA	NA	NA	32.00	[ICRA]A+(Stable)
NA	Term Loans	FY2018	NA	FY2023	18.00	[ICRA]A+(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Gokula Education Foundation (Medical)	-	Full Consolidation
MS Ramaiah University of Applied Sciences	-	Full Consolidation

Note: *Gokula Education Foundation (Medical) is the sponsoring body of MS Ramaiah University of Applied Sciences*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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