September 21, 2023

MS Ramaiah University Of Applied Sciences: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fund Based - Cash Credit	32.00	32.00	[ICRA]A+(Stable); reaffirmed
Long Term- Term Loans	18.00	18.00	[ICRA]A+(Stable); reaffirmed
Total Limits	**50.00**	**50.00**	

**Instrument details are provided in Annexure-I*

Rationale

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

The rating reaffirmation continues to draw comfort from the four-decade long track record of the Group in the education and healthcare sectors in India. The proven track record, boosted by the brand image associated with the Group's medical colleges and hospitals, has resulted in healthy enrolments/occupancy in the medical courses and hospitals of the Group, respectively. The university's dental and medical courses have been consistently ranked among the top 50 in the National Institutional Ranking Framework (NIRF), released by the Ministry of Education (MoE), the Government of India. The rating further derives strength from the Group's strong financial profile, marked by healthy and improving scale of operations coupled with minimal debt as on March 31, 2023 (provisional), resulting in robust debt coverage metrics. The performance is likely to improve in the current fiscal, with expected revenue support from new hospitals with cardiology and oncology services. The Group continues to have a strong liquidity profile, characterised by free cash and liquid investments of ~Rs.150 crore as on March 31, 2023 (provisional). Additionally, the unutilised working capital facilities provide further liquidity buffer.

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. 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 the upfront fee collection for the entire course from management/NRI seats, and the receivables from scheme patients in hospitals and income tax have increased the working capital intensity of the Group.

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

Diversified operations with healthy enrolment levels across educational institutions backed by strong reputation and brand name – 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 receipts and operating surplus, thereby lending diversification to its business profile. The flagship medical college operated by MSRUAS, 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 released by MoE, the Government of India (#43 in medical education as per the NIRF-2023). It has a strong brand name and demand in Karnataka (among top 5-10 medical colleges). Its dental and pharmacy courses have ranked 14th and 65th, respectively, in the NIRF-2023. The university is expected to continue to benefit from the strong linkages with the Ramaiah Group of Institutions, which has 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 Total Debt/Operating surplus of 0.01 times and Total Outside Liabilities/ Tangible Net Worth of 0.03 times as on March 31, 2023 (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 an interest cover of 40.9 times and DSCR of 32.8 times in FY2023 (provisional). Although the Group is incurring capex with a term debt of ~Rs.30 crore, it is not expected to have a material impact on the Group's capital structure and financial risk 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 are expected to benefit the Group's institutions in cementing their reputation for quality, translating into healthy demand over the long term.

Credit challenges

Exposed to intense competition and 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 the established brand and healthy reputation of the Group.

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 27.1% in FY2023 (provisional).

Liquidity position: Strong

On a consolidated basis, the Group's liquidity profile remains strong, characterised by free cash and liquid investments of ~Rs.150 crore and undrawn working capital facilities of ~Rs.80 crore as on August 31, 2023. ICRA expects the Group to generate cash flow from operations of ~Rs.140 crore per annum over the next 2-3 years with scheduled debt repayment of Rs.3.00 crore in FY2024. The Group has a capex plan of ~Rs.110 crore in FY2024, which is being funded by a fresh term debt of ~Rs.30 crore. The low average utilisation of working capital facilities further cushions the Group's liquidity.

Rating sensitivities

Positive factors – ICRA may 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 operating surplus and significant improvement in liquidity position. 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 level or a delay in collection of fees, adversely impacting the liquidity profile. Any significant debt-funded capex and/or regulatory development, adversely impacting the operating and financial profiles, could also result in a rating downgrade. Specific credit metrics, which could lead to a rating downgrade, include Total Debt/Operating Surplus of more than 1.0 times 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 – II). 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 one medical college and two hospitals in Bengaluru, Karnataka. 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, medical, 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. MS Ramaiah Medical College is the flagship medical college of the university.

Key financial indicators (audited)

GEFM and MSRUAS (Consolidated)	FY2022	FY2023*
Operating income	568.0	700.0
PAT	59.5	144.4
Operating Surplus/OI	14.4%	24.6%
PAT/OI	10.5%	20.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/Operating Surplus (times)	0.5	0.03
Interest coverage (times)	18.4	40.9

*PAT: Profit after tax, Amount in Rs crore; *Provisional data*

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	Date & Rating in FY2020
					Sep 21, 2023	Jun 10, 2022	-	Mar 05, 2021	Oct 09, 2019
1	Fund Based/Cash Credit	Long-term	32.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Term Loan	Long-term	18.00	0.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term- Fund Based/Cash Credit	Simple
Long Term- Term Loan	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
NA	**Working Capital facilities**	NA	NA	NA	32.00	[ICRA]A+(Stable)
NA	**Term Loan**	FY2018	-	FY2023	18.00	[ICRA]A+(Stable)

Source: MSRUAS

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: 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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