

September 25, 2020

Manipal Academic Services International: [ICRA]BBB (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fund Based Term Loan	1125.0	[ICRA]BBB (Stable); Assigned
Long Term- Unallocated	75.0	[ICRA]BBB (Stable); Assigned
Total	1200.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating reflects the stable projected revenue profile of Manipal Academic Services International (MASI) by virtue of its fee sharing agreement with American University of Antigua Inc (AUA), it wholly owned step-down subsidiary. In addition, AUA, being a debt free entity, has upstreamed its free cash flows to MASI in the past and ICRA expects MASI to benefit from the free cash flows of AUA going forward also. Backed by the cash flows from AUA, MASI is expected to have comfortable debt protection metrics going forward. AUA has been operational since 2004 and has demonstrated healthy revenue and free cash flows in recent years. The rating positively factors in the established track record of the promoter group - Manipal Education and Medical Group (MEMG) - in operating educational institutions and healthcare services. MASI is the principal holding company of MEMG's education vertical, with subsidiaries having operations across various segments and geographies.

The rating is constrained by regulatory risks inherent in the higher education sector. AUA's medical school operates in the Caribbean region with accreditations from various US education departments for student eligibility, licensing and financial aid. Any changes in regulatory status may have an adverse impact on the operational and financial profile of AUA. ICRA further notes that any changes in the fee sharing agreement between MASI and AUA could impact MASI's standalone cash flows. The rating is also constrained by the high leverage level at the MEMG group level and possibility of MASI investing in or supporting the group's other ventures. While MASI does not have any other debt or contingent liabilities, free cash flows of MASI are likely to be used towards supporting group level commitments to the extent possible.

The Stable outlook on the rating reflects ICRA's opinion that MASI will benefit from AUA's established operational track record and access to AUA's free cash flow, apart from the fee sharing agreement. The Covid-19 pandemic is not expected to have a very significant impact on the operations of AUA as it has moved to online mode of teaching for the current sessions. Nonetheless, higher than anticipated impact of Covid-19 on the cash flows of AUA will be a key monitorable.

Key rating drivers and their description

Credit strengths

Established promoter group - MASI belongs to MEMG group, which has an established track record in the field of education and healthcare services. Some of the key operating companies in the group include Manipal Health Enterprises Private Limited, AUA and Manipal Global Education Services Private Limited (MAGE). MASI is the principal holding company of MEMG group's education vertical with its operations diversified across various segments and

geographies. MASI has 100% shareholding in Manipal Education Americas LLC (parent entity of AUA) and 84% shareholding in MAGE.

Fee sharing agreement with AUA - MASI is projected to have a stable revenue profile by virtue of its fee sharing agreement with American University of Antigua Inc (AUA), its wholly owned step-down subsidiary. AUA has been operational since 2004 and has demonstrated healthy revenue and free cash flows in recent years. During FY2020, AUA reported EBITDA (before fee sharing arrangement and student loan related net income) of USD 22.5 million on revenues of USD 78.6 million.

Comfortable debt coverage metrics – AUA, being a debt free entity, has upstreamed its free cash flows to MASI in the past and ICRA expects MASI to benefit from the free cash flows of AUA going forward also. Backed by the cash flows and a shortfall support undertaking from AUA, MASI is expected to have comfortable debt protection metrics going forward. The rated loan facility has a repayment schedule spread across 15 years, which supports the debt coverage metrics despite relatively high leverage.

Credit challenges

Regulatory risks associated with AUA operations - AUA's medical school operates in the Caribbean region with accreditations from various US education departments for student eligibility, licensing and financial aid. Any changes in regulatory status may have an adverse impact on the operational and financial profile of AUA.

Vulnerable to any changes in the fee sharing agreement from AUA: Any changes in the fee sharing agreement between MASI and AUA could impact MASI's standalone cash flows and thereby its debt servicing ability.

Possibility of MASI supporting other group ventures – The leverage is high at the MEMG group level, including holding companies, and there is a possibility of MASI investing in or supporting the group's other ventures. While MASI does not have any other debt or contingent liabilities, free cash flows of MASI are likely to be used, as in the past, towards supporting group level commitments to the extent possible. Given the negative impact of Covid-19 pandemic on certain business segments under MAGE, the dependence on cash flows from AUA could be high in the near to medium term.

Liquidity position: Adequate

MASI's liquidity is likely to be adequate, backed by stable cashflows from AUA which are expected to be over USD 20 million in FY2021 as against debt servicing obligations of around USD 7.3 million. Further MASI also maintains debt service reserve account (DSRA) equivalent to three months of interest payable with the lenders. While MASI does not have any contingent liabilities, ICRA expects MASI to utilise its free cash flows towards supporting other group entities to the extent possible.

Rating sensitivities

Positive triggers – ICRA could upgrade MASI's rating if it demonstrates reduction in leverage through prepayment of debt or sustained growth in OPBITDA or sale of identified investments held by MEMG group companies. Specific credit metrics that could lead to a higher rating include Debt/ OPBITDA (as per loan covenants) below 5 times on a sustained basis.

Negative triggers – Negative pressure on MASI's rating could arise if, for reasons including impact of Covid-19, there is material weakening of the credit profile of MASI's subsidiaries, especially AUA. Further negative pressures could also emerge if the DSCR falls below 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Manipal Academic Services International (MASI) is a Mauritius based holding company, which belongs to the Manipal Education and Medical Group (MEMG). Manipal Global Education Services Private Limited (MAGE) (84% shareholding) and Manipal Education Americas LLC (MEA) (100% shareholding) are its major income generating subsidiaries and the key operating assets comprise of universities and educational institutions spread across India, Malaysia, Antigua, Dubai and Nepal.

Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (USD mn)	3.53	18.72
PAT (USD mn)	0.89	3.23
OPBDIT/OI (%)	80%	84%
PAT/OI (%)	25%	17%
Total Outside Liabilities/Tangible Net Worth (times)	0.03	0.17
Total Debt/OPBDIT (times)	8.28	10.97
Interest Coverage (times)	1.33	1.25

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2021)			Rating History for the Past 3 Years		
		Amount Rated	Amount Outstanding	Rating 25-Sep-2020	FY2020	FY2019	FY2018
1 Term Loan	Long Term	1125.00	1125.00	[ICRA]BBB (Stable)	-	-	-
2 Unallocated	Long Term	75.00	0.00	[ICRA]BBB (Stable)	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Jun-2019	NA	Aug-2034	1125.00	[ICRA]BBB (Stable)
NA	Unallocated	NA	NA	NA	75.00	[ICRA]BBB (Stable)

Source: Manipal Academic Services International

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

Analyst Contacts

Shubham Jain

+91 124 4545 306
shubhamj@icraindia.com

Mathew Kurian Eranat

+91 80 4332 6415
mathew.eranat@icraindia.com

Samapika Draghima

+91 80 4332 6419
samapika.draghima@icraindia.com

Relationship Contact

L. Shivakumar

+91 22 6169 3300
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

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

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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