August 30, 2022

Manipal Global Education Services Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Working Capital limits	162.00	78.00	[ICRA]BBB+(Stable); reaffirmed
Fund based – Term loan	0.00	30.00	
Non-Fund based – SBLC	728.00	680.00	
Long Term – Unallocated limits	87.00	90.00	
Total	**977.00**	**878.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Manipal Global Education Services Private Limited (MAGE), which includes its subsidiaries, associates and step-down subsidiaries, while assigning the credit rating, given the common management and significant operational and financial linkages among them.

The reaffirmation in the rating takes into consideration the successful track record and well-recognised brand of MAGE in the training and education sector, as well as the company's diversified operations with presence in multiple geographies. The rating also considers the expected ramp-up in revenue and EBITDA from JVMC[1] Malaysia in the medium term, aided by the receipt of approvals for conducting medical programmes as a university college. Further, ICRA notes that the implementation of an internal restructuring plan, whereby they have sold off Nepal operations and are planning to sell non-core assets in ME Malaysia[2] and subsequent debt refinancing will support the liquidity profile of the Group.

The rating, however, is constrained by the high leverage on MAGE's consolidated balance sheet. Nonetheless, this would be offset to some extent by the relatively longer tenure of term loans availed by the Group and proposed refinancing of loans of MEM to JVMC. The rating also factors in the high service fee payments, which in the past have constrained its liquidity and ability to deleverage. However, ICRA notes that the Group has restricted service fee payments in FY2021 within the expected levels and such outflows are expected to remain low in the near term. ICRA also considers the intense competition in the education sector and inherent regulatory risks of the industry.

The Stable outlook reflects ICRA's expectations that restructuring of business operations and expected improvement in JVMC's operations, along with the track record of the promoter group, will support the credit profile of MAGE.

Key rating drivers and their description

Credit strengths

Successful track record and geographical diversification support growth prospects – MAGE's standalone operations include providing corporate training solutions to the entities in the banking and financial services industries. Through its various subsidiaries, MAGE's operations are diversified across various segments and geographies. This includes the Dubai campus of Manipal Academy of Higher Education, Manipal University College (formerly Melaka-Manipal Medical College) in Malaysia, as

[1] JVMC Corporation Sdn Bhd, a 90% subsidiary of MAGE, runs the Manipal University College Malaysia

[2] Manipal Education Malaysia Sdn Bhd, a subsidiary of MAGE, runs the Manipal International University (MIU), Malaysia

well as growing segments like MIU. The geographical and segmental diversification helped MAGE to partially offset challenges faced in individual business units to some extent.

Expected improvement in EBITDA through changes in JVMC – In Q4 FY2021, MAGE sold some of its loss-making domestic business units. Such transferred units generated an estimated EBITDA loss of Rs. 39 crore in FY2021. Significant improvement in EBITDA is expected from FY2023, aided by the receipt of approvals for conducting medical programmes as a university college, which would strengthen the leverage metrics.

Track record of promoters and financial flexibility of the Group – MAGE belongs to the Manipal Education and Medical Group (MEMG), which has an established track record and reputation in the field of education and healthcare services. MAGE enjoys financial flexibility for being a part of the MEMG.

Credit challenges

High leverage at consolidated level – MAGE's leverage continues to remain high with Debt/EBITDA[3] projected to be ~5 times in FY2023. There has been delay in the planned sale of non-core asset in one of MAGE's overseas subsidiaries, which was expected to result in prepayment of debt. However, the expected growth in EBITDA contribution from overseas subsidiaries such as JVMC will be supporting the leverage metrics, going forward.

High service fee payment – High service fee payments in the past have constrained the company's liquidity and ability to deleverage. While ICRA notes that such service fee payments are subordinated to MAGE's secured lender dues and are paid out of the surplus funds post debt servicing, the company has used available cash flows in the past to pay service fee to promoter group companies, which has limited its ability to deleverage. Nonetheless, the Group has restricted service fee payments in FY2021 within the expected levels and such outflows are expected to remain low in the near term.

Intense competition from other reputed universities; highly regulated sector – The educational institutes of MAGE face intense competition from reputed public and private institutions in their respective locations, that is, Dubai and Malaysia. However, a part of the competition risk is slightly mitigated by the Manipal Group's brand image and long experience in the industry. The institutions are exposed to inherent risks associated with the highly regulated education sector. The institutes are governed by various state and central laws. Any adverse Government regulation may impact the Group's revenues as well as operational growth.

Liquidity position: Adequate

The company's liquidity profile is adequate, backed by undrawn working capital lines of credit and expected improvement in the operational cash flow from FY2023. With the expected refinancing of ME Malaysia loans with a new loan in JVMC, the principal repayment obligations are expected to reduce in the near term. MAGE's repayment obligations are approximately around Rs. 72 crore in FY2022 (after the proposed refinancing). A part of the loan has been repaid using the sale proceeds of the Nepal operations. MAGE is also expected to benefit from part recovery of advances to Group companies. As on March 31, 2022, MAGE had around Rs.102.6 crore of cash and bank balances, on a consolidated level.

Rating sensitivities

Positive factors – Reduction in leverage levels through sustained growth in the consolidated OPBITDA or sale of non-core assets could be a trigger for a rating upgrade. Specific parameters that could lead to a rating upgrade include External Debt/ Adjusted OPBITDA of 3.75 times on a sustained basis.

[3] Without IndAS 116 adjustments and before service fee payments

Negative factors – – Pressure on the rating could arise on the rating if there is no sustained recovery in the net cash accruals of MAGE or if higher payment of service fee results in further increase in leverage levels. Specific parameters that could lead to a rating downgrade include expected External Debt/ Adjusted OPBITDA remaining above 5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Higher Education Sector
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of MAGE along with its domestic and overseas subsidiaries given the strong operational and financial linkages.

About the company

Earlier known as Manipal Universal Learning Private Limited, MAGE was established in 2001 to provide education services, including support services for distance education and corporate training. MAGE through its 100% subsidiary in Mauritius, operates overseas colleges and universities in locations such as Nepal, Dubai and Malaysia. Apart from these, MAGE has a subsidiary in India, which is involved in providing education assessment services in the banking and insurance sector. In FY2022, MAGE derived around 41% of its revenues from its operations in India, with the remaining share contributed by its overseas subsidiaries.

MAGE is promoted by Manipal Academic Services International, Mauritius (MASI), the holding company for the educational vertical of the Manipal Educational and Medical Group (MEMG). MASI holds an 84.3% stake in MAGE at present, with the remaining held by external investors and other promoter companies.

Key financial indicators (audited)

MAGE Consolidated	FY2021	FY2022
Operating income	608.2	647.8
PAT	85.2	49.0
OPBDIT/OI	23.46%	27.98%
PAT/OI	14.00%	7.56%
Total outside liabilities/Tangible net worth (times)	1.5	1.7
Total debt/OPBDIT (times)	8.9	6.5
Interest coverage (times)	1.6	2.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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
					30-Aug-22	21-May-21	24-Jul-20	15-Jul-19
1	**Fund based – Cash Credit**	Long term	78	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Negative)**	**[ICRA]A- (Negative)**
2	**Fund based - Term loan**	Long term	30	27.50	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB+ (Negative)**	**[ICRA]A- (Negative)**
3	**Non-Fund based – SBLC**	Long term	680	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Negative)**	**[ICRA]A- (Negative)**
4	**Unallocated**	Long term	90	-	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital Limits	Simple
Long term – Term loan	Simple
Long term – Non fund based	Very Simple
Long-term – Unallocated	NA

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	Working Capital limits	NA	NA	NA	78.00	[ICRA]BBB+(Stable)
NA	Term Loan	FY2022	NA	FY2025	30.00	[ICRA]BBB+(Stable)
NA	SBLC	NA	NA	NA	680.00	[ICRA]BBB+(Stable)
NA	Unallocated	NA	NA	NA	90.00	[ICRA]BBB+(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	MAGE Ownership	Consolidation Approach
Manipal Global Education Services Private Limited	100.00% (Rated Entity)	Full Consolidation
Manipal Education (Mauritius) Private Limited	100.00%	Full Consolidation
JVMC Corporation SDN BHD	90.00%	Full Consolidation
Manipal Integrated Services Malaysia SDN BHD	90.00%	Full Consolidation
Manipal Education (MENA) FZ LLC	100.00%	Full Consolidation
Manipal Education & Medical Group (Nepal) Private Limited	99.98%	Full Consolidation
JVMC Muar SDN BHD	90.00%	Full Consolidation
Manipal Education Malaysia SDN BHD (MEM)	70.00%	Full Consolidation
EduNxt Global SDN BHD	70.00%	Full Consolidation
Jigsaw Academy Education Private Limited	8.87%	Equity Method
Joulestowatts Business Solutions Private Limited	15.79%	Equity Method

Source: MAGE annual report FY2022

Note: ICRA has taken a consolidated view of the parent (MAGE), and its subsidiaries and associates while assigning the ratings. Entities viz MeritTrac Services Private Limited, Manipal City & Guilds Private Limited and Pathfinder Publishing Private Limited have been demerged with effect from January 2021. In Q1 FY2023, Nepal operations have also been sold.

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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.

For more information, visit www.icra.in

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