

Medvarsity Online Ltd.

September 27, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Overdraft	10.00	[ICRA]BBB- (Stable) Assigned
Non-fund-based- Bank Guarantee	2.00	[ICRA]BBB- (Stable) Assigned
Unallocated	1.00	[ICRA]BBB- (Stable) Assigned
Total	13.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 10.00-crore fund-based limits, Rs. 2.00-crore non-fund-based limits, and Rs. 1.00-crore¹ unallocated limits of Medvarsity Online Ltd. (MOL)². The outlook on the long-term rating is 'Stable'.

Rationale

The assigned rating takes into account MOL's strong parentage, being part of 'Apollo Hospitals' Group which has vast experience in the healthcare industry along with operational support from the Apollo group in the form of tie-up for training its staff. The rating considers MOL's association with several reputed accreditation³ and clinical partners which enables MOL to attract students. Moreover, the company added ~10 new courses in FY2018 and proposes to add ~26 courses in FY2019 targeting nurses and paramedics, a high demand segment, which is expected to support growth in enrolments, going forward. MOL has strengthened its content development and marketing teams to support the scale-up of operations. The rating also factors in comfortable capital structure with gearing of 0.1 times as on March 31, 2018, and healthy coverage indicators with interest coverage of 18.1 times, Total debt / OPBITDA of 0.3 times, and NCA / Total debt of 344% for FY2018.

The rating, however, is constrained by the modest scale of operations along with volatility in the operating profits over the past five years owing to significant debtor write-offs every year; a one-time adjustment for payment to partners in FY2017. The rating is also constrained by high debtor days at 157 as on March 31, 2018; ~82% of these are due for over 360 days; ~78% of the outstanding receivables as on March 31, 2018 are pending from MOL's subsidiary, Apollo Medskills Limited (AMSL), to which MOL has provided content. MOL has made a total investment of Rs. 8.76 crore (~26% of MOL's TNW as on March 31, 2018) in AMSL. ICRA also notes that MOL has sizeable capex plans over the next three years towards content development for new courses. Given the substantial investments towards addition of new courses and increase in employee strength to support the same, the company's ability to attract students for new courses and ramp-up in enrolments in existing courses remains critical.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ Accreditation partners include Apollo Hospitals Educational & Research Foundation (AHERF), Amity University, eCornell, Royal College of General Practitioners, Royal Liverpool Academy, University of New South Wales (UNSW) and clinical partners include Apollo Hospitals, Maxcure Hospitals, and Columbia Asia

Outlook: Stable

ICRA believes that the company will continue to benefit from the strong parentage, association with reputed accreditation and clinical partners. The outlook may be revised to 'Positive' if company witnesses higher than expected improvement in its revenues while maintaining its profitability levels and reduce receivable cycle that would strengthen the financial risk profile. The outlook may be revised to 'Negative' if a stretch in receivable cycle, or further investments in group companies, or high-than expected capex, or lower-than-expected cash accruals weaken liquidity position.

Key rating drivers

Credit strengths

Strong parentage providing operational support – MOL enjoys strong parentage being part of 'Apollo Hospitals' Group – a reputed brand with vast experience in the healthcare industry along with operational support from the Apollo group in the form of accreditation and tie-up with Apollo Hospitals for training its staff.

Association with reputed accreditation and clinical partners – MOL has tie-ups with several reputed accreditation partners including AHERF, Amity University, eCornell, Royal College of General Practitioners, Royal Liverpool Academy, University of New South Wales (UNSW), etc., which enables MOL to attract students. MOL also has tie-up with Apollo Hospitals, Maxcure Hospitals, and Columbia Asia for clinical training.

New course additions to support growth in enrolments – MOL added ~10 new courses in FY2018 and proposes to add ~26 courses in FY2019 targeting nurses and paramedics, a high demand segment, which is expected to support growth in enrolments. MOL has strengthened its content development and marketing teams to support the scale-up of operations.

Comfortable capital structure and coverage indicators – MOL has comfortable capital structure with gearing of 0.1 times as on March 31, 2018, and healthy coverage indicators with interest coverage of 18.1 times, Total debt / OPBITDA of 0.3 times, and NCA / Total debt of 344% for FY2018.

Credit challenges

Modest scale of operations – MOL has modest scale of operations with revenues of Rs.21.6 crore in FY2018. The launch of new courses and strengthened marketing team is expected to support revenue growth in the near term.

Fluctuating operating margins owing to high debtor write-offs – MOL's operating margins have been fluctuating over the past five years owing to significant debtor write-offs every year; a one-time adjustment for payment to partners in FY2017 impacted its margins during the year. MOL also has high debtor days of 157 as on March 31, 2018, ~82% of which have been due for over 260 days. Moreover, MOL's subsidiary, AMSL, accounted for ~78% of the outstanding receivables as on March 31, 2018 towards content provided by MOL.

Significant investments in group companies – MOL has significant investments of Rs. 8.76 crore (~26% of its networth as on March 31, 2018) in its subsidiary, Apollo Medskills Limited (AMSL) and it has also extended Rs. 15.5 crore loans and advances to a group entity, AHERF. Nevertheless, loans extended to AHERF were funded through redeemable preference shares infused by another group entity, Indian Hospitals Corporation Limited.

Sizeable capex plans – MOL has sizeable capex plans over the next three years towards content development for new courses. Given the substantial investments towards addition of new courses and increase in employee strength to support the same, the company's ability to attract students for new courses and ramp-up in enrolments in existing courses remains critical.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Medvarsity Online Limited (MOL) was incorporated in November 2000 by Apollo group to offer online education and training courses in the healthcare industry. The company offers over 20,000 hours of content, has over 7,000 active learners, and certified over 35,000 students till date. The company has tied up with reputed domestic and international accreditation and clinical partners.

Key financial indicators (Standalone)

	FY 2017	FY 2018*
Operating Income (Rs. crore)	21.4	21.6
PAT (Rs. crore)	1.6	6.6#
OPBDIT/ OI (%)	17.8%	38.9%
RoCE (%)	12.9%	22.0%
Total Debt/ TNW (times)	0.1	0.1
Total Debt/ OPBDIT (times)	0.5	0.3
Interest coverage (times)	7.8	18.1

Source: MOL, and ICRA research; *provisional financials; #Profit before tax

Status of non-cooperation with previous CRA: Not applicable
Any other information: None
Rating history for last three years:

S. No.	Instrument	Current Rating (FY2019) Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years @		
			Amount Rated (Rs. Crore)	Amount Outstanding (as on March 31, 2018)	Date & Rating September 2018	Date & Rating in FY18	Date & Rating in FY17	Date & Rating in FY16
1	Fund-based	Long-term	10.00	NA	[ICRA]BBB- (Stable)	-	-	-
2	Non-fund-based	Long-term	2.00	NA	[ICRA]BBB- (Stable)	-	-	-
3	Unallocated	Long-term	1.00	NA	[ICRA]BBB- (Stable)	-	-	-

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 www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based	NA	NA	NA	10.00	[ICRA]BBB- (Stable)
NA	Non-fund-based	NA	NA	NA	2.00	[ICRA]BBB- (Stable)
NA	Unallocated	NA	NA	NA	1.00	[ICRA]BBB- (Stable)

Source: MOL.

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