

March 31, 2020

Medvarsity Online Ltd.: Rating downgraded

Summary of rated instruments

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

*Instrument details are provided in Annexure-1

Rationale

The rating revision factors in higher-than expected revenue de-growth, which coupled with increase in employee costs resulted in decline in operating margin to 9% in FY2019 from 36.2% in FY2018, led to net losses and moderation in coverage indicators. Medvarsity Online Limited (MOL) witnessed a sharp revenue de-growth of 24% in FY2019, despite increase in enrolments, as it discontinued sales to its subsidiary, Apollo Med Skills Limited. While enterprise sales and sponsorship revenues from events, are expected to support revenue growth in the medium term, scale is expected to remain small. The rating is also constrained by significant investments in group companies, which increased to Rs. 16.8 crore as on March 31, 2019 from Rs. 9.0 crore as on March 31, 2018, as the company converted a sizeable part of outstanding receivables from AMSL to equity. The rating factors in MOL's stretched liquidity position because of high investments, decline in margins, and stretched receivables (over 80% of the receivables have been due for over 6 months), leading to high utilisation of working capital limits. Given MOL's capex plans towards content development for addition of new courses and increase in employee strength to support the same, its ability to attract students for new courses and ramp-up enrolments in existing courses remains critical.

The 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 accreditation and clinical partners which enables MOL to attract students. Moreover, ~16-18 new courses in FY2019 and FY2020 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.

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 ~16-18 new courses in FY2019 and FY2020 targeting nurses and paramedics and doctors, a high demand segment, which supported significant growth in enrolments from 2,937 in FY2018 to 6,606 in 11M FY2020. However, growth in course revenues has been modest as majority of the enrolments have been in the lower fee segment. MOL has been focussing on enterprise sales and sponsorship revenues from events in the current year, which is expected to support revenue growth in the medium term.

Credit challenges

Modest scale of operations and revenue de-growth in FY2019 – MOL has modest scale of operations with revenues of Rs.16.8 crore in FY2019 and Rs. 16 crore in 11M FY2020. The company witnessed significant revenue de-growth of 24% as it discontinued sales to its subsidiary, Apollo Med Skills Limited; moreover, change in revenue recognition policy also impacted growth to an extent. While enterprise sales and sponsorship revenues from events, are expected to support revenue growth in the medium term, scale is expected to remain small.

Significant decline in operating margins – MOL's operating margins declined from 36.2% in FY2018 to 9.0% in FY2019 and margins are expected to be lower in the current year as well. Significant revenue de-growth and 13% increase in employee expenses impacted its operating margins and resulted in net loss in FY2019. MOL strengthened its marketing and other internal teams in FY2019 which resulted in higher employee costs. Sizeable ramp-up in revenues remains crucial to improvement in margins.

Significant investments in group companies – MOL has significant investments group entities, a significant portion of the which is in its subsidiary, Apollo Medskills Limited (AMSL). Investments in AMSL increased to Rs. 14.8 crore as on March 2019 from Rs. 8.8 crore in FY2018, as the company converted a sizeable part of outstanding receivables from AMSL to equity. Overall investments in group companies increased to Rs. 16.8 crore as on March 31, 2019 from Rs. 9.0 crore as on March 31, 2018. MOL 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 investments in group entities, coupled with net losses, resulted in stretched liquidity for MOL.

Sizeable capex plans – MOL has capex plans over the next three years towards content development for new courses. Given the 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 enrolments in existing courses remains critical.

Liquidity position: Stretched

MOL's liquidity is stretched as indicated by high utilisation of working capital limits (90-95%) on account of long receivables cycle, wherein, over 80% of the debtors (i.e., Rs. 2.2 crore as on March 2019) have been due for over 6 months. Moreover, significant investments in group entities also impacted company's liquidity position. MOL has capex outlay of Rs. 2-3 crore towards content development which is to be funded through internal cash flows.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings if significant revenue growth and higher margins leads to increase in networth and RoCE, improving its financial profile, and better working capital management improves its liquidity profile.

Negative triggers – ICRA could downgrade the ratings if revenue de-growth or lower margins impact its financial profile or increase in investments in group companies (not backed by equity infusion from promoter group) or higher-than-estimated capex impacts its liquidity position further.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

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 2018	FY 2019
Operating Income (Rs. crore)	22.1	16.8
PAT (Rs. crore)	8.0	1.5
OPBDIT/ OI (%)	36.2%	9.0%
RoCE (%)	20.5%	2.5%
Total Debt/ TNW (times)	0.1	0.2
Total Debt/ OPBDIT (times)	0.3	3.5
Interest coverage (times)	22.4	3.3

Source: MOL, and ICRA research;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

S. No.	Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years @		
			Amount Rated (Rs. Crore)	Amount Outstanding (as on March 31, 2019)	Date & Rating 31-March 2020	Date & Rating in FY19	Date & Rating in FY18	Date & Rating in FY17
1	Fund-based	Long-term	10.00	NA	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-	-
2	Non-fund-based	Long-term	2.00	NA	[ICRA]BB+ (Stable)	[ICRA]BBB- (Stable)	-	-
3	Unallocated	Long-term	1.00	NA	[ICRA]BB+ (Stable)	[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]BB+ (Stable)
NA	Non-fund-based	NA	NA	NA	2.00	[ICRA]BB+ (Stable)
NA	Unallocated	NA	NA	NA	1.00	[ICRA]BB+ (Stable)

Source: MOL.

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