Prathima Institute of Medical Sciences

June 05, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	45.00	[ICRA]BBB(Stable); Assigned
Non-fund based limits	5.00	[ICRA]A3+; Assigned
Unallocated limits	15.00	[ICRA]BBB(Stable); Assigned
Total	**65.00**	

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA triple B)[1] to the Rs. 45.00-crore[2] fund-based and Rs.15.00-crore unallocated facilities of Prathima Institute of Medical Sciences (PIMS). ICRA has also assigned a short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) to the Rs. 5.00-crore non-fund based facilities of PIMS. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in the established presence of the institute in the field of education and healthcare, supporting healthy occupancy levels despite increase in sanctioned intake. Higher student enrolments coupled with upward revision in fee structure led to a healthy growth in operating income over the years. The ratings also consider the comfortable financial profile of PIMS, characterised by comfortable capital structure and debt protection indicators due to healthy profitability. ICRA notes the healthy demand for healthcare services in India, supported by rising awareness, increasing population, higher penetration of medical insurance and better affordability, leading to increasing demand for medical education.

The ratings are, however, constrained by the moderate scale of PIMS and its high reliance on the institute's revenue from the medical college, which accounted for around 71% of the total revenues for the financial year ended March 31, 2018. Further, the ratings consider the lumpiness in cash flows against more periodic repayment obligations, which necessitates prudent cash-flow management to ensure regular debt-servicing. These apart, the institute is exposed to significant regulatory risks associated with the stringent compliance requirements of the Medical Council of India and other relevant regulatory authorities. The ratings also take into account significant competition in the medical education and healthcare sectors which increases pressure in attracting and retaining faculty/doctors as well as talented students over the long term. The rating is also constrained by high receivables position of the institute due to delay in receipt of fee reimbursement from the Government of Telangana (GoT) and other sponsored schemes. ICRA further notes the educational institute's need to incur regular capital expenditure to maintain and expand its infrastructure facilities.

Outlook: Stable

ICRA expects that Prathima Institute will continue to benefit from its established presence in medical education and healthcare with healthy enrolments witnessed across key courses. The financial profile of the institute is likely to remain

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

[2] *100 lakh = 1 crore = 10 million*

stable due to periodic fee revisions, driven by high demand for these courses. The occupancy level of major revenue-generating courses is expected to remain high, providing revenue visibility over near to medium term. The outlook may be revised to Positive upon sustained and significant growth in revenues and profitability while improving its capital structure. The outlook may be revised to Negative if cash accruals are lower than expected, or any significant deviation is noticed in the top line and other indicators, or if any major debt-funded capital expenditure weakens liquidity.

Key rating drivers

Credit strengths

Established presence in the field of medical education and healthcare – The institute has a proven track record of more than 15 years with healthy enrolments across courses including MBBS, BSc (Nursing) & PG. The members of the institute have more than two decades of experience in the medical education and healthcare and has presence across different business streams.

Healthy occupancy levels across the courses led to consistent growth in revenues – The occupancy of MBBS course has remained 100% over the years, and has been healthy for other courses like PG, BSc(N), owing to high demand. Higher student enrolments and regular increase in fee structure resulted in a healthy revenue growth for the institute at a CAGR of ~16% from Rs. 51.7 crore in FY2014 to Rs. 92.1 crore in FY2018. Moreover, the institute's operating margins have been healthy and increased from 17.2% in FY2014 to 28.7% in FY2018.

Robust financial profile supported by comfortable capital structure and coverage indicators – The institute has a comfortable capital structure with a gearing at 0.6 times as on March 31, 2018. Its coverage indicators have been comfortable with interest coverage of 5.3 times and DSCR at 4.0 times as on March 31, 2018 due to healthy profitability. The capital structure and coverage indicators are expected to improve further in the near term on the back of healthy accruals.

Positive demand outlook for medical education and healthcare services in India - Demand for healthcare services is likely to improve in India on the back of rising healthcare awareness, increasing population, higher penetration of medical insurance and better affordability. This in turn will increase demand for medical education.

Credit weaknesses

Moderate scale with high dependence on medical college for bulk of revenues and profits – The institute derives revenues from different streams namely IP & OP services, diagnostics services, government-empanelled schemes, tuition fee and hotel fee etc. However, a major portion of its revenues is derived from the tuition fee of the medical college which accounts for 71% of the total revenues in FY2018, up from 60% in FY2017

Lumpiness in cash flows could lead to misallocations- ICRA takes note of the lumpiness in cash flows against more periodic repayment obligations, which necessitates prudent cash-flow management to ensure regular servicing. To resolve this issue, the institute has applied for overdraft facility, which is expected to be sanctioned by next month.

High regulatory intensity of the educational sector – The institute is exposed to regulatory risks as it has to abide by the rules framed by various regulatory bodies like the Medical Council of India (MCI), the Indian Nursing Council (INC), the University Grants Commission (UCG), etc. Moreover, the tuition fee of most of the seats under the convenor quota is reimbursed by the Government of Telangana (GoT) and delays in the same has resulted in high receivables for the institute

High Competitive Intensity – The institute faces intense competition from other colleges in attracting students and faculties. However, this risk is partly mitigated by the brand position enjoyed by the institute in and around Karimnagar

Risks associated with capex plans – The institute has incurred a capex of Rs. 31.2 crore in the past three years and is expected to continue the same going forward to maintain and expand its infrastructure. The expected capex is proposed to be funded through internal accruals. However, if the same is funded through debt, it would constrain the improvement in capital structure and coverage indicators.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology]

[Rating Methodology for Higher Education Sector]

[Rating Methodology for Hospitals]

About the company:

Prathima Institute of Medical Sciences was established in 2001 under Prathima Educational Society registered under the Societies Act with the objective of running a private medical college. The society is located at Karimnagar, Telangana and is affiliated to Kaloji Narayana Rao University of Health Sciences, Warangal. The society offers courses such as MBBS, PG, B.Sc. Nursing, MSc. Nursing, General Nursing and Midwifery (GNM), BSc. MLT (Medical Laboratory Technology) and 448 students enrolled in the academic year (AY) 2017-18. The society is a part of the Prathima Group, which has presence across diversified business streams and is promoted by Mr. B. Srinivas Rao & his family.

In FY2017, the society reported a net profit of Rs. 7.8 crore on an operating income of Rs. 77.1 crore, compared to a net profit of Rs. 0.5 crore on an operating income of Rs. 68.3 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	68.3	77.1
PAT (Rs. crore)	0.5	7.8
OPBDIT/ OI (%)	18.9%	27.1%
RoCE (%)	5.9%	13.4%
Total Debt/ TNW (times)	0.8	0.7
Total Debt/ OPBDIT (times)	3.4	2.1
Interest coverage (times)	2.8	5.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating June 2018	Chronology of Rating History for the past 3 years: Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
						-	-	-
1	Term Loans	Long Term	45.00	42.80	**[ICRA]BBB (Stable)**	-	-	-
2	Bank Guarantee	Short Term	5.00	-	**[ICRA]A3+**	-	-	-
3	Unallocated	Long Term	15.00		**[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	Term Loans	Dec-2016	-	Dec-2031	45.00	[ICRA]BBB (Stable)
NA	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	15.00	[ICRA]BBB(Stable)

Source: PIMS

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About ICRA Limited:

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