Universal Institute of Advanced Studies and Research Private Limited: [ICRANP] LBB/A4+ assigned

October 19, 2020

Summary of rated instruments

Instrument (Amounts in NPR Million) *	Rated Amount (NPR million)	Rating Action
Long-term loans	724	[ICRANP] LBB; assigned
Short-term loans	340	[ICRANP] A4+; assigned
Total	**1,064**	

** Instrument details are provided in Annexure-1*

Rating action

ICRA Nepal has assigned a rating of [ICRANP] LBB (pronounced ICRA NP L double B) to the long-term loans of Universal Institute of Advanced Studies and Research Private Limited (UCMS). ICRA Nepal has also assigned a rating of [ICRANP] A4+ (pronounced ICRA NP A four plus) to the company's short-term loans.

Rationale

The rating action factors in the company's healthy revenue growth from the hospital income with a CAGR of ~15% in the last three years, while the medical college income remained largely stagnant. The company's increased focus on the hospital segment along with addition of facilities in the recent years resulted in better per-patient revenue and higher operating margins. ICRA Nepal further draws comfort from the company's adequate coverage indicators (total debt to OPBDITA - TD/OPBDITA of 3.0 times, interest coverage of 5.3 times and DSCR of 2.1 times in FY2020). The ratings also consider the company's experienced promoter/management team along with its established operational track record (since 1998) and sizeable scale of operations (769 bed capacity). Additionally, positive demand outlook for the healthcare industry along with increasing medical insurance coverage and rising awareness for better healthcare, also remain positives for UCMS.

Nonetheless, the ratings are constrained by the company's weak capitalisation profile (negative net worth of ~NPR 327 million as of mid-July 2020, excluding the revaluation reserves), mainly impacted by the rectification of prior period accounting errors. The ratings are further impacted by the decreasing occupancy levels across most of the courses, apart from the MBBS course, which, continues to remain fully occupied. UCMS has also reported a drop in the hospital occupancy in the recent years after price revision of its services. This concern is, however, partly mitigated by the fact that an increase in fees has been able to offset the decline in volume. The company is also exposed to the risks of asset-liability and cash flow mismatch as the course fees are collected at the start of the academic year and these funds are open to usage for any purpose so far. In the past, a part of the fixed assets was created from such short-term sources, leading to piling of payables and hence resulted in a negative net working capital and weak current ratio, which also remain rating concerns. ICRA Nepal also notes the intense competition in the fragmented healthcare industry. The overall regulatory risks are also significant, as inherent in the medical education sector, including stringent compliance requirements and limited flexibility in fee determination. Going forward, UCMS' ability to attain adequate revenue growth while generating healthy margins, improving the capitalisation and lowering the cash flow mismatch will remain key rating sensitivities.

Key rating drivers

Credit strengths

Long track record and ability to maintain revenue base despite challenges in FY2020 – UCMS started its operations in 1998. The company has been running a medical college along with 769-bedded hospital in Rupandehi city. UCMS' revenue witnessed a CAGR of 10% from FY2016 to FY2019 while its revenues were largely stagnant in FY2020 due to the impact of the pandemic induced lockdown in the last few months of the year. While income from the medical college segment was largely stagnant in the last few years, the overall revenue growth was supported by the income from the hospital and the pharmacy segments. This segment accounted for 55% of the total FY2020 revenues (45% in FY2017). The growth can be attributed to addition of advanced and new medical services and facilities.

Improved operating margins and comfortable coverage indicators – With the increasing share of hospital income, the company's operating margins have gradually improved to ~29% in FY2020, compared to ~26% in FY2017. Hence, the coverage ratios remain adequate with an interest cover at 5.3 times and DSCR at 2.09 times in FY2020, while the TD/OPBDITA also remained comfortable at 3.0 times. The company's ability in maintaining/improving the revenue trajectory and hence the coverage indicators, amid increasing term debts, would remain a key monitorable.

Positive demand outlook for medical education and healthcare services in Nepal – Factors such as better affordability through increasing per-capita income and growing medical insurance coverage, growing healthcare awareness, technological improvements in early diagnosis and treatment, and higher incidents of lifestyle diseases support the industry's prospects. This, in turn, will boost demand for medical education as well as healthcare services.

Credit challenges

Negative net worth – In FY2017, the company rectified the major prior period accounting errors (booking of course fee income on cash basis) through retained earnings. This resulted in a negative net worth of ~NPR 363 million as of mid-July 2017. Despite YoY profits, other accounting corrections still kept the net worth negative at ~NPR 327 million as of mid-July 2020 (excluding the revaluation reserves of NPR 1,088 million). The company's ability to gradually recover the accumulated losses and hence improve the capitalisation would remain critical for its financial profile.

Weak current ratio and risk of asset-liability and cash flow mismatches – The company is exposed to the risks of cash flow mismatch as the course fees are collected in advance and restricted funds are not created for the same. These funds have also been used for capex in the past, leading to sizeable payables and negative working capital. As a result of long-term assets getting funded through short-term funds, the company's current ratio was weak at 0.18 times as of mid-July 2020. UCMS' ability to reduce the funding mismatch would remain a key monitorable. Any sizeable/aggressive expansion plans, going forward, could further put pressure on the cash flows and, hence have a bearing over the ratings assigned.

Uncertain regulatory/operating environment for medical education in Nepal – Regulatory risks are significant for medical education in Nepal with limited flexibility in determining the fees for the national quota as well as uncertainty over the YoY seat allocation for the MBBS course. However, flexibility in determining the fees for the foreign seat quota provides some respite. The seat allocation for the company has gradually reduced over the years (95 seats in AY2019-20 from 115 in AY2016-17). Any further regulatory changes impacting the seat allocation and fees ceiling would impact the company's revenue stream and financial profile.

Reducing occupancy levels and competition from other similar peers – UCMS reported a dip in the hospital occupancy to ~53% in FY2019 (~60% in the earlier two years) after revision in the tariff structures. This further declined to~41% in FY2020, which could partly be attributed to operational disturbances due to the Covid-19 induced lockdown in the last few months of the year. Over the recent periods, the number of hospitals also increased in the region, raising concerns on the patient inflow. Improvement in occupancy is highly dependent on the company's ability to retain and add reputed consultants, which will be a challenge in the light of the increased competition in the healthcare sector.

The company has also reported a gradual dip in student occupancy across all major courses with the average occupancy of all courses falling to ~49% in AY2019-20 from ~74% in AY2017-18. This can be attributed to increasing medical colleges, especially in the Kathmandu valley, which remains the first priority for most students. However, the key revenue driver, i.e. the MBBS course, which accounts for more than 50% of the medical college's income, has consistently reported 100% enrolment. This provides some comfort.

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

Links to applicable criteria:
[Corporate Credit Rating Methodology]

About the company

Universal Institute of Advance Studies and Research Private Limited was established in 1998 with the objective of running a private medical college and hospital. UCMS is located at Sidharthanagar, Rupandehi and is affiliated to Tribhuvan University for medical and allied health sciences. UCMS offers courses such as MBBS, PG, BDS, B.Sc. Nursing, BNS and paramedical courses like lab technician, radiography, public health etc.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Provisional)
Operating income (OI; NPR million)	1,074	1,133	1,308	1,314
OPBDITA[1]/OI (%)	26%	27%	28%	29%
Total debt/Tangible net worth (TNW; times)	(3.2)	(3.2)	(2.0)	(3.5)
Total outside liabilities/TNW (times)	(6.3)	(7.0)	(5.0)	(7.1)
Total debt/OPBDITA (times)	4.2	3.2	2.6	3.0
Interest coverage (times)	3.3	3.8	5.1	5.3
DSCR (times)	0.7	0.8	1.9	2.1
NWC[2]/OI (%)	-85%	-82%	-68%	-53%
Current Ratio	0.1	0.1	0.2	0.2

Annexure-1: Instrument details

Instrument (Amounts in NPR Million) *	Rated Amount	Rating Action
Long-term loans: Fund based (term loans) - A	**724**	**[ICRANP] LBB (assigned)**
Short-term loans		
Overdraft	200	[ICRANP] A4+ (assigned)
Hire Purchase (revolving) and Bill Purchase loan	55	[ICRANP] A4+ (assigned)
Letter of Credit	85	[ICRANP] A4+ (assigned)
Total short-term loans - B	**340**	
Grand Total (A+B)	**1,064**	

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[1] *Operating profit before depreciation, interest, tax, and amortization*
[2] *Net Working Capital*

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About ICRA Nepal Limited

ICRA Nepal Limited, the first credit rating agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was licensed by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a technical support services agreement, which envisages ICRA helping ICRA Nepal in areas such as rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.

Our parent company, 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.

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