

Universal Institute of Advanced Studies and Research Private Limited: Ratings placed on Watch with Developing Implications

December 28, 2023

Summary of rating action:

Instruments* (Amounts in NPR Million)	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term loan limits	612	1,000	[ICRANP] LBB & ¹ ; placed on Watch with Developing Implications
Short-term loan limits	416	300	[ICRANP] A4+ &; placed on Watch with Developing Implications
Total	1,028	1,300	

^{*}There are different loan instruments within the above rated limits.

¹The symbol '&' denotes Rating Watch with Developing Implications. Please refer [here](#) for further details on rating watch and its implications.

Rating action

ICRA Nepal has placed the ratings of Universal Institute of Advanced Studies and Research Private Limited (UCMS) on 'Watch with developing implications' as indicated by the long-term loan rating of [ICRANP] LBB& (pronounced ICRA NP L double B) and short-term loan rating of [ICRANP] A4+& (pronounced ICRA NP A four plus).

Rationale

The rating watch with developing implications is mainly on account of the company's proposed acquisition of a sizeable stake in another medical college, which is likely to significantly increase its debt burden as the acquisition is planned to be funded mostly through debt. ICRA Nepal has not received any updates regarding the operational and financial profile of the proposed entity and hence will continue to monitor incremental developments in this regard, to determine whether any rating action is warranted.

However, the action factors in the recent improvements in the company's operational profile as reflected in better occupancy in hospital and higher student enrolment in medical college segment to almost pre-covid levels. The resultant scale economies aided the improvement in company's operating profit margins (OPM) to ~24.3% in FY2023 from ~20.5% in FY2021. The ratings also consider the company's experienced promoter/management team along with its established operational track record (since 1998) with good infrastructure/facilities. Additionally, positive demand outlook for the healthcare industry and medical education segment also remains the positives for UCMS.

Nonetheless, the ratings continue to remain constrained by the company's weak capitalization structure with gearing of ~4.8 times as of mid-July 2023, despite recent improvements through Y-o-Y profit retention. While the debt service indicator remained adequate with DSCR of ~2.0 times for FY2023, incremental stress is likely given the high debt funded investment and capex plans. 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. The company's liquidity profile is also likely to witness pressure on account of the likely delays in realisation from Government of Nepal's health insurance scheme, which is a growing income segment for UCMS. Additionally, the competition from growing number of healthcare institutions in the region, coupled with the industry's direct exposure to regulatory uncertainties will also remain the key challenges to UCMS. Going forward, the company's ability to attain healthy revenue growth

while maintaining adequate margins, and hence its ability to absorb any impact on debt coverage/service metrics will remain a key rating sensitivity.

Key rating drivers

Credit strengths

Improved revenue and margins – The company was able to report revenue growth at CAGR of ~10% from FY2021 to FY2023, which was aided by improvement in hospital occupancy from ~42.3% to 59.2% over the same period, while the overall student enrolment ratio also improved over this period. While the revenue per patient continued to decline from the surge reported during pandemic period (further exacerbated by growing revenues from health insurance segment which is offered at a relatively low pricing), good growth in patient volume (~13% including OPD and IPD) helped to offset the impact. The medical college income segment was also benefitted by higher occupancy from foreign students during academic year 2021-22 and 2022-23, as these are subject to relatively higher fees. Accordingly, UCMS reported gradual improvements in OPM to ~24.3% in FY2023 from ~20.5% in FY2021.

Experienced promoters/management team and established operational track record – UCMS's established track record (company incorporated in 1998 and first batch of MBBS intake in 2007) and its experienced promoters/management team has led to improvements in its market position over the years. Such would support for gaining competitive edge amongst newly established institutions and has also remained a rating positive.

Good infrastructure/facilities and positive demand outlook – UCMS has been operating 500 bed capacity hospital along with the medical college spread over ~35,600 square metres. The hospital offers super-speciality in six different segments and UCMS has been focusing on regular upgradation of facilities and additions of new facilities, which have been aiding the increased patient flow. Further, positive demand outlook for the medical education as well as the healthcare sector, along with increasing medical insurance coverage and rising awareness for better healthcare also remain rating positives.

Credit challenges

Moderate financial profile – The company's financial profile continues to remain moderate owing to sharp weakening in its net-worth after the adjustment of major prior period accounting errors in FY2017, thus leading to negative reserves. While the YoY profit additions have been able to make the reserves positive from mid-July 2022 onwards, the company's gearing still remains stretched at ~4.8 times with total outside liabilities to tangible net worth also remaining high at ~8.7 times as of mid-July 2023. Though the coverage indicators have also slightly improved in recent years, with DSCR of ~2.0 times as of mid-July 2023, the company's debt addition plans for proposed investment and capex, could have a major bearing over these indicators.

Stretched liquidity profile – UCMS has generally reported negative working capital intensity (net working capital to operating income ratio i.e. NWC/OI) due to the sizeable advance fee receipts from students. Though the intensity has been reducing in recent years (NWC/OI of -7% in FY2023 as against -35% in FY2022), this was mainly on account of sharp build-up in debtor levels during last two fiscals (debtor days of 74 in FY2023 compared to 7 days in FY2021). The increasing receivables from government induced health insurance scheme has led to rising debtor levels, thus pressurising the company's liquidity profile. In the event of spike in debt levels as planned, promoters' support might be required to manage the liquidity pressures, thus remaining a key monitorable.

Uncertain regulatory environment for medical education in Nepal – Regulatory risks are significant for medical education in Nepal with limited flexibility in determining the fees, stringent compliance requirements, among others.

While 10% of the seats in the MBBS course are allocated to scholarships, fees for the national seat quota (57%) are determined by Medical Education Commission (MEC) which is capped at ~NPR 4.6 million for MBBS program outside valley. However, the company has relative flexibility in determining the fees for the foreign seat quota (cap of 33%), which has reported improved occupancy, thus remaining a positive (fees charged to foreign MBBS students is usually ~70-90% higher than that of national student fees). Any further regulatory changes impacting the seat allocation and fees ceiling would impact the company's revenue stream and its financial profile.

Link to the previous rating rationale

[Rationale - UCMS BLR Surveillance May 2022](#)

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

Link to the applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Universal Institute of Advance Studies and Research Private Limited (UCMS) was established in 1998 with the objective of running a private medical college and teaching hospital. The company runs a 500 bedded hospital in Siddharthanagar, Rupandehi and is affiliated to Tribhuvan University for medical and allied courses. UCMS offers under-graduate courses such as MBBS, BDS, BSc. Nursing, B. Pharma, etc. and other graduate and post-graduate courses. The company's major stake is held by Everest College of Medical Sciences Private Limited (~60%). Mr. Ramesh Sharma is the chairman of the company.

Key financial indicators

	Audited				Provisional
	FY2019	FY2020	FY2021	FY2022	FY2023
Operating income (OI; NPR million)	1,308	1,304	1,226	1,392	1,479
OPBDITA/OI (%)	27.6%	27.1%	20.5%	22.8%	24.3%
Total debt/Tangible net worth (TNW; times)	(4.8)*	(11.6)	(27.9)	13.1	4.8
Total outside liabilities/TNW (times)	(10.7)	(24.2)	(53.9)	23.6	8.7
Total debt/OPBDITA (times)	2.6	2.5	3.6	2.9	2.7
Interest coverage (times)	5.1	4.8	3.5	4.6	5.4
DSCR (times)	1.9	2.0	1.5	1.8	2.0
NWC/OI (%)	-68%	-55%	-50%	-35%	-7%
Current Ratio	0.1	0.1	0.1	0.1	0.4

Source: Company data

Implementation of NFRS from FY2019 and thus, reserve went negative implying negative TNW. Additionally, revaluation reserves of NPR 1,416 million has also been excluded from TNW.

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About ICRA Nepal Limited:

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