Manipal Education and Medical Group (Nepal) Private Limited: [ICRANP] LBB/A4 assigned

March 18, 2024

Summary of rating action:

Instruments (Amounts in NPR Million)	Current Rated Amount	Rating Action
Long-term loan limits	1,950	[ICRANP] LBB; assigned
Short-term loan limits	50	[ICRANP] A4; assigned
Total	**2,000**	

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBB (pronounced ICRA NP L double B) to the long-term loan limits of Manipal Education and Medical Group (Nepal) Private Limited (Manipal) and a short-term loan rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term loan limits.

Rationale

The ratings factor in the company's long operational track record (since 1994), strong brand recall of Manipal and its good traction among foreign students, which has led to relatively better operating profit margins (OPM) among its peers. The ratings also consider the company's moderate scale of operations (500 beds), sizeable capex investment in infrastructure/facilities, positive demand outlook for healthcare/medical education in Nepal and improving patient flow in recent years, after the slump during Covid years.

Nonetheless, the ratings remain constrained by moderation in the company's capitalisation structure, following its leveraged buyout[1] by current set of promoters from the erstwhile promoter i.e., Manipal Group of India. Accordingly, the company's gearing stood at ~2.3 times with total debt to OPBDITA of ~5.2 times as of mid-July 2023. While the debt servicing indicator remained adequate with DSCR of ~2.9 times for FY2023, this was mainly aided by the fact that the company was exposed to debt burden only for around five months for this year. The impact of this sizeable debt is also reflected in a declined DSCR of ~2.2 times in H1 FY2024, despite healthy revenue growth and OPM improvement during the period. The company is also exposed to the risks of asset-liability and cash flow mismatches 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, leading to liquidity concerns. Additionally, the competition from the fragmented healthcare institutions in the region, coupled with the industry's direct exposure to regulatory uncertainties also remain the key challenges.

Going forward, the company's ability to attain healthy revenue growth while maintaining adequate margins and hence, improve its capitalisation/coverage indicators will remain a key rating monitorable. The probable impact of the exit of former promoters from the company on aspects such as use of brand name of Manipal, seat quota for foreign students (with 50% seat quota)[2], etc., will remain a major rating sensitivity.

[1] *This happened in August 2021 through an SPV viz., BAPO Holdings Private Limited, which was later merged with Manipal in February 2023.*

[2] *Medical colleges with foreign investments are allowed 50% foreign seat quota (priced at ~1.6 times of domestic students) as per regulations, against 33% for domestic investments, albeit with 20% scholarship quota requirements against 10% for others. Manipal has been continuing with this facility despite the exit of foreign promoters. Further, due to lack of share purchase agreement from the management, the rights of the company regarding continuation of the usage of Manipal brand name remain uncertain.*

ICRA NEPAL

Key rating drivers

Credit strengths

Improved revenue and healthy margins – The company reported revenue expansion at a CAGR of ~6% from FY2021 to FY2023, which was mainly aided by improvement in the hospital income segment, after the slump during Covid years. While the hospital occupancy declined to ~55% in FY2023 from ~65% in FY2021, the rise in average revenue per occupied bed days (ARPOBD) and the growth in IPD patient volume offset the impact. With added facilities in recent years, the hospital income segment has improved further in H1 FY2024 with ~54% annualised growth (~22% annualised growth in overall revenues, amid relatively slow growth in medical college segment). The medical college income segment, which was impacted by lost intake of a student batch during the Covid period, is likely to be benefitted by the recently concluded dual intake. Further, Manipal has reported improved occupancy from foreign students since academic year 2022-23, which generally reported full occupancy, except for the Covid years. Accordingly, Manipal has been able to report improved OPM of ~36% in H1 FY2024 against 28-29% in last three years. However, sustainability of the same remains to be seen.

Established operational track record and brand strengths – Manipal's established track record (company incorporated in 1994 with the first batch of MBBS intake among private institutions in Nepal) and the brand image of Manipal Group in India has helped gaining good traction among foreign students. However, the company's ability to continue with the higher seat quota for foreign students and using Manipal's brand name despite the change in ownership, remains to be seen and shall remain the key rating sensitivity.

Good infrastructure/facilities and positive demand outlook – The company has been operating a 500-bed hospital along with the medical college spread over ~10 hectares. The management has been focusing on regular upgradation of facilities and additions of new facilities, which have been aiding in the increased patient flow. Further, positive demand outlook for medical education as well as the healthcare sector, along with increasing medical insurance coverage and rising awareness for better healthcare remain rating positives.

Credit challenges

Moderate financial profile – Manipal's financial profile has moderated after the recent term loan addition (after merger with its holding company in February 2023). The company's gearing stood at 2.3 times with TD/OPBDITA also remaining high at 5.2 times as of mid-July 2023. The DSCR metrics of 2.9 times for FY2023 has also reported stress to 2.2 times for H1 FY2024, with full-year debt burden from FY2024 onwards, despite the improved revenue/margin trajectory during the interim.

Modest liquidity profile – The company 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 a common phenomenon in the industry) and stretched creditors. While the intensity has been reducing in recent years (NWC/OI of -23% in H1 FY2024 against -67% in FY2022), this was mainly on account of major build-up in debtor levels (debtor days of 71 in H1 FY2024 compared to 45 in FY2022), among others. Thus, Manipal has been reporting current ratio of <1 times in the last five years.

Uncertain regulatory environment for medical education in Nepal – Regulatory risks are significant for medical education in Nepal with limited flexibility in determining the fees, and stringent compliance requirements, among others. In the MBBS course, fees for the national seat quota are determined by the Medical Education Commission (MEC) which is capped at ~NPR 4.6 million for MBBS programme outside the valley. However, the company has relative flexibility in determining the fees for the foreign seat quota (fees charged to foreign MBBS students is usually ~60-70% higher than that of national student fees). Any further regulatory changes impacting the seat allocation, mix and fees ceiling would impact the company's revenue stream and its financial profile.

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

Manipal Education and Medical Group (Nepal) Private Limited (Manipal) was established in 1994 by Manipal Group of India, which divested its stake to Nepalese promoters in August 2021, through an SPV named BAPO Holdings Private Limited (BAPO). BAPO had raised the debt to the tune of NPR 1,800 million to acquire stake in Manipal at a cost of NPR 2,240 million (both as per BAPO financial statements). In February 2023, BAPO was merged with Manipal with the acquisition-related debt thereafter reflecting in Manipal's financials.

The company runs a 500-bed hospital in Pokhara, Kaski and is affiliated to Kathmandu University for medical and allied courses. Manipal offers under-graduate courses such as MBBS, BSc. Nursing, apart from other graduate and post-graduate courses. At present, the company's stake is held by promoters from the Batas Group (~60%) and the Autoways Group (~40%). Mr. Ananda Raj Batas is the Chairman of the company.

Key financial indicators

	Audited					Provisional
	FY2019	FY2020	FY2021	FY2022	FY2023	H1FY2024
Operating income (OI; Revenues in NPR million)	1,228	1,105	1,077	1,099	1,218	743
OPBDITA/OI (%)	25%	23%	30%	32%	28%	35%
Total debt/Tangible net worth (TNW; times)	-	-	-	-	2.3	2.1
Total outside liabilities/TNW (times)	1.4	1.8	2.0	2.1	4.4	4.1
Total debt/OPBDITA (times)	-	-	-	-	5.2	3.4
Interest coverage (times)	551.8	399.8	960.3	176.1	2.9	2.4
DSCR (times)	552.7	409.3	777.9	101.7	2.9	2.2
NWC/OI (%)	-63%	-80%	-76%	-67%	-37%	-23%
Current Ratio	0.8	0.7	0.6	0.6	0.7	0.8

Source: Company data

Analyst Contacts:

Mr. Sailesh Subedi (Tel No. +977-1-4519910/20)
sailesh@icranepal.com

Mr. Rajib Maharjan (Tel No. +977-1-4519910/20)
rajib@icranepal.com

Mr. Bigyan Bhattarai (Tel No. +977-1-4519910/20)
bigyan.bhattarai@icranepal.com

Relationship Contacts:

Ms. Barsha Shrestha (Tel No. +977-1-4519910/20)
barsha@icranepal.com

About ICRA Nepal Limited:

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For more information, visit www.icranepal.com

ICRA Nepal Limited,
Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal
Phone: + 977-1-4519910/20
Email: info@icranepal.com
Web: www.icranepal.com

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