

## KLE Academy of Higher Education and Research

March 02, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	480.00	CARE A+; Stable (Single A Plus; Outlook: Stable )	Assigned
<b>Total Bank Facilities</b>	<b>480.00</b> <b>(Rs. Four hundred eighty crore only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KLE Academy of Higher Education & Research (KAHER) continue to derive strength from long track record of operations in the education sector. The ratings also positively factor diversified revenue stream with large number of institutions offering diverse range of courses and continuing satisfactory enrolment ratios. The rating also takes note of minimal impact of Covid-19 with satisfactory enrolment ratios and improvement in collection of fee payments aided total income growth and improvement in profitability margins during FY21 (refers to the period April 1 to March 31). KAHER is accredited with National Assessment and Accreditation Council (NAAC) A+.

The rating also positively factor in the increasing demand for education in India as well as strong financial risk profile of the society marked by comfortable capital structure aided by strong network, nil debt and comfortable liquidity position marked by healthy cash balances and liquid funds. These rating strengths are partially offset by large debt funded capex by the society and the project being yet to achieve financial closure, geographically concentrated revenue profile of the society, operations of the society being carried out in a highly regulated environment, intermittent cash flow mismatch associated with educational institutes and the competition faced by the society from other established players in the education sector.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant improvement in income with industry comparable operating margin
- To improve scale of operations above Rs 400 crore and maintain SBID margin above 30% on sustained basis.
- To maintain overall enrolment ratio above 95% on a sustained basis.
- To complete the debt funded capex on time and commence the medical college as per schedule

#### Negative Factors- Factors that could lead to negative rating action/downgrade:

- Weakening of financial profile because of significant increase in working capital requirements and/or large debt-funded capex or deterioration in liquidity
- Significant delay in completion and commencement of the medical college leading to cost and time overrun

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Long track record of KAHER and over a century of established operations of KLE Society:** KAHER is sponsored by Karnatak Lingayat Education (KLE) Society was established in April 2006 and comprises of 15 institutes with a student base of more than 5000. Moreover, the added synergy comes from the long track record of over a century of established operations of KLE Society. The KLE society trust has been operating various schools and institutes since 1916. The trust currently manages around 282 institutes with a student base of approximately 1.3 lakh. The day-to-day activities of the society are managed by the Chairman, Dr Prabhakar Kore, and the Secretary, Dr B. G. Desai.

**Affiliation, accreditations & approvals from regulatory bodies in place with satisfactory infrastructure:** All the institutes which are part of the constituent units are approved by University Grants Commission (UGC) and Ministry of Human Resource Development (MHRD). The university received various accreditations such as NAAC A+ and MHRD Category A Certificate, etc. The UGC approved the status of Deemed University in February 2009. KAHER has collaborations with 6 national and 14 international agencies of USA, Europe and Canada through memorandum of understandings (MoUs) in various fields through its research arm KLE University. KAHER in synergy with the KLE Society's Dr. Prabhakar Kore Hospital & Medical Research Centre (MRC) and other healthcare institutions of KLE at Belagavi derives benefit by facilitating research and providing easily accessible healthcare.

#### Diverse range of courses offered with well-established infrastructure leading to satisfactory enrolment ratio:

KAHER offers various undergraduate, postgraduate, postdoctoral, fellowship and certificate programs in the faculties of Medicine, Dentistry, Pharmacy, Ayurveda, Physiotherapy and Nursing. KAHER operates large campus in terms of infrastructure, experienced teaching faculty, teaching hospital and MRC, diagnostic facilities, Wi-Fi and digital library, e-learning and other facilities. The availability of graduate and post graduate programmes with diversified courses helps the university in attracting

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

more students by reducing dependency on any one discipline. Given the support of KLE society, KAHER has edge over other institutions in terms of brand image in north Karnataka region. The overall enrolment ratio of the society has remained more than 90% for the last three years, and in AY21-22 the overall enrolment ratio remains constant at 92%. Moreover, during 2021, KAHER started setting up a Jagadguru Gangadhar Mahaswamigalu Moorsavirmath Medical (JGMMM) College with total student intake of 150 every year and KLE Hospital and Medical research Center having 900 beds in Hubballi, of which the first phase is likely to be completed by September 2022.

**Continuous growth in scale of operations with healthy surplus margin:** The scale of operations of the society as indicated by total operating income (TOI) has exhibited healthy and continuous growth over the past three years. TOI of the university increased by 14.6% to Rs 325.44 crore in FY21 from Rs 284.1 crore in FY20, aided by increase in total fees collections and hospital income. The surplus margin of the society improved in FY21 to 40.38% from 31.69% in FY20, on account of decrease in academic expense and improvement in total income.

The overall growth in the operating income over the years are primarily on account of increased seats and fees of J.N. Medical College (JNMC contributed around 72% of total operating income in FY21) across courses. Moreover, the university have received around Rs.17 crore of new foreign grants (WHO, Milinda Gates Foundation etc) during FY21 and also expects the funds to continue in subsequent years. Further, the JGMMM college admission has already started, which will likely add to the overall income of the university. As a result of delayed admission process due to COVID 19, the management expects to add approximately Rs.150 crore from fees collections during February 2022, specially from MBBS, PG and Dental seats. The increase in fees collection over and above the current batch is expected from the new 10-15 PG seats which are added during FY21, and also from the new Medical College.

**Strong financial risk profile marked by increasing fees income, low term debt and strong liquidity position:** The total income of the society has witnessed consistent growth y-o-y. Given strong financial risk profile, the university undertakes regular expansion and capex towards the existing colleges and institutes which are majorly funded through internal accruals. The long-term loans outstanding was Nil, in comparison to its networth of Rs.884.66 crore as on March 31, 2021. The liquidity position of the society has remained strong with free cash and bank balance of Rs.551.79 crore and Rs. 572.74 crore as on March 31, 2021, and January 31, 2022, respectively. Further, the current ratio remained high at 2.92x as on March 31, 2021 (PY: 3.03x). The corpus of the KAHER remains high at Rs.154.30 crore as on March 31, 2021 (PY: Rs.115.17 crore) as it receives capital grants from Government, development fund from philanthropists, etc.

### Key Rating Weaknesses

**Financial risk profile to moderate going forward due to large debt-funded capex:** KAHER's project relating to construction of JGMMM college Hospital is estimated to cost approximately Rs.454.1 crore, of which Rs. 386 crore is debt funded and the balance through promoters contribution through internal accrual (of which ~Rs.60 crore is spent till January 2022). The project will be completed in two phases, and the completion and commencement of Phase-I is expected by September 2022 and October 2022, respectively, and for Phase-II, the same is likely by March 2024 and April 2024, respectively. Moreover, KAHER will fund the medical equipment for a new Cancer Hospital through additional debt of Rs.82.5 crore, which KAHER planned to incur in FY22. The total project cost for the equipment is Rs.110 crore. The pre sanction approval for the above project is received from few Banks. Thus with the above large debt funded capex, it is expected that the financial risk profile of the society is expected to moderate going forward.

### Project with debt capex albeit with no financial closer in place:

Although the first phase of the project (costing Rs.70 crore) is as per schedule and is expected to be completed by September 2022, the major chunk of the cost will be incurred in the second phase during FY23 i.e. approximately Rs. 332 crore. The society has adequate financial flexibility in terms of availability of liquid funds, however, it is dependent on term debt as per project need, and the project has not yet achieved financial closer. Thus any delay in financial closure will likely lead to delay in completing the second phase of the project, and the same may eventually lead to time and cost overrun.

**Intermittent cash flow mismatch associated with educational institutes:** Majority of the fee is collected by KAHER during the period June-September in every academic year, while the trust incurs regular stream of payments for meeting staff salary, maintenance activities, interest expenses, term loan repayments, etc. The university maintains deposits of monthly maturity to take care of the operational expenses like staff salary, maintenance expenses, etc. The society also gets other income in form of rentals, interest from banks, revenue grants, donations, consultancy, examination fees, etc. The society undertakes regular expansion and capex activities year on year towards the existing colleges and schools.

**Competition from the larger and more established educational institutes:** KAHER is in the education sector, which is highly fragmented in nature with the presence of various educational institutes. This leads to high competition for institutes of KAHER. Furthermore, the Central Government is also encouraging private sector participation in the education sector which will further intensify the level of competition. Increasing competition may lead to decline in the student enrolment which will directly impact the revenue visibility for the society. However, considering the brand image and long track record of KAHER and its sponsor, KLE Society, the risk is mitigated to a large extent.

**Limited outreach on account of operations mostly in Karnataka:** The institutes are mostly located in the state of Karnataka's Belagavi and Hubballi districts, the entire revenue of the university is dependent upon the business/ education

potential from these regions. Also, majority of the students belong to these regions. Such regional presence limits the reach and penetration levels from tapping opportunities outside the region. However, the same is mitigated to a large extent with presence of diversified course offerings and proximity to the neighbouring state i.e. Goa and Maharashtra.

**Regulatory framework for educational sector in India:** KAHER is operating in a highly regulated industry. Despite the increasing trend of privatisation of education sector in India, the sector continues to operate under stringent regulatory purview. In addition to UGC and AICTE, the educational institutions are regulated by respective state governments with respect to a number of management seats, amount of tuition fee charged for government quota and management quota giving limited flexibility to the institutions. Furthermore, in respect of self-financing colleges, fees are governed by a statutory body. The operating flexibility of the education sector is limited, as regulations govern almost all aspects of operations, including fee structure, number of seats, changes in curriculum and infrastructure requirements. These factors have significant impact on the revenue and profitability of the institutions.

**Prospects:** The long-term outlook for the sector is favourable on the expectation of increasing population, increase in per capita income, rising enrolment ratios, variety of courses being offered, growth in the vocational courses, government support in terms of Fee Reimbursement Scheme, flexibility in curriculum, and innovation fund for secondary education.

#### **Liquidity: Strong**

The university has strong liquidity with satisfactory cash accruals generation. Surplus funds from fee collected during this period are deposited in bank as fixed deposits. These funds are used to meet operating expenses during lean fee collection period. KAHER's reliance on outside borrowing is less. University as a policy would always maintain a minimum amount equivalent of 12 months' salary in form of FD and has maintained free cash and Bank balance of Rs. 29.80 crore, and FD of over Rs. 525 crore as on January 31, 2022, which provide additional comfort. The current ratio and quick ratio of the remain comfortable at 2.92x as on March 31, 2021 (3.03x as on March 31, 2020).

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Criteria on assigning Rating Outlook](#)

[Education](#)

[Consolidation](#)

[Policy on Default Recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

#### **About the University - KAHER**

KLE Academy of Higher Education & Research (KAHER) was established on April 13, 2006, as per the Ministry of Human Resource Development (MHRD), Government of India (GOI), under the recommendation of University Grants Commission (UGC). KAHER offers various undergraduate, postgraduate, postdoctoral, fellowship and certificate programs in the faculties of Medicine, Dentistry, Pharmacy, Ayurveda, Physiotherapy and Nursing at Belagavi, Hubballi and Bengaluru. The major courses offered include MBBS, postgraduate (PG: clinical, para clinical), Pharmacy (B-Pharma and M-Pharma), Nursing (B.S.C. Nursing and M.S.C Nursing), Dentistry (BDS and MDS), Allied, Physiotherapy and Ayurveda studies. KAHER has received various accreditations from NAAC, MHRD, WHO, FERCA Ethics Committee, and NABH. KLE Jawaharlal Nehru Medical College (JNMC), KLE Society's Institute of Nursing Sciences, KLE College of Pharmacy, and KLE Institute of Physiotherapy, are some of the prominent institutions of KAHER.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (P)
Total operating income	284.20	325.44	226.77
SBILDIT	92.96	135.08	117.6
PAT	90.08	131.42	137.03
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	435.88	520.55	83.40

A: Audited; P: Provisional

#### **About the Sponsoring Society - KLE**

The KLE Society was established in 1916 and commenced its operations by starting an Anglo Vernacular school in Belagavi in the name of Gilganchi Artal High School. Over the years, it has established itself in the field of education and healthcare. Today, KLE Society is one of the leading and reputed educational societies operating 282 educational institutes in the state of Karnataka with a student base of approximately 1.3 lakh. It also has eight hospitals and 13 health science institutions, with over 4,500 beds including 1,700 charitable beds, and it continues to be the mainstay for the society with about 27% share in the society's total revenue during FY21. The society's institutes are mostly located in the state of Karnataka and the rest of the institutes are in the state of Maharashtra. The courses offered by the Trust are affiliated to several state universities like Rani Channamma University (Belagavi), Karnatak University (Dharwad), and other educational regulatory authorities like AICTE and Central Board of Secondary Education (CBSE). Dr Prabhakar Kore is the Chairman of the trust since 1984.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (P)
Total operating income	745.07	659.25	NA
PBILDT	195.57	140.28	NA
PAT	140.67	87.13	NA
Overall gearing (times)	0.07	0.05	NA
Interest coverage (times)	14.75	13.23	NA

A: Audited; NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:** Please refer Annexure-2

**Covenants of rated instrument/facility:** Not Applicable

**Complexity level of various instruments rated for this company:** Annexure-3

#### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan - Proposed		-	-	-	480.00	CARE A+; Stable

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	480.00	CARE A+; Stable				

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

#### Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

#### Annexure 5: Bank Lender Details for this Company

To view the lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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