

UNext Learning Private Limited

April 04,2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	104.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Bank Facilities	104.00 (Rs. One Hundred Four Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of UNext Learning Pvt Ltd (UNext) derives strength from experienced and resourceful promoter group "Manipal Group" which is having long track record of operations in the education and healthcare sector. UNext being in early stages of operations is likely to report losses which primarily needs to be funded from equity infusion. CARE Ratings Limited expects the promoter group to provide timely support to UNext for servicing its debt obligations on due date in case of any delay in equity raising by the company. The commitment of the promoters to support UNext is also established from presence of Corporate Guarantee provided by the promoter entities namely MEMG Family Office LLP (MEMEG FO) and MEMG International India Pvt Ltd (MEMGIPL) to the bank facilities of UNext. As such, being part of the Manipal group, UNext has accessibility to the universities operating under the Manipal ecosystem for online education programmes thereby providing revenue visibility. Currently, UNext has tied up with Manipal Academy of Higher Education (MAHE) and Manipal University Jaipur (MUJ; rated CARE A-; Stable) to provide various support services for some of their Online courses on revenue sharing basis. The rating also positively factors in promising market for online education with increased penetration of internet in India. These rating strengths are partially offset by nascent stage of operations with commencement of 1st batch of MUJ Online Program from May'21, leveraged capital structure and dependence of external capital to fund losses and to meet debt repayments obligations. While the company is in the process of raising external equity and expects to receive the same in near term but any delay in raising the same and losses being funded with debt may weigh negatively on its credit profile.

Rating Sensitivities

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

- Ramp-up of scale of operations as envisaged with positive EBITDA by FY25

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

- Delay in raising equity capital thereby leading to increase in debt to fund losses.
- Lack of timely infusion of funds by the promoters to meet debt servicing obligations
- Change in support philosophy of Manipal group towards UNext.

Detailed description of the key rating drivers

Key Rating Strengths

Part of resourceful Manipal group and established track record of promoter group in health and education services coupled with experienced and qualified board:

Manipal group was started by late Dr. Tonse Madhava Ananth Pai (T.M.A Pai), for establishing its presence in education and healthcare sector. Currently, the group is headed by Dr. Ramdas Pai (honoured with Padma Bhushan in 2011), son of Dr. T.M.A Pai having experience of more than five decades in the field of education and healthcare services industry. He is also assisted by his son, Dr. Ranjan Pai who also has extensive experience of around three decades in running and managing healthcare and education businesses.

The group has experience in providing distance learning education under Sikkim Manipal University (SMU). However, due to change in regulation, the programme had to be discontinued. Nevertheless, the same gives confidence to UNext in terms of providing technology, marketing and other support services to its partner Universities to facilitate them in disseminating higher education through Online mode in accordance with UGC Regulation.

Due to established scale of operations in education and healthcare sector the group has the financial flexibility to raise the funds in order to meet the expected losses in UNext as well as to meet its debt servicing obligations in a timely manner. In the past the group has demonstrated fund raising capability from various investors. Further, MEMG FO (investment arm of group) with large net worth and MEMGIPL (brand holding entity of the group) has provided Corporate Guarantees for the rated facilities.

Accessibility to Manipal ecosystem coupled with tie-ups with MAHE and MUJ: UNext is an educational technology company providing technology, marketing and other support services to its partner Universities to facilitate them for offering online degree courses. During FY22, the company tied up with MUJ for providing various support services towards offering the

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

online courses by the university on a revenue sharing basis. The 1st Batch for MUJ Online program had commenced in May 2021. Further, during FY22, UNext also tied up with MAHE for similar support services. The admission process for the 1st batch is expected to commence from Apr'22 and 1st semester is expected to commence from Jul'22. Being part of the Manipal group the company has accessibility to provide support services to various instates/university being operated under Manipal ecosystem thereby providing revenue visibility.

Apart from online degree courses, UNext also conducts training programmes for various corporates especially to the IT sector, and currently the revenue contribution from this segment is significant due to nascent stage of support services to the universities for degree course expected to be limited.

Promising potential for online education in India: Online education market is approx. USD 300-400 mn in FY20 and is expected to grow at a CAGR of 20 % by 2025. Increased penetration of internet, accessibility, affordability and quality of online content as well as increased acceptance of online courses by the industry are some of the factors that are deriving demand for online education in India. Many start-ups have come up in this segment over past 2-3 years are already engaged in imparting these support services to the universities for online education in India, however, given the high population there is still huge market potential in India.

Key Rating Weaknesses

Nascent stage of operations with expected high losses in the initial years: The first batch of MUJ online course commenced in May 2021 with ~3370 students. The second batch has commenced from December 2021 with ~5500 students. Currently, seven courses namely BBA, BCA, B.Com, MBA, MCA, M.Com and MA Journalism are being provided by MUJ online. Due to nascent stage of operations, high investment is required in marketing, content development and student acquisition in order to increase the scale of operations. Thus, high expenses along with gradual ramp-up in scale of operations will result in losses at operating level going forward. The company expects to start generating operating profits from FY25 onwards. Ramp-up of scale of operations as envisaged is critical from credit perspective and will be a key rating monitorable.

Leveraged capital structure with dependence on external capital to fund the losses: Due to acquisition of corporate training business and MeritTrac (wholly owned subsidiary engaged in providing assessment services) during FY21, the company has a negative net worth as on March 31, 2021. The same is expected to remain negative due to high losses projected till FY24. While the 1st year loss is being funded with debt, however as communicated by the management, the company is in the process of raising equity to fund its losses as well as to meet its debt repayment obligations. Timely raising of equity to fund the losses as well as to meet the debt servicing obligation is crucial and will be a key rating sensitivity. The promoters have demonstrated their ability to raise funds in past in other group entities and therefore CARE Ratings Limited expects the promoters to provide timely financial support to the company in case of any delay in raising capital to meet its debt repayment obligations in a timely manner.

Liquidity: Adequate

Being in the nascent stage of operations the liquidity of the company is primarily driven by financial flexibility derived by it being part of Manipal group.

Analytical approach: Consolidated-UNext along with its subsidiary (holding 99.8% from Feb'21 onwards) MeritTrac Services Pvt Ltd (MeritTrac) are considered for analysis given the strong operational, management and financial linkages among the entities. The rating also factors in strong financial flexibility of Manipal group (MEMG Family Office LLP) to raise funds from several sources as demonstrated in past.

Applicable Criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Education](#)

[Service Sector Companies](#)

About the Company

UNext is part of Manipal Education and Medical Group and is incorporated to offer technology enabled education solutions and support to various universities for their online degree programs as well as corporates. UNext is an EdTech company that offers end-to-end education solutions, marketing/student outreach services, creating digital assets in improving student learning experience, education delivery using e-learning, multimedia and other online and digital learning technologies. UNext along with its subsidiary offers skilling courses in emerging technologies, examination, assessment, proctoring and test taking services (both online and offline), recruitment and training solutions to corporates and education/government institutions.

Currently UNext has partnered with MAHE and MUJ to offer various education and technical support services for their online education programs on a revenue sharing basis. It has also partnered with several leading technology services companies in offering employee upskilling training programs in cutting edge emerging technologies.

Brief Financials Consolidated (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	0.10	26.74	NA
PBILDT	-0.76	-0.55	NA
PAT	1.02	-13.69	NA
Overall gearing (times)	0.00	NM	NA
Interest coverage (times)	NM	NM	NA

A: Audited; NM: Not Meaningful; 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: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

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	-	-	-	March 2026	84.00	CARE BBB-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	-	20.00	CARE BBB-; 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	84.00	CARE BBB-; Stable	-	-	-	-
2	Fund-based - LT-Bank Overdraft	LT	20.00	CARE BBB-; Stable	-	-	-	-

* Long Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	- DSRA equivalent to three months of principal and interest due to be maintained in FD/BG form - Minimum DSCR>1.25x from FY23 onwards
B. Non financial covenants	Not Stipulated

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	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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