

KLE Academy of Higher Education and Research

March 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	480.00	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of KLE Academy of Higher Education & Research (KAHER) continue to derive strength from the long track record of operations in the education sector, robust growth in total operating income (TOI), healthy surplus before interest, depreciation and tax (SBILD) margin, diversified revenue stream with large number of institutions offering diverse range of courses and continuing satisfactory enrolment ratios. KAHER is accredited with National Assessment and Accreditation Council (NAAC). The rating also positively factors 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 net worth, and comfortable liquidity position marked by healthy cash balances and liquid funds. These rating strengths are partially offset by delay in large debt-funded capex by the society 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 the educational institutes and the competition faced by the society from other established players in the education sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in TOI by 20% and maintaining SBILD margin over 30% on a sustainable basis.
- Maintaining overall gearing below 0.20x on a sustainable basis.
- Completion and commencement of the medical college without any cost or time overrun.

Negative factors

- Significant delay in completion and commencement of the medical college leading to cost and time overrun and its impact on liquidity profile.
- Significant debt-funded capex or deterioration in liquidity.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its established market position coupled with strong liquidity.

Key strengths

Long and stable track record of KAHER and its association with Karnataka Lingayat Education Society (KLES):

KAHER is sponsored by Karnataka Lingayat Education Society (KLES) and is deemed to be university. KAHER was established in April 2006 as per the Ministry of Human Resource Development, Government of India, and comprises of 15 institutes with a student base of more than 5,700. It derives synergistic benefits by virtue of being associated with KLES. KLES has been operating various schools and institutes since 1916 and currently manages around 292 educational institutes with a student base of more than 1.30 lakh.

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 Medical Research Council (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 more students by reducing dependency on any one discipline. Furthermore, given the support of KLES, KAHER has edge over other institutions in terms of brand image that it commands due to long track record and better facilities. The overall enrolment ratio of the society has remained more than 90% for the last three years, and in Academic Year 2023 the overall enrolment ratio remained at about 98%.

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

Affiliation, accreditations & approvals from regulatory bodies in place: All the institutes of KAHER which are part of the constituent units are approved by University Grant Commission (UGC) and MHRD. The university received various accreditations such as MHRD Category A Certificate, WHO CC Designation Center Research Unit, Ethics Committee Accreditation by National Accreditation Board for Hospitals (NABH) and was ranked 14th by WORLD BLAZE for its KLE hospital. 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 (KLEU).

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. TOI of the university increased by 22.82% to Rs 392.69 crore in FY22 from Rs 320.30 crore in FY21, aided by increase in total fees collections and hospital income. Furthermore, for H1FY23 society has booked income of Rs 269.54 crore. The SBILDT margin of the society remained healthy and stood at 32.54% in FY22 vis-à-vis 35.15% in FY21. The SBILDT level of the society stood at ₹127.78 crore during FY22 (₹112.57 crore during FY21). CARE Ratings Limited (CARE Ratings) expects the SBILDT margin of university to be above 30%.

Strong financial risk profile: The financial risk profile of the university remains comfortable marked by its overall gearing level at 0.09x as on March 31, 2022 (PY: 0.05x). The outstanding term loan as on March 31, 2022, stood at ₹85.39 crore against the corpus of ₹1,004.84 crore. The other debt coverage indicators such as Interest coverage 48.43x, Total debt/ GCA 0.51x remained comfortable. The society has cash and liquid balance of about ₹550 crore as on March 31, 2022.

Key weaknesses

Delay in execution of project: KAHER is in the process of setting up Jagadguru Gangadhar Mahaswamigalu Moorsavirmath Medical College (JGMMM) with 150 students intake every year and Hospital having 900 beds (primarily to cater patient from North Karnataka, Goa and South Maharashtra with facilities include Modular OTs, round-the-clock diagnostics including nuclear medicine, and PET-CT scan technology etc.) on an estimated total project cost of about ₹477 crore. The project is funded through internal accruals of ₹97.13 crore and debt of ₹380 crore. Till February 15, 2023 society has spent total of about ₹167 crore towards the project, funded by way of promoter contribution of ₹114 crore and the balance ₹53 crore through debt. As per the lenders' independent engineer report (LIE) of February 2023, the phase 1 of the project was expected to be completed by September 2022 however due to monsoon ensuing from June 2022 and heavy rains in the month of September and October 2022 no physical work could be undertaken, resulting in dislocation of schedule of implementation. As per, revised implementation schedule medical college and library is scheduled to be completed by December 2023 and the teaching hospital is expected to be completed by March 2024. The loan of ₹380 crore has been sanctioned by SBI. As per management the delay in execution of the project will not have significant bearing on the cost of the project as the contract is fixed price contract with no price escalation clause. CARE Ratings will continue to monitor the progress of the project and the same will be key monitorable.

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 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 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 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.

Liquidity: Strong

The university has strong liquidity with satisfactory cash accruals generation. Surplus funds from fee collected 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. The current ratio and quick ratio both remains comfortable at 2.42x as on March 31, 2022 (2.65x as on March 31, 2021). Society has generated cash accruals to the tune of ₹166 crore during FY22. Furthermore, for FY22-24 period, the university have no long debt repayments.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Education](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Other Consumer Services	Education

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). The major courses offered by KAHER 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. 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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (P)
Total operating income	320.30	392.69	269.54
PBILDT	130.26	147.78	NA
PAT	131.42	146.05	NA
Overall gearing (times)	0.05	0.09	NA
Interest coverage (times)	501.98	48.43	NA

A: Audited, P: Provisional, NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31.03.2034	480.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	480.00	CARE A+; Stable	-	1)CARE A+; Stable (02-Mar-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

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About us:

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