

Manipal Health Systems Private Limited

January 11, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities- Standby Letter of Credit (SBLC)	688.80 (Reduced from 791.04)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BBB- (CE); Stable [Triple B Minus (Credit Enhancement); Outlook: Stable]
Total bank facilities	688.80 (₹ Six hundred eighty-eight crore and eighty lakh only)		

Details of instruments/facilities in Annexure-1. Above amount equivalent to USD 82.11 million.

Unsupported rating	Withdrawn
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Note: Unsupported rating does not factor in the explicit credit enhancement.

CARE Ratings Limited (CARE Ratings) had earlier assigned credit enhancement (CE) rating to the rated debt of Manipal Health Systems Private Limited (MHS) basis corporate guarantee and shortfall undertaking from MEMG International Limited (MEMGI) and Manipal Academic Services International (MASI), respectively. Pursuant to Reserve Bank of India's (RBI's) guidance note to the credit rating agencies (CRA) on assigning CE ratings, the CE suffix has been removed, as both of the above entities are incorporated outside India and are not rated by international CRA. Accordingly, the unsupported rating has also been withdrawn.

Detailed rationale and key rating drivers

The rating assigned to the rated Standby Letter of Credit (SBLC) facilities of MHS factors in the underlying term loan availed against SBLC is primarily being paid through cashflows of MASI. MASI is the holding company for foreign education vertical of Manipal Education and Medical Group (MEMG), which operates medical universities in Antigua (AUA), Dubai (MENA) and Malaysia (JVMC) besides multi-disciplinary university in Malaysia (MEM) and a Banking Academy in India. The ratings derive strength from stable revenue profile of MASI with growing operating profitability and comfortable debt coverage ratios supported by cash flows from profit-generating entities of the group. CARE Ratings also takes note of the refinancing plans of the group, which are expected to ease debt servicing obligations of the group in the near term but has taken longer time. These ratings strengths are, however, partially off-set by leveraged capital structure and regulatory risk inherent in the higher education sector. MASI's ability to protect its cashflows from rising interest rates and to provide exit to private equity (PE) investor without further leveraging would be key rating monitorable.

Rating sensitivities

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

- Significant improvement in cash flows of MASI and to provide exit to PE without further leveraging.

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

- Weaker-than-expected financial performance of subsidiaries of MASI resulting in lower cash flows available for debt servicing.

Detailed description of the key rating drivers

Key rating strengths

Part of resourceful MEMG: The group was started by late Dr T.M.A Pai for establishing its presence in the education and healthcare sector. Currently, the group is headed by Ramdas Pai, who has experience of more than five decades in the field of education and healthcare services industry. He is assisted by his son, Ranjan Pai, who also has extensive experience of around three decades in running and managing healthcare and education businesses. The group has established brand of hospitals and educational institutes and enjoys strong financial flexibility. MHS being part of the MEMG ecosystem also enjoys similar financial flexibility.

Stable revenue profile of MASI with growing operating income: The scale of operations has largely remained stable over the years though revenues of certain universities like JVMC, Banking Academy was impacted during COVID-19. Income

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

AUA: American University of Antigua; JVMC: JVMC Corporation Sdn Bhd, MENA: Manipal Education (MENA) FZ LLC, MEM: Manipal Education Malaysia Sdn Bhd

improved marginally to USD 173.6 million in FY22 from USD 167.3 million in FY21 (refers to the period April 1 to March 31). The operating margins at consolidated level have remained stable on account of improvement in profitability from its flagship university, AUA. During FY22, due to higher enrolments, AUA reported total revenue of USD 87.5 million (PY: USD 80.8 million). With expectations of further improvement in enrolments, especially in JVMC, CARE Ratings expects the revenue and profitability of MHS to grow.

Key rating weaknesses

Leveraged capital structure: MASI had negative net worth due to high interest outflow on PE investment and preference shares, which were being accrued. Nevertheless, the same was reversed during FY22 translating into positive net worth of USD 165.5 million and overall gearing of 2.43x as on March 31, 2022. Debt/EBIDTA of MASI (consolidated) also remained relatively high at 9.79x for FY22. The company has to also provide exit to PE investor, and further leveraging to facilitate exit might weigh negatively on its credit profile.

Ballooning debt repayments though refinancing plans in place: The group is planning to refinance loans in the underlying subsidiaries with long-term debt at MASI level to reduce its near term servicing obligation. However, timely tie-up of the same remains to be seen, notwithstanding which, the group shall remain over-dependant on cash accruals of few profit making entities for servicing the debt at group level. At the same time, the company's ability to protect its cash flows from increasing interest rates would also be key rating monitorable.

Regulatory risk inherent in the higher education sector: MASI, through its subsidiaries, operates universities in various countries and need to abide by regulations of different countries for student eligibility, licensing, etc. Any changes in the regulatory status may have an adverse impact on the operational and financial profiles of the underlying universities.

Liquidity: Adequate

The company's liquidity profile is driven by funding support from MASI which has been servicing the debt raised against rated SBLCs. MASI is expected to generate EBITDA (after excluding intergroup transactions) in the range of USD 55-65 million annually against which it has debt repayment obligations (interest and principal) of around USD 50 million. Further, corporate guarantee from MEMG International also lends comfort.

Analytical approach

Pursuant to RBI's guidance note on CE ratings, presence of corporate guarantee and shortfall undertaking from MEMGI and MASI, respectively, is not considered for arriving CE rating as these are foreign entities and has not been rated by an international CRA. CARE Ratings has now considered the consolidated cashflows of MASI and sufficiency of the same to repay the debt availed against it including the term loan raised against rated SBLCs.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Rating Watch](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company- MASI

MASI is a subsidiary of MEMGI (ultimate holding company under Manipal Group) and is holding company of Education vertical under the group. MASI holds foreign entities like – AUA, JVMC, MENA, MEM and a banking academy in India.

Brief Financials (USD million)	March 31, 2021 (UA)	March 31, 2022 (UA)	December 31, 2022(UA)
Total operating income	167.3	173.6	NA
PBILD	33.8	41.2	NA
PAT	(42.2)	314.4	NA
Overall gearing (times)	NM	2.43	NA
Interest coverage (times)	0.59	3.00	NA

UA: un-audited, NM: not meaningful, NA: not available

About the company- MHS

MHS was incorporated in the year 1999. Initially, MHS owned immovable assets pertaining to hospitals, but post demerger in FY16, all assets and liabilities related to hospital business has been transferred to another entity. Currently, MHS provides management service to its group companies. MHS provided Stand by Letter of Credit (SBLC) to its subsidiaries - Manipal Health Systems Malaysia SDN BHD(MHSM) for USD 17.25 million and USD 134 million extended to Manipal Health and Education (International) Pte Limited (MHEIPL).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	December 31, 2022(UA)
Total operating income	0.36	0.00	NA
PBILDT	-0.95	-0.48	NA
PAT	-4.25	2.18	NA
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	NM	NM	NA

A: audited; UA: un-audited; NM: not meaningful; 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 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 (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT-Letter of credit	-	-	-	-	77.01	CARE BBB-; Stable
Non-fund-based - LT-Letter of credit	-	-	-	-	611.79	CARE BBB-; Stable
Unsupported rating- Unsupported rating (Long term)	-	-	-	-	0.00	Withdrawn

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	Non-fund-based - LT-Letter of credit	LT	77.01	CARE BBB-; Stable	-	1)CARE BBB- (CE); Stable (03-Mar-22) 2)CARE BBB- (CE); Stable (06-Apr-21)	1)CARE BBB- (CE); Stable (07-Apr-20)	1)CARE BBB- (SO); Stable (05-Apr-19)
2	Non-fund-based - LT-Letter of credit	LT	611.79	CARE BBB-; Stable	-	1)CARE BBB- (CE); Stable (03-Mar-22) 2)CARE BBB- (CE); Stable (06-Apr-21)	1)CARE BBB- (CE); Stable (07-Apr-20)	1)CARE BBB- (SO); Stable (04-Apr-19)
3	Unsupported rating- Unsupported rating (Long term)	LT	-	-	-	1)CARE BB (03-Mar-22) 2)CARE BB (06-Apr-21)	1)CARE BB (07-Apr-20)	-

LT: Long term

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	Not stipulated
B. Non-financial covenants	Corporate guarantee from MEMGI Shortfall undertaking from MASI

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

Sr. No.	Name of Instrument	Complexity Level
1	Non-fund-based - LT-Letter of credit	Simple
2	Unsupported rating-Unsupported rating (Long term)	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 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

Media contact

Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Himanshu Jain
Phone: 8123793395
E-mail: himanshu.jain@careedge.in

Relationship contact

Name: Pradeep Kumar V
Phone: +91-98407 54521
E-mail: pradeep.kumar@careedge.in

About us:

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