

KLE Academy of Higher Education and Research

February 16, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	655.00 (Enhanced from 480.00)	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of KLE Academy of Higher Education & Research (KAHER) continues to derive strength from the long track record of operations in the education sector, consistent growth in total operating income (TOI), healthy surplus before interest, depreciation, and tax (SBILDT) 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 large debt-funded capital expenditure (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

- Improving TOI by 20% and maintaining SBILDT margin over 30% on a sustainable basis.
- Maintaining overall gearing below 0.20x on a sustainable basis and total debt/SBILDT at less than 2.
- Completion and commencement of the medical college without any cost or time overrun.

Negative factors

- Significant debt-funded capex or deteriorating liquidity.
- Significant delay in completion and commencement of the medical college leading to cost and time overrun

Analytical approach: Consolidated; CARE Ratings Limited (CARE Ratings) has considered the consolidated financials of KAHER for its analytical purpose, which includes the financials of its institutes, whereby it has operational linkages with most of them.

Outlook: Stable

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

Detailed description of the key rating drivers:

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 (MHRD), 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 300 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 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

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

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. 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 2024 the overall enrolment ratio remained at about 98%.

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 six 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 but moderating margin:

The scale of operations of the society as indicated by TOI has exhibited healthy and continuous growth. TOI of the university increased by 15% to ₹450.81 crore in FY23 from ₹392.68 crore in FY22, aided by increase in total fees collections and hospital income.

The SBILDT margin of the society has moderated from 37.63% in FY22 to 28.84% in FY23 as the society has increased the salary of teaching and non-teaching staff resulting in increase in employee costs, however the margins are healthy and comfortable. The SBILDT level of the society stood at ₹130.01 crore during FY23 (₹147.77 crore during FY22). CARE Ratings expects the SBILDT margin of university to be around 30% going forward.

Strong financial risk profile

The financial risk profile of the university remains comfortable marked by its overall gearing level at 0.17x as on March 31, 2023 (PY: 0.07x). The outstanding term loan as on March 31, 2023, stood at ₹237.35 crore against the corpus of ₹1,351.4 crore. The other debt coverage indicators such as interest coverage at 12.05x and Total debt/ GCA at 1.24x remained comfortable. The society has cash and liquid balance of about ₹750 crore as on March 31, 2023.

Key weaknesses**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, among others. The university maintains deposits of monthly maturity to take care of operational expenses like staff salary, maintenance expenses, among others. The society also gets other income in form of rentals, interest from banks, revenue grants, donations, consultancy, examination fees, among others. 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. 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 reduced 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 reduced to a large extent with presence of diversified course offerings and proximity to the neighbouring states Goa and Maharashtra.

Exposure to project risk:

KAHER has ongoing capital expenditure on three projects:

Project I – Jagadguru Gangadhar Mahaswamigalu Moorsavirmath Medical College (JGMMC) with 150 students intake every year and hospital with 900 beds on an estimated project cost of about ₹477.00 crore. The project is funded through internal accruals of ₹97 crore and debt of ₹380 crore. 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, phase 1 is estimated to be completed by December 2023 and phase II is expected to be complete by April 2024.

Revision in Scope of Project:

As per the lender's independent engineer's (LIE) report of November 2023, management has reviewed and revised the project to include the establishment of super-speciality hospital facility covering cardiac, oncology and other departments with supporting

bed facilities in the teaching hospital complex. In order to accommodate these super-speciality departments and to establish support facilities it is proposed to construct additional two floors (6th & 7th floor) in addition to G+5 floors.

On increase in scope of the project, the project cost is estimated to be increased by ₹95.00 crore (from ₹477.00 crore to ₹572.00 crore). However, the increased cost is funded through internal accruals and the project is proposed to be extended to April 30, 2025 (revised from April 30, 2024) considering the delay in construction schedule, in the beginning due to heavy rains and flooding and also the proposed inclusion of super-speciality hospital facility.

Till December 2023, cost of ₹275.89 crore was incurred out of which ₹159.4 crore is incurred through drawing the debt and ₹116.49 crore through internal accrual. During FY24, total cost of ₹78.44 crore has been incurred, out of which ₹77.36 crore is incurred by availing debt. Society is running JGMMC college from last three academic years in the available facility with 150 seats for each year.

Project – II - Construction of building for pharmacy and homeopathy college:

The society has undertaken construction of separate building for pharmacy and homeopathy college near Belgaum with estimated project cost of ₹214 crore which funded by of debt of ₹170.40 crore by HDFC Bank and balance through internal accruals.

As per the CA certificate dated February 01, 2024, total cost of ₹62.05 crore was incurred and drawn debt of ₹44.40 crore till December 2023. Project is estimated to be complete by October 2024.

Project III – Construction of KLE Cancer Hospital, Belgaum

The Society has undertaken construction of cancer hospital where the total project cost is estimated to be ₹185.3 crore, out of which ₹110.00 crore is estimated for equipment for hospital and balance of around ₹75 crore is for civil construction. Debt of ₹82.50 crore has been sanctioned from HDFC Bank and remaining shall be met through internal accruals and project is estimated to achieve COD by October 2024.

Total cost of ₹101.75 crore incurred till December 2023 by drawing ₹45.5 crore as debt and remaining through internal accruals. During FY24, the society has incurred ₹40.33 crore by availing debt of ₹4.78 crore till December 2023 and remaining ₹35.55 crore is met through internal accruals.

Particulars	Project -1	Project -2	Project -3	Total
Total Project cost	572	214	185.3	971.3
Internal Accruals	192	43.53	75.3	310.83
Debt	380	170.47	82.5	632.97
Term loan sanctioned bank	SBI	HDFC	Axis	
Cost incurred till Dec'23	275.89	62.05	101.75	439.69
Debt	159.4	44.4	45.5	249.3
Internal Accruals	116.49	17.65	56.25	190.39
COD	Apr-25	Oct-24	Oct-24	

Delay in execution of the project and debt funded capex poses project risk for the society. CARE Ratings will continue to monitor the progress of the project and the same will be key monitorable.

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 the form of fixed deposit (FD) and has maintained free cash and bank balance of about ₹132 crore, and FD of about ₹622 crore as on March 31, 2023, which provide additional comfort. The current ratio and quick ratio both remains comfortable at 2.43x as on March 31, 2023 (2.58x as on March 31, 2022). The cash accrual which the society generated in FY23 is expected to be adequate for future repayments. For FY24 period, the university have no long debt repayments. The repayments for the term loans availed for the aforementioned projects are commencing from FY25 and considering the existing cash accruals and expected cash accruals the same could be met comfortably.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Education](#)

[Service Sector Companies](#)

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 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) Consolidated	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	392.69	450.81
PBILDT	147.78	130.02
PAT	146.05	168.71
Overall gearing (times)	0.08	0.18
Interest coverage (times)	48.43	12.05

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to 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: Please refer to Annexure-4

Lender details: Please refer to 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	655.00	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	655.00	CARE A+; Stable	-	1)CARE A+; Stable (08-Mar-23)	1)CARE A+; Stable (02-Mar-22)	-

Annexure-3: Detailed explanation of 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](#)

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	V.K.Institute of Dental Sciences, Belagavi	100%	Part of KAHER
2	College of Pharmacy, Belagavi.	100%	Part of KAHER
3	College of Pharmacy Hubballi	100%	Part of KAHER
4	Institute of Nursing Sciences, Belagavi.	100%	Part of KAHER
5	Institute of Physiotherapy, Belgavi	100%	Part of KAHER
6	Shri B.M.Kankanawadi Ayurveda Mahavidyalaya, Belguam.	100%	Part of KAHER
7	K.L.E.Ayurveda Aushadhalaya	100%	Part of KAHER
8	Ayurveda Hospital, Shahapur, Belagavi	100%	Part of KAHER
9	Kle Homoeopathic Medical College & Hospital, Belagavi	100%	Part of KAHER
10	KLE College of Physiotherapy	100%	Part of KAHER
11	Kle Jagadguru Gangadhar Murusavirmath Medical College & Hospital, Hubballi	100%	Part of KAHER
12	KLE College of Pharmacy, Rajaji Nagar, Bengaluru.	100%	Part of KAHER
13	KLE The Hubli Co-Operative Hospital	100%	Part of KAHER
14	Jawaharlal Nehru Medical College, Belagavi	100%	Part of KAHER
15	JNMC Campus, Nehru Nagar, Belagavi	100%	Part of KAHER
16	Dr.Prabhakar Kore Hospital Campus Nehru Nagar Belagavi	100%	Part of KAHER
17	Dr. Prabhakar Kore Chartiable Hospital Belagavi	100%	Part of KAHER

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.

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About us:

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