

Rating Rationale

13 Aug 2020

Anil Neerukonda Educational Society

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of Rs 124.00 Crs of Anil Neerukonda Educational Society (“ANES” or “the society”).

Particulars:

Facilities**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (Apr 2019)	Present
Fund based Cash Credit Overdraft Term Loans	12.50 - 38.59	- 15.00 93.00	Long Term	BWR BBB-/Stable	BWR BBB/Stable Upgraded
Non Fund Based Bank Guarantee	16.00	16.00	Short Term	BWR A3	BWR A3+ Upgraded
Total	67.09	124.00	Rs One Hundred and Twenty Four Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings ; ** Details of Bank Loan facilities are provided in Annexure-I ; A rating advisory was issued on 4May2020 due to delay in periodic surveillance.

Note: The bank facilities rated previously had been availed from State Bank of India and Dhanlaxmi Bank. These loans have been closed and taken over by IndusInd Bank.

Rating Action/Outlook

The revision of ratings has factored the improved operational and financial performance of the society. The rating upgrade has factored the sustained y-o-y growth in total receipts and improved financial performance in FY20 with the commencement of PG courses at the medical and dental institutions. The ratings continue to draw strength from the established track record of the society, qualified and experienced management and the comprehensive medical facilities available at the society’s hospital. However, the ratings are constrained by the intense competition from other established educational institutions in the region, exposure to regulatory risks associated with the education and medical sectors, geographical concentration risk due to the presence of all institutions in Visakhapatnam region and the possible impact of covid 19 on the already delayed admission process for Academic Year 2020-21.

BWR has taken note of the potential impact of Covid 19 on the business and financial risk profiles of the society. Due to the lockdown, the educational institutions have been shut and online classes are being conducted. The admission process for AY20-21 has also been delayed. The hospital has begun the treatment of Covid patients from July 2020 and ~450 beds have been earmarked for their treatment. Brickwork Ratings (BWR) takes cognizance of the Covid-19 moratorium package by the Reserve Bank of India (RBI) and the guidance provided by the SEBI vide its circular dated 30 March 2020 in this regard. BWR notes that ANES has availed relief under the aforementioned package and its scheduled payments to IndusInd Bank have been deferred upto 31 Aug 2020. BWR would not be considering such

non-payments as default for the time being. BWR will continue to monitor the developments in this regard and analyse the impact, if any, on the society's credit profile.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that ANES's business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if the total receipts and surplus show sustained improvement supported by growth in student enrolment and strengthen the financial risk profile. The rating outlook may be revised to 'Negative' if prolonged lockdown impacts the institutes' earnings leading to significant deterioration in the coverage indicators or debt funded capex weakens the capital structure thereby weakening the society's overall credit profile. Additionally, a further delay in revenue inflow resulting in cashflow mismatches and weakened liquidity may exert a downward pressure on the ratings.

Key Rating Drivers

Credit Strengths:

- **Established track record and experienced management:** The society was established in 2000 and has an operational track record of around two decades. The institutions are managed by a Board of Governors headed by Dr. Neerukonda B. R. Prasad. The extensive experience of the governing body members in the education and medical industries is expected to continue to support the business risk profile.
- **Diversified presence across various streams and student enrollment:** ANES has 4 educational institutions [Engineering College: Anil Neerukonda Institute of Technology & Science; Medical College: NRI Institute of Medical Science; Dental College: Anil Neerukonda Institute of Dental Science and Nursing College: American NRI College of Nursing] and two hospitals [Medical Hospital: Anil Neerukonda Hospital and Dental hospital (attached to the Dental College)]. The society received permission to start PG courses for medical and dental students in AY19-20 and offers programs at Undergraduate and Postgraduate levels in various disciplines. ANES has a total of 5549 students with 5396 UG and 153 PG students. The society also started telemedicine services in FY20 and 502 e-sub centres have been set up through which people from remote locations can have access to basic healthcare. The society has launched a mobile video consultation app - 'Doctor@ANH' using which people can have consultations with speciality doctors over video call. Various speciality doctors have been recruited, additional equipment has been procured, development of some infrastructure is ongoing and various super speciality services are being added to the hospital. Addition of the super specialities and increased reach of the video consultation app are expected to generate additional revenue going forward.
- **Financial Risk Profile:** Total receipts have increased from Rs 89.78 Crs in FY18 to Rs 103.97 Crs in FY19. Net Surplus was Rs 3.16 Crs in FY18 and Rs 2.76 Crs in FY19. On a provisional basis, the society has reported Total receipts of Rs 122.07 Crs and Net surplus of Rs 11.31 Crs in FY20 mainly due to the commencement of PG courses for medical and dental institutions and income from telemedicine services. Net surplus margin increased from 2.65% in FY19 to 9.29% in FY20 (P) and operating surplus margin increased from 20.49% in FY19 to 32.41% in FY20 (P). ISCR increased from 2.73 times in FY19 to was 3.27 times in FY20 (P) and DSCR increased from 0.95 times in FY19 to 1.36 times in FY20 (P). In FY20, ~75% of total receipts was from tuition and academic fees, ~9.50% from hospital income, ~6% from telemedicine services and the rest from hostel and accommodation fees, transport fees etc. Corpus increased from Rs 25.88 Crs

in FY19 to 37.19 Crs as on 31 Mar 2020(P). The society also has unsecured loans of Rs 75.23 Crs as on 31 Mar 2019 and Rs 57.48 Crs as on 31 Mar 2020 (P) from promoters that are not interest bearing. Gearing was high at 5.15 times (1.50 times after considering unsecured loans) as on 31 Mar 2019 and decreased to 4.28 times (1.98 times after considering unsecured loans) as on 31 Mar 2020 (P).

Credit Constraints

- **Intense competition from other reputed institutes:** The educational institutions face intense competition from other reputed institutions. They have to compete with other established institutions in order to recruit and retain quality teaching and non teaching staff at competitive remuneration and also attract good students at reasonable course fees by highlighting the features and prospects of the courses offered by them. The society is also exposed to geographical concentration risk as all the institutions are located in Visakhapatnam which makes operations vulnerable to any social or political changes in the region.
- **Regulatory risk:** The Indian education sector comes under the purview of both central and state governments. It is regulated by the MHRD at the national level, by the education ministries in each state, central bodies such as the University Grants Commission (UGC) and other professional councils such as the All India Council for Technical Education, Medical Council of India etc. Flexibility to decide the number of management seats, tuition fees charged for government quota and management quota etc is restricted to some extent. The hospital also works in an environment of intense regulatory scrutiny and government intervention, which is expected to increase due to Covid-19. As the hospital has now started treating Covid 19 patients, the ability of the hospital to follow strict protocol, maintain safe and hygienic conditions and operate as per government guidelines will be crucial for smooth operations.
- **Impact of COVID-19:** Due to the Covid-19 related disruptions, the society has switched to online classes for all courses provided by its educational institutions. The admissions for various courses for AY20-21 have also been delayed due to postponement of the entrance examinations due to the onset of the pandemic and now are expected to be completed by October 2020. Due to the ongoing weakness in the economic environment with job losses and decline in the purchasing power of the Indian middle class, enrolment for the courses offered by the educational institutions might be impacted. The ability of the institutions to maintain student enrolment and ensure timely collection of fees will be key. The 1000 bedded super speciality hospital run by the society has started treating covid patients since July 2020. The hospital remained operational during the lockdown and the required modifications and procurement of necessary equipment was done to prepare the hospital for covid treatment. ~450 beds have been earmarked for treatment of covid patients and additional capacity is also available at the hospital and college hostel buildings if required.

Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

Going forward, the ability of the society to recruit and retain experienced faculty, maintain a healthy student enrolment ratio despite the impact of COVID-19 lockdown, ensure timely collection of fees from

students and recover receivables from the government, maintain healthy surplus levels, improve capital structure and strengthen its liquidity and overall credit risk profile would be the key rating sensitivities.

Positive: Given the current macro-economic environment, a rating upgrade in the near term appears unlikely.

Negative :

- Continued delay in fee collections from students and the government due to Covid 19 conditions, stretching the current liquidity position of the society
- Substantial decline in enrollment ratio in AY 2020-21
- Specific credit metrics that may result in a downward rating action include operating surplus margin falling below 22%, gearing exceeding 4.5 times, ISCR below 2 times and DSCR below unity on a sustained basis

Liquidity: Adequate - Average utilisation of working capital facilities over the last 7 months was around 80%. Net cash accruals of Rs 28.11 Crs in FY20 were sufficient to cover the debt repayments of ~Rs 9 Crs. DSRA equivalent to one quarter of interest and principal repayments is being maintained for both term loans. BWR has also noted that the society has availed moratorium benefits upto 31 Aug 2020 under the Covid 19 moratorium package announced by RBI. Current ratio was 2.52 times in FY20 (P) as against 1.51 times as on 31 Mar 2019. Cash and cash equivalents were Rs 20.10 Crs as on 31 Mar 2020 (P) as against Rs 13.67 Crs as on 31 Mar 2019. The society is expected to receive the scholarship amount of ~Rs 17.5 Crs from the Government of Andhra Pradesh in the coming weeks which is expected to ease the liquidity position in the short term. Timely collection of fees from students and recovery of receivables from the government will be key monitorables.

Society Profile

Anil Neerukonda Educational Society was registered on 7th August 2000 at Visakhapatnam, Andhra Pradesh. ANES has established 4 educational institutions and 2 hospitals viz.,

Educational Institutions:

- Engineering College: Anil Neerukonda Institute of Technology & Science, established in 2000, is an autonomous college approved by the University Grants Commission [UGC] and Andhra University. The college is approved by AICTE and permanently affiliated to Andhra University. The college is accredited by NBA [IT, CSE, EEE, ECE and Mech. Engg.] and NAAC 'A' Grade.
- Medical College: NRI Institute of Medical Science, established in 2012, offers MBBS and MD/MS courses and is recognised by the Medical Council of India and Dr. N. T. R. University of Health Sciences.
- Dental College: Anil Neerukonda Institute of Dental Sciences, was established in 2013 and offers BDS and MDS courses and is recognised by the Dental Council of India.
- Nursing College: American NRI College of Nursing, was established in 2006, offers BSc - Nursing and is recognised by Paramedical Council of India.

Hospitals - Anil Neerukonda Hospital, a super speciality hospital established in 2006 and a Dental hospital with ~250 dental chairs attached to the Dental College. All institutions are located in Visakhapatnam, Andhra Pradesh.

Dr Neerukonda BR Prasad is the Chairman of the governing body.

Key Financial Indicators

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Total Receipts	Rs Crs	89.78	103.97
SBITDA	Rs Crs	19.05	21.30
Net Surplus	Rs Crs	3.16	2.76
Corpus	Rs Crs	23.12	25.88
Total Debt: Corpus	Times	5.05	5.15
Current Ratio	Times	0.79	1.51

On a provisional basis, the society has reported total receipts of Rs 122.07 Crs and Surplus of Rs 11.31 Crs in FY20.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Non-cooperation with previous CRA - Nil

Rating History for the previous three years [including withdrawn and suspended]

Facilities	Current Rating (Aug 2020)			Rating History		
	Tenure	Amount (Rs.Crs)	Rating	2019	2018	2017
Fund Based	Long Term	108.00	BWR BBB/Stable Upgraded	23Apr2019 BWR BBB-/ Stable	NA	20Dec2017 BWR BBB-/ Stable
				21Mar2019 Rating Not Reviewed		5May2017 Rating Not Reviewed
Non Fund Based	Short Term	16.00	BWR A3+ Upgraded	23Apr2019 BWR A3	NA	20Dec2017 BWR A3
				21Mar2019 Rating Not Reviewed		5May2017 Rating Not Reviewed
Total		124.00	Rs One Hundred and Twenty Four Crores Only			

Note: Ratings were moved to 'Rating Not Reviewed' category on 24 Apr 2020 and a rating advisory was issued on 4 May 2020.

Initial rating was done on 10 Sep 2014 and rating of BWR BB-/Stable/A4 was assigned. On 5 Feb 2016, the ratings were upgraded to BWR BB+/Stable/A4+.

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)
- [Short Term Debt](#)

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Anil Neerukonda Educational Society

ANNEXURE I

Details of Bank Loan Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	IndusInd Bank	Overdraft	15.00	-	15.00
		Term Loan 1	33.00	-	33.00
		Term Loan 2	60.00	-	60.00
		Bank Guarantee	-	16.00	16.00
Total: Rupees One Hundred and Twenty Four Crores Only					124.00

Note: Previously rated bank facilities which had been availed from State Bank of India and Dhanlaxmi Bank were closed and taken over by IndusInd Bank.



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