Rating Rationale

23 Aug 2021

Anil Neerukonda Educational Society

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 114.24 Crs of Anil Neerukonda Educational Society ('ANES' or 'the society')

Particulars:

Facility/ Instruments	Amount Rated (Rs Crs)		Tenure	Rating*	
	Previous	Present		Previous (13 Aug 2020)	Present
Fund Based	108.00	**98.24**	Long Term	BWR BBB/ Stable	**BWR BBB/ Stable Reaffirmed**
Non Fund based	16.00	**16.00**	Short Term	BWR A3+	**BWR A3+ Reaffirmed**
Total	124.00	**114.24**	**Rupees One Hundred and Fourteen Crores and Twenty Four Lakhs**		

* Please refer to BWR website www.brickworkratings.com for definition of the ratings; **Details of the Bank Loan Facilities is available in Annexure-I

Rating Action/Outlook

The reaffirmation of ratings continues to factor the regional position of the society in the educational segment, experienced management, diverse academic courses offerings, steady student enrollment and the above average financial risk profile. 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 2021-22.

Brickwork Ratings (BWR) notes that ANES had availed relief under the RBI's moratorium package. ANES has been regular in debt obligation payments in the post-moratorium period, as confirmed by the lender. Also, ANES has not availed the one time restructuring (OTR) of loans or the Guaranteed Emergency Funding Scheme offered under the RBI resolution Framework for Covid-19 related stress.

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 significant sustained improvement supported by growth in student enrollment and strengthen the financial risk profile along with improved realization of receivables. The rating outlook may be revised to 'Negative' if prolonged Covid 19 adversely impacts the institutes' earnings leading to cash flow mismatches, significant deterioration in the coverage indicators or debt funded capex weakens the capital structure thereby weakening the society's overall credit profile.

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:** During the last year, ANES has diversified its course offering with the opening of two educational institutes. Now, ANES has 6 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]; Physiotherapy College: Anil Neerukonda Institute of Physiotherapy (Permission received in 20-21; Medical Lab Technology College: Anil Neerukonda Institute of Medical Lab Technology and two hospitals [Medical Hospital: Anil Neerukonda Hospital and Dental hospital (attached to the Dental College)]. ANES has a total of 5792 students with 5621 students in the UG programme and 171 students in the PG programme. The society has established additional revenue streams from its Hospital segment and its telemedicine services which have contributed ~20% in FY21 (Prov). BWR takes note of the society's thrust to stabilise its hospital operations and improve the contribution to ~25% in FY22 and ~30% in FY23.

- **Above average financial risk profile:** The Society's financial profile remained above average as reflected in the moderate total receipts, above average surplus & margins, modest corpus, high gearing and adequate debt protection metrics. The total receipts increased from Rs 103.97 Crs in FY19 to Rs 118.95 crores in FY 20. Net Surplus increased to Rs 7.28 crores in FY 20 from Rs 2.76 Crs in FY19. On a provisional basis, the society has reported total receipts of Rs. 142.13 Crs and Net surplus of Rs.22.16 Crs in FY21 mainly due to the commencement of PG courses for medical and dental institutions, introduction of additional courses in engineering and nursing streams and the telemedicine services. Corpus funds increased from Rs 25.88 Crs as on 31 Mar 2019 to Rs.33.16 Crs as on 31 Mar 2020 and Rs.55.32 Crs as on 31 March 2021 (P). The society also has unsecured loans of Rs 63.18 Crs as on 31 Mar 2020 (A) and Rs.61.52 crores from promoters as on 31 March 2021 (P). Gearing was high at 4.99 times (2.07 times after considering unsecured loans) as on 31 Mar 2020 (A) which has improved to 2.89 times as on 31 March 2021 (P) (1.50 times after considering unsecured loans). Debt servicing capabilities remained adequate, reflected by moderate DSCR and adequate ISCR of 1.23 and 2.85 times respectively for FY20 and 1.53 and 4.29 times respectively for FY21(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. Additionally, with the society's improved focus on the Hospital segment, the management's ability to retain the key medical talent to attract patients will be crucial in the long term.

- **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. The hospitals are required to comply with specific operational and infrastructure norms from time to time, as laid down by the regulatory bodies especially during the present scenario of COVID-19.
- **Impact of Covid-19 pandemic:** The ongoing Covid pandemic and the related disruptions have resulted in delays in commencement of offline classes and delays in admission for AY 21-22 which is now expected to be completed by October 2021. BWR also notes the delay in receipt of fees by the students due to the pandemic which resulted in stretched receivables as on 31 March 2021 (P). The ability of the institutions to maintain student enrollment and ensure timely collection of fees shall be monitorable. Additionally, the hospital was instrumental during the first and second wave with close to 2300 patients being treated during the first and 850 patients during the second wave. Presently, the hospital has approximately 460 dedicated covid beds with adequate infra like ventilators, Oxygen etc. Any subsequent waves may result in increase in such dedicated beds resulting in volatility in the contribution from the hospital segment.

Analytical Approach And Applicable Rating Criteria

For arriving at its ratings, Brickwork Ratings has adopted a standalone approach and 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 enrollment ratio despite the impact of COVID-19, ensure timely collection of fees from students and recover receivables from the government, maintain healthy surplus levels, improve capital structure, strengthen its liquidity and overall credit risk profile would be the key rating sensitivities.

Positive:

- Healthy growth in revenue, total corpus and an improvement in overall gearing on a sustained basis.

Negative:

- Inordinate delay in fee collections from students and the government due to Covid 19 conditions deteriorating the current liquidity position of the society.
- Substantial decline in enrollment ratio on a sustained basis.
- Specific credit metrics that may result in a downward rating action include operating surplus margin falling below 25%, gearing exceeding 3.5 times, ISCR below 2 times and DSCR below unity on a sustained basis

Liquidity Position: Adequate

The Society's liquidity remained adequate as reflected in the average working capital utilization of ~66% for the last 6 months. The cash equivalents were at ~Rs. 12.49 Cr as on 31 Mar 2021 (P). The EBITDA was sufficient to cover the finance charges in FY 20 and FY21(Prov). The society has adequate net cash accrual to service its debt obligations of ~Rs.15 crs and ~Rs.11 crs in FY22 and FY23 respectively. Current ratio improved from 2.38 times as on 31 March 2020 (A) to 2.89 times as on 31 March 2021 (P). The DSRA equivalent to one quarter of interest and principal repayments is being maintained for both term loans. The liquidity is further supported by the scholarship amount of ~Rs. 7 crs from the Government of Andhra Pradesh along with the income receivables under the telemedicine segment. 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 6 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 recognized 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 recognized by the Dental Council of India.
- Nursing College: American NRI College of Nursing, was established in 2006, offers BSc - Nursing and is recognized by Indian Nursing Council
- Physiotherapy College: Anil Neerukonda Institute of Physiotherapy was established in the academic year 20-21
- MLT College: Anil Neerukonda Institute of Medical Lab Technology was established in the academic year 20-21

Hospitals – Anil Neerukonda Hospital, a super speciality hospital established in 2006 with ~ 1000 beds and a Dental hospital with ~500 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 (Standalone)

Key Parameters	Units	FY 20	FY 19
Result Type		**Audited**	**Audited**
Total Receipts	Rs. Cr.	118.95	103.97
SBITDA	Rs. Cr.	36.29	21.30
Net Surplus	Rs. Cr.	7.28	2.76
Corpus	Rs. Cr.	33.16	25.88
Total Debt/Corpus	Times	4.99	5.15
Current Ratio	Times	2.38	1.51

On a provisional basis the society has reported total receipts of Rs.142.13 crs and surplus of Rs.22.16 crs in FY 21 (Prov)

Key Covenants:
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 withdrawal and suspended)

Facilities/ Instruments	Current Rating (Aug 2021)			Rating History#		
				2020	2019	2018
	Amount (Rs Cr)	Tenure	Rating	13 Aug 2020	23 Apr 2019	-
Fund Based	98.24	Long Term	**BWR BBB/Stable Reaffirmation**	BWR BBB/Stable	BWR BBB-/Stable	NA
Non Fund Based	16.00	Short Term	**BWR A3+ Reaffirmation**	BWR A3+	BWR A3	NA
Total	**114.24**	**Rupees One Hundred and Fourteen Crores and Twenty Four Lakhs**				

#Initial rating was done on 10 Sep 2014 and rating of BWR BB-/Stable/A4 was assigned. The ratings were upgraded on 5 Feb 2016 and 20 Dec 2017 to BWR BB+/Stable/A4+ and BWR BBB-/Stable/A3 respectively.

COMPLEXITY LEVELS OF THE INSTRUMENTS – Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf. Investors queries can be sent to info@brickworkratings.com

Hyperlink/Reference to applicable Criteria

General Criteria	Services Sector
Approach to Financial Ratios	Short Term Debt

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Anil Neerukonda Educational Society

ANNEXURE I

Details of Bank 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	OD	15. 00	-	15. 00
2		Term Loans	83.24	-	83.24
3		Bank Guarantee		16.00	16. 00
Rupees One Hundred and Fourteen Crores and Twenty Four Lakhs					**114. 24**

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