

## Rating Rationale

14 Jul 2020

### Sri Siddhartha Academy of Higher Education

**Brickwork Ratings revises/assigns the rating for the Bank Loan Facilities of Rs. 125.53 Crores of Sri Siddhartha Academy of Higher Education and removes the rating from ‘Issuer Not Cooperating’ category**

#### Particulars:

Facility**	Amount (Rs. Crs.)		Tenure	Rating	
	Previous	Present		Previous	Present
<b>Fund Based</b>					
Term Loan	75.33	65.53	Long Term	BWR B+ Issuer Not Cooperating*/Negative	<b>BWR BB/Stable Removed from Issuer Not Cooperating* category and Upgraded</b>
Proposed Term Loan	-	60.00		-	<b>BWR BB/Stable Assigned</b>
<b>Total</b>	<b>75.33</b>	<b>125.53</b>	<b>Rupees One Hundred and Twenty Five Crores and Fifty Three Lakhs Only</b>		

^Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank loan facilities are provided in Annexure-I

\*Issuer did not cooperate; based on best available information.

#### Rating Action/Outlook

BWR has principally relied upon the audited financials of the University for FY19, Management certified provisional financials of FY20, publicly available information and information/clarifications provided by the University’s management.

The rating upgrade factors the established track record of the University, improvement in academic receipts and Trust Corpus over the previous two academic years (AYs) and low gearing. However, the rating is constrained by high dependence on academic receipts of medical colleges (~75% in FY20 (P)), geographical concentration risk, competition from other established education groups, regulatory concerns arising out of ever-evolving regulatory environment of technical education in India, planned debt-financed expansion with possible impact on gearing and debt coverage metrics, issues related to Income Tax investigation leading to possibility of potential Income Tax claims and liabilities, possibility of impact of Covid-19 on enrolments for an already delayed admission process in AY 2020-21 and non-submission of regulatory mandated monthly NDS.

[P = Provisional]



The Covid-19 related disruptions are likely to have adverse impact on the revenue streams of Sri Siddhartha Academy of Higher Education (SSAHE, or the University) during FY21. BWR notes that SSAHE has availed the relief under the RBI moratorium package announced on 27Mar2020 with its lender for April-June 2020 period and its scheduled payments to the lender have been deferred in the interim, with the approval of the lender. BWR would not be considering such non-payments as default for the time being. As part of the moratorium package, the University has got automatic relief for the term loan interest payment with Canara Bank. While formal communication of approval is yet to be received by SSAHE from its lender till date, the banker has confirmed that the benefits have been automatically extended to the University. BWR will continue to monitor the developments and analyse the impact, if any, on the University's credit profile.

The rating of the University was earlier placed under Credit Watch with Negative Implications on 18Oct2019 after the premises of the University were subject to investigation by the Income Tax authorities during October 2019. BWR understands that till date, no notice of demand has been received by the University. The rating continues to factor the risks pertaining to the lack of clarity on the Income Tax investigation and the likelihood that the University's credit profile may weaken on account of the potential Income Tax claims and liabilities. The conduct of the bank account is, however, reported to be regular.

## Key Rating Drivers

### Credit Strengths:

- **Established track record:** Sri Siddhartha Academy of Higher Education (SSAHE) was established as a Trust at Agalakote, Tumkur, Karnataka in May 2007. It was recognized as Deemed to be University u/s 3 of UGC Act, 1956 on 30May2008. SSAHE offers MBBS, MD/MS, BE, M.Tech, MCA and PhD programs. The constituent institutions are: Sri Siddhartha Medical College, Sri Siddhartha Dental College, Sri Siddhartha Institute of Technology, Sri Siddhartha Institute of Medical Sciences & Research Centre (SSIMSRC) and Sri Siddhartha Paramedical College.
- **Financial risk profile :** The University's operating receipts increased from Rs. 123.16 Crs. in FY19 to Rs. 171.30 Crs. in FY20 (P) due to increase in MBBS fee structure, admissions to the new medical college and some one time receipts. The Trust Corpus also increased from Rs. 254.82 Crs. as on 31Mar2019 to Rs. 324.61 Crs. as on 31Mar2020 (P) due to accrual of net surplus. Gearing is low at 0.20 time as on 31Mar2020 (P). [*P = Provisional*]

### Credit Challenges:

- **High dependence on academic receipts of medical colleges:** In FY20 (P), around 75% of the total operating receipts of the University came from the academic receipts of the two medical colleges. Revenue from hospitals was low. The concentration of receipts makes the overall University cash flow vulnerable to the regulatory, enrolment uncertainties due to Covid-19 pandemic and other institution-specific risks of the two medical colleges.

- Geographical concentration risk:** All the constituent institutions of the University are located in and around Tumkur and Bengaluru in Karnataka. Although the institutions are affiliated to the University which is recognized as Deemed to be University u/s 3 of UGC Act, 1956, it has to adhere to various academic and non-academic rules and regulations made by the state government. Besides, the geographical concentration also makes the institutions vulnerable to the various social, economic, political and administrative changes in the region.
- Debt-financed expansion:** The University is planning to purchase a building for its new medical college Sri Siddhartha Institute of Medical Sciences & Research Centre (SSIMSRC) at a cost of ~Rs. 90.00 Crs., of which ~Rs. 60.00 Crs. shall be financed by a term loan with its bank. This will affect the University's gearing, debt coverage metrics and liquidity in the coming months.
- Regulatory risk:** The University operates institutes of technical education, each of which run the courses approved by their respective national level regulators like MCI, DCI, AICTE etc. The colleges have to adhere to the various rules and regulations which keep changing in pursuit to adhere to global best practices and national preferences. This requires considerable financial outlay from time to time.
- Intense competition:** The self-financing institutions In India have to compete among themselves for hiring and maintaining quality teaching and non-teaching staff at competitive remuneration. Besides that, they also have to attract good students by highlighting the features and prospects of the programmes offered by them, various on-campus and off-campus amenities and affordable fee structures supported by various funding facilities. The presence of various such educational groups in and around Bengaluru makes the competition stiff for the University.
- Impact of Covid-19:** Due to the Covid-19 pandemic related disruptions, the University switched to online class mode for the medical, dental, engineering and technology courses provided by its colleges. The admissions for various courses for AY 2020-21 have got delayed due to postponement of the entrance examinations like NEET and CET due to the onset of Covid-19 pandemic. The pandemic and related lockdown has led to considerable slowdown in the Indian economic activities leading to widespread job losses and wage cuts. This has led to uncertainty about future cash flow and decline in consumer sentiment and purchasing power of Indian middle class. This is likely to affect the enrolments for the courses offered by the self-financed institutions like the University's colleges.

### **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). The University does not have any subsidiary.

### **Rating Sensitivities**

Going forward, the ability of the University to maintain the enrolment ratio for AY 2020-21, ensure early resolution of the Income Tax issues, diversify its source of operating receipts, and submit the regulatory mandated monthly NDS, are key rating sensitivities.

**Positive:** Given the ongoing weakness in the macro-economic environment and the impact on the education sector, a rating upgrade in the near term appears unlikely.

**Negative:**

- Decline in enrolment ratio in AY 2020-21
- Larger-than-expected debt-funded capex, leading to deterioration in the financial profile, especially liquidity, gearing and debt coverage metrics
- Income Tax claims and liabilities arising out of ongoing income tax investigation

**Liquidity Position: Adequate**

The net cash accruals of Rs. 80.27 Crs. for FY20 (P) cover the loan repayment obligation of Rs. 7.83 Crs. for FY21. After the approval of proposed term loan of Rs. 60.00 Crs. the repayment obligations for FY21 are expected to increase by another Rs. 7.20 Crs. The cash and cash equivalents are high at Rs. 79.30 Crs. as on 31Mar2020 (P). The University has no short term borrowings and the lender (Canara Bank) automatically provided it the RBI moratorium relief on term loan interest payment for April-June 2020 period. Therefore, based on sufficient net cash accruals, cash and cash equivalents and low debt repayment obligations, the liquidity position of the University is adequate.

**About the University**

Sri Siddhartha Academy of Higher Education (SSAHE) was established as a Trust under a Deed of Trust dated 09May2007 at Agalakote, Tumkur, Karnataka. It was recognized as Deemed to be University u/s 3 of UGC Act, 1956 on 30May2008. The University is registered u/s 12A (a) and 12AA of the Income Tax Act, 1961 as “Charitable Trust”. The sponsoring body, Sri Siddhartha Education Society (SSES) was founded by late Mr. H M Gangadharaiah. The constituent institutions are: Sri Siddhartha Medical College, Sri Siddhartha Dental College, Sri Siddhartha Institute of Technology, Sri Siddhartha Institute of Medical Sciences & Research Centre (SSIMSRC) and Sri Siddhartha Paramedical College. They offer MBBS, MD, MS, BE, M.Tech, and Ph.D. courses. All the colleges are affiliated to the University which issues degrees for the respective courses. The total enrolment for AY2019-20 was 1055 against the total sanctioned strength of 1399.

**Key Financial Indicators**

Key Parameters	Units	FY18	FY19
Result Type		Audited	Audited
Operating Receipts	Rs. Crs.	90.24	123.16
Operating Surplus	Rs. Crs.	15.94	49.78
Net Surplus	Rs. Crs.	1.18	35.39
Trust Corpus	Rs. Crs.	219.63	254.82
Total Debt : Trust Corpus	Times	0.35	0.28
Current Ratio	Times	4.04	5.18

On a provisional basis, the University has reported the operating receipts of 171.30 Crs. for FY20.

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

**Status of non-cooperation with previous CRA - Nil**

**Rating History For The Previous Three Years [including withdrawal and suspended]**

Facilities	Current Rating			Rating History		
	Tenure	Amount (Rs. Crs.)	Rating	18Oct2019	29Oct2018	2017
<b>Fund Based</b>						
Term Loan	Long Term	65.53	<u>14Jul2020</u> <b>BWR BB/Stable</b> <b>Removed from Issuer</b> <b>Not Cooperating*</b> <b>category and Upgraded</b>  <u>05Feb2020</u> <b>BWR B+ Issuer Not</b> <b>Cooperating*/Negative</b>	BWR BB Credit Watch with Negative Implications	BWR BB/Stable	Not Rated
Proposed Term Loan		60.00	<u>14Jul2020</u> <b>BWR BB/Stable</b> <b>Assigned</b>  <u>05Feb2020</u> <b>Not Rated</b>	Not Rated		
<b>Total</b>		<b>125.53</b>	<b>Rupees One Hundred and Twenty Five Crores and Fifty Three Lakhs Only</b>			

**Note:** Initially rated amount on 29Oct2018 was Rs. 75.33 Crs. with a rating assigned as BWR BB/Stable.

\*Issuer did not cooperate; based on best available information.

**Complexity Levels of the Instruments**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

<ul style="list-style-type: none"> <li>• <a href="#">General Criteria</a></li> </ul>	<ul style="list-style-type: none"> <li>• <a href="#">Services Sector</a></li> </ul>
<ul style="list-style-type: none"> <li>• <a href="#">Approach to Financial Ratios</a></li> </ul>	

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**Sri Siddhartha Academy of Higher Education**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs Cr)	Short Term (Rs Cr)	Total (Rs Cr)
1	Canara Bank, Mid Corporate Branch, Tumakuru	Term Loan	65.53	-	65.53
2		Proposed Term Loan	60.00	-	60.00
<b>TOTAL - Rupees One Hundred and Twenty Five Crores and Fifty Three Lakhs Only</b>					<b>125.53</b>



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**About Brickwork Ratings:** Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER:** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.