

Nobel College of Health and Education Foundation Private Limited: [ICRANP] LB/A4 assigned

August 14, 2019

Summary of rated instruments

Instrument	Rated Amount (NPR Million)	Rating Action
Long-term loans; Fund based (term loans)	858.97	[ICRANP] LB; Assigned
Short-term loans; Fund based (working capital loans)	20.00	[ICRANP] A4; Assigned
Short-term loans; Non-fund based (LC & BG; within TL)	(170.00)	[ICRANP] A4; Assigned
Total	878.97	

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LB (pronounced ICRA NP L B) to the existing and proposed long-term loans of Nobel College of Health and Education Foundation Private Limited (Nobel). ICRA Nepal has also assigned a short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the company's short-term loans (including the non-fund based limits).

Rationale

The ratings are constrained by the company's weak financial profile characterised by weak capitalisation, high leverage, moderate scale of operations and modest cash accruals. Nobel has recently initiated a sizeable debt-funded capex, for the construction of a new college-cum-hospital complex, which will replace its existing rented premises. This will significantly increase its debt obligations without a corresponding improvement in its revenue potential. Coupled with the company's modest operating profitability and cash accruals in recent years, this is likely to pressurise the debt repayment capacity and result in weak debt coverage indicators. ICRA, therefore, expects Nobel to remain dependent on funding support from the promoters in the near term. In this context, timely fund infusion by the promoters in the past provides comfort.

The ratings are also constrained by the operating losses of the company's hospital division, which are dragging the overall profitability. The declining occupancy in the management stream (which accounts for ~25% of the college revenues) is a concern. However, this is partly mitigated by the management's plans to develop Nobel into a speciality institution with a focus on the paramedical & health science courses over the longer term, which are operating at a healthy occupancy. Having said that, the company's ability to operate at a healthy occupancy across courses, given the competitive pressure, remains crucial to maintain comfortable debt coverage metrics. The ratings are also constrained by the risk of cash flow mismatch as most of the college revenues (60-65%) are collected in the first half of the year vis-à-vis monthly and quarterly repayment obligations during the year, which could expose the company to short-term liquidity mismatches. In addition, the ratings factor in the regulatory risks related to the educational sector.

Nonetheless, the assigned ratings factor in the company's adequate track record (operating since 2005) of operations, long-standing experience of the promoters in the education sector and the good brand recognition of Nobel College. The college has reported strong occupancy (~100%) in the paramedical & health science courses, which remains a positive for incremental revenue stability and is also in line with the long-term management vision for the college. The gradual increase in the number of seats allocated by the Pokhara University and the regulatory authority¹ also remains a positive. While the seat allocation is within the prerogative of the licensing university, the college has autonomy in course fees,

¹ Nepal Nursing Council, Health Professional Council, and Council for Technical Education and Vocational Training (CTEVT)
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which remains a positive. Although the short-term benefits of infrastructure upgradation are limited, the same is expected to support the scaling up of the college and hospital operations over the longer term.

Going forward, Nobel's ability to complete the building construction within the budgeted cost and time estimates, secure additional seats, achieve healthy occupancy across courses and improve the hospital's profitability will remain a key rating sensitivity.

Key rating drivers

Credit strengths

Experienced promoters and established operational track record – Nobel has an adequate track record of operations of around 15 years (operating since 2005). The major promoters are involved in the education sector since 1998 (through Nobel Academy offering secondary and higher secondary degrees) and have long-standing experience in the sector. Further, Nobel enjoys good brand recognition which is evidenced by the strong occupancy reported by the college (overall occupancy of 80% in academic year (AY) 2019² including ~100% occupancy across all paramedical & health science courses).

Autonomy in pricing and entrance examination – Nobel has autonomy in conducting entrance examinations and determining the tuition fees, although the seat allocation is decided by the licensing university (Pokhara University). This remains a rating positive as the college is able to determine the fee, based on the demand for the courses. The college has been able to increase the fees steadily, especially for paramedical & health science courses like Bachelor's in Public Health (B.P.H.), B.Sc. (Nursing), etc. With the company planning to scale up and increase its focus further on the health science courses going forward, the autonomy in pricing is expected to support its revenue and profitability.

Healthy occupancy, especially across health science courses – The paramedical & health science courses, which accounted for ~65% of Nobel's total approved seats in AY2019, reported ~100% occupancy vis-à-vis ~46% occupancy in the management courses. About 77% of the college's revenues in FY2018 came from the health courses. Although the declining occupancy in the management courses is a concern, it is partly mitigated by the strong performance of the health science stream. This is also in line with the management's vision of developing Nobel as a speciality institution offering a full range of medical courses. To that end, the upgradation of the hospital infrastructure also remains a positive.

Credit challenges

Weak financial profile and stretched debt coverage indicators – Nobel is currently in the process of upgrading its infrastructure through the construction of a new college-cum-hospital complex. The management plans to move from its current rented premises to the new complex by the end of H1 FY2020. The total capex estimate for the project, including land, building and equipment, is over NPR 1,000 million, which is proposed to be funded in a debt to equity ratio of 4:1.

Nobel has a weak capitalisation profile and the debt-funded capex has increased the gearing level to ~8.5 times as of mid-January 2019. It is estimated to peak to ~15 times by mid-July 2020 once the sanctioned credit facilities are completely utilised. Also, the capex remains sizeable vis-à-vis Nobel's current scale of operations and operating profitability (OPBDITA). Over the near term, no major increment in the company's operating revenues is expected following the capex completion, as it primarily involves the relocation and upgradation of the existing infrastructure. Coupled with the currently moderate OPBDITA levels and high debt-related obligations, the incremental debt coverage indicators over the near term are expected to remain weak. Also, high depreciation and interest expense resulting from the debt-funded capex are likely to result in weak profitability and an overall weak financial profile.

Exposed to intense competition and regulatory risk – Nobel is exposed to regulatory risks typical of educational institutions. The college operated by Nobel is regulated by the Pokhara University for seat allocation and revision. The addition of new courses also depends on the University's approval. At the same time, competition among the colleges

² Nobel's academic year starts in September and broadly aligns with the Nepalese financial year, which starts in mid-July

remains intense and the licensing of new colleges has a direct impact on the occupancy levels and operating revenues of the existing players.

Risk of cash flow mismatch – Nobel collects 60-65% of the fees in the first half of the year for all the courses, which may lead to short-term liquidity mismatches. The lumpiness in cash flows against the monthly and quarterly repayment obligations necessitates prudent cashflow management to ensure regular debt servicing.

Losses in hospital segment – Nobel operates a 100-bed hospital as a part of its paramedical courses. The hospital has been reporting operating losses amid low occupancy, which is due to its proximity to a full-fledged teaching hospital operated by another university. With the management planning to upgrade the hospital infrastructure and relocate to a more strategic location, the hospital’s revenues could witness an improvement going forward.

Analytical approach: For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Established in 2005, Nobel College of Health and Education Foundation Private Limited (Nobel) offers Diplomas, Bachelor’s and Master’s level courses across the fields of health and management. Nobel also operates a 100-bed hospital as a part of its health courses. The college is affiliated to the Pokhara University for the management and health courses while it has received affiliation from the Council for Technical Education and Vocational Training (CTEVT) for the Diploma in health courses. Sinamangal, Kathmandu-based Nobel offers management courses like Bachelor’s in Business Administration, Health Care Management, Computer Information System, etc, Bachelor’s and Master’s degrees in Public Health, B.Sc. Nursing, Medical Lab Technician, etc, and Diplomas in Pharmacy under CTEVT health science courses.

The company is promoted by 10 individual promoters. Major shareholders include Mr. Nawaraj Pandey (~18%), Mr. Surendra Shrestha (~18%), Mr. Uttam Bhaukaji (~16%), Mr. Shankar Shrestha (~11%) and Mr. Rabin Dahal (~10%) among others.

Key financial indicators

	FY2017 (Audited)	FY2018 (Audited)	H1 FY2019 (Provisional)
Operating income (OI; NPR million)	260.7	301.6	214.5
OPBDITA/OI (%)	19.2%	19.0%	28.9%
Total debt/Tangible net worth (TNW; times)	47.2	14.1	8.5
Total outside liabilities/TNW (times)	51.0	16.0	9.4
Total debt/OPBDITA (times)	8.7	8.7	4.2
Interest coverage (times)	1.8	1.6	2.3
DSCR (times)	0.4	0.3	0.6

Source: Company data

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