

March 27, 2023

## Manipal Academic Services International: Rating upgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based Term Loan	1125.00	1125.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long Term – Unallocated	75.00	75.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
<b>Total</b>	<b>1200.00</b>	<b>1200.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has considered the consolidated financial profile of Manipal Academic Services International (MASI), which includes its subsidiaries, associates and step-down subsidiaries. These entities have a common management and significant operational and financial linkages among them. Further, the rating approach has been revised via-a-vis the standalone approach adopted in the earlier rating exercise(s) based on the updated understanding of the closer integration among the various entities consolidated. Details of the entities are given in Annexure II.

The rating upgrade takes into account the sale of Nepal operations by the Group and prepayment of part debt in the first half of FY2023. Further, there has been writ back of liability, which was created to facilitate exit of a PE investor of its subsidiary company. As per the revised agreement, the same now lies with the ultimate holding company, MEMG International Limited. This has resulted in one-time gain of \$295.9 million in FY2022. Hence, on a consolidated level, MASI's TOL/TNW has improved to 0.8 times in FY2022 from 4.3 times in FY2021. The rating also benefits from the stable projected revenue profile of, Manipal Global Education Services Private Limited (MaGE), its revenue generating subsidiary, and its wholly owned step-down subsidiary, American University of Antigua Inc (AUA). AUA has demonstrated healthy revenue and free cash flows in the recent years. MASI gets 25% of the revenue generated by AUA through its fee-sharing agreement and the same is used to service debt at the standalone level. MaGE generates sufficient revenues from India, UAE and Malaysia to service its debt obligations. MASI also has access to MaGE cash flows in case of any cash flow mismatch. The established track record of the promoter Group – Manipal Education and Medical Group (MEMG) – in the fields of education and healthcare further adds to the comfort. MASI is the principal holding company of MEMG's education vertical, with subsidiaries having operations across various segments and geographies.

The rating remains constrained by the regulatory risks inherent in the higher education sector. MASI, through its subsidiaries, runs colleges in Dubai, Malaysia and Antigua. Any changes in the regulations may have an adverse impact on the operational and financial profiles of the respective subsidiaries. ICRA further notes that any change in the fee-sharing agreement between MASI and AUA could impact MASI's standalone cash flows and thereby debt servicing at the standalone level. The rating is also constrained by the relatively higher leverage at the MEMG Group level and the possibility of MASI investing in or supporting the Group's other ventures. One of the subsidiaries of MASI has given a shortfall undertaking towards servicing of a debt in another Group entity. However, the same is capped at USD 16 million p.a. Free cash flows of MASI are likely to be used towards supporting the Group level commitments to the extent possible.

The Stable outlook on the rating reflects ICRA's opinion that MASI will benefit from the Group's established operational track record and access to its subsidiaries' free cash flows, apart from the fee-sharing agreement with AUA.

## Key rating drivers and their description

### Credit strengths

**Established promoter group** – MASI belongs to the MEMG Group, which has an established track record in the field of education and healthcare services. Some of the key operating companies in the Group include Manipal Health Enterprises Private Limited, AUA and MaGE. MASI is the principal holding company of the MEMG Group's education vertical with its operations diversified across various segments and geographies. MASI has a 100% shareholding in Manipal Education Americas LLC (parent entity of AUA) and ~81% shareholding in MaGE.

**Fee-sharing agreement with AUA** – MASI gets 25% of revenue generated by AUA by virtue of its fee-sharing agreement and the same is used to service the debt at the standalone level. AUA, being a debt free entity, has upstreamed its free cash flows to MASI in the past and ICRA expects MASI to benefit from the free cash flows of AUA, going forward. Operational since 2004, AUA has demonstrated healthy revenue and free cash flows in the recent years. In FY2022, AUA reported an EBITDA (before fee-sharing arrangement and student loan related net income) of ~\$32.5 million on revenues of \$88.9 million. The same is expected to moderate in FY2023 but would remain at comfortable levels.

### Credit challenges

**Intense competition from other reputed universities; highly regulated sector** – MASI operates educational institutions in Dubai, Malaysia and Antigua through its subsidiaries. These face intense competition from reputed public and private institutions in their respective locations. However, a part of the competition risk is slightly mitigated by the Manipal Group's brand image and long experience in the industry. The institutions are exposed to inherent risks associated with the highly regulated education sector. The institutes are governed by various state and central laws in their respective territories. Any adverse Government regulations may impact the Group's revenues as well as operational growth.

**Possibility of MASI supporting other Group ventures** – The leverage is relatively higher at the MEMG Group level, including holding companies, and there is a possibility of MASI investing in or supporting the Group's other ventures. One of the subsidiaries of MASI has given a shortfall undertaking towards servicing of a debt in another Group entity. However, the same has been capped at \$16 million p.a. Free cash flows of MASI are likely to be used, as seen in the past, towards supporting Group level commitments to the extent possible. Given the negative impact of the pandemic on certain business segments under MaGE, dependence on cash flows from AUA could be high in the near-to-medium term. Recovery in business segments under MaGE shall be a key rating monitorable.

### Liquidity position: Adequate

MASI's liquidity is likely to be adequate, backed by stable cash flows from AUA and MaGE, which are expected to be over \$38 million in FY2023 against the debt servicing obligations of around ~\$19-20 million at a consolidated level. ICRA expects MASI to utilise its incremental free cash flows towards supporting other Group entities to the extent possible.

### Rating sensitivities

**Positive factors** – MASI's rating may be upgraded if its subsidiaries register a sustained healthy growth in revenues and earnings, strengthening its debt coverage metrics on a consolidated level. Specific credit metrics that could lead to a rating upgrade include an interest coverage ratio above 4.0 times on a sustained basis.

**Negative factors** – Pressure on MASI's rating could arise if there is a material weakening of the credit profile of its subsidiaries, adversely impacting the debt protection metrics and liquidity position of the entity at a consolidated level.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Approach – Consolidation</a> <a href="#">Rating Methodology for Entities in the Higher Education Sector</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MASI

## About the company

Manipal Academic Services International is a Mauritius-based holding company, which belongs to the Manipal Education and Medical Group. Manipal Global Education Services Private Limited (81% shareholding) and Manipal Education Americas LLC (100% shareholding) are its major income generating subsidiaries. Its key operating assets comprise universities and educational institutions spread across India, Malaysia, Antigua and Dubai.

### Key financial indicators

Manipal Academic Services International (Consolidated)	FY2021 (Audited)	FY2022 (Provisional)
Operating income (Amount in USD Million)	164.5	173.6
PAT (Amount in USD Million)	-24.1	313.9
OPBDIT/OI	19.00%	23.88%
PAT/OI	-14.67%	180.79%
Total outside liabilities/Tangible net worth (times)	4.3	0.8
Total debt/OPBDIT (times)	18.2	6.1
Interest coverage (times)	0.5	3.0

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

### Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
								March 27, 2023
1	Term Loan	Long Term	1125.0	1087.0	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Unallocated	Long Term	75.0	--	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Term Loan	Simple

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Unallocated

NA

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The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2020	NA	FY2035	1125.00	[ICRA]BBB+(Stable)
NA	Unallocated	NA	NA	NA	75.00	[ICRA]BBB+(Stable)

Source: MASI

**Annexure II: List of entities considered for consolidated analysis**

Company Name	MASI Ownership	Consolidation Approach
Manipal Academic Services International	100.00% (Rated Entity)	Full Consolidation
Manipal Education Americas LLC	100.00%	Full Consolidation
American University of Antigua	100.00%	Full Consolidation
Manipal Global Education Services Private Limited	81.19%	Full Consolidation
Manipal Education (Mauritius) Private Limited	100.00%	Full Consolidation
JVMC Corporation SDN BHD	90.00%	Full Consolidation
Manipal Integrated Services Malaysia SDN BHD	90.00%	Full Consolidation
Manipal Education (MENA) FZ LLC	100.00%	Full Consolidation
Manipal Education & Medical Group (Nepal) Private Limited	99.98%	Full Consolidation
JVMC Muar SDN BHD	90.00%	Full Consolidation
Manipal Education Malaysia SDN BHD (MEM)	70.00%	Full Consolidation
EduNxt Global SDN BHD	70.00%	Full Consolidation
Joulestowatts Business Solutions Private Limited	15.79%	Equity Method

Source: MASI Annual report

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