

Rating Rationale
Professional Educators Limited

Rating

Facility	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities	654.86	CARE-NP BBB- [Triple B Minus]	Reaffirmed
Short Term Bank Facilities	20.00	CARE-NP A3 [A Three]	Reaffirmed
Total Facilities	674.86		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed rating of ‘CARE-NP BBB-’ assigned to the long-term bank facilities and ‘CARE-NP A3’ assigned to the short-term bank facilities of Professional Educators Limited (PEL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PEL continues to derive strength from established track record and experienced directors in the related field, comfortable financial risk profile, increasing number of students enrolled and moderate capital structure and debt coverage indicators. The rating also factors in growing female education concerns with increasing literacy rate in Nepal positive for the education industry and various courses offered by PEL and subsidiary companies. The ratings are, however, constrained by debt funded capex and investments in different institutions within the education sector, exposure to volatile interest rates, stiff competition in the industry and exposure to regulatory risk related to industry. Ability of the company to profitably scale-up its operations and manage the impact of COVID-19 will be key rating sensitivity.

Impact of COVID-19

The outbreak of Coronavirus disease 2019 (COVID-19) which was recognised as Pandemic by World Health Organization. Government of Nepal (GoN) imposed travel restrictions and countrywide lockdown since March 24, 2020 closing most of the organizations and slowing down the economic activities. Though lockdown has been eased in recent times, education sector is not yet opened and remains closed. Following government’s decision of lockdown, Professional Educators Limited (PEL) suspended operation of all education institutes it operates. Due to the lockdown PEL was unable to collect the fees which has impacted the cashflow of the company. Ability of the company in managing day to day expenses and meet its working capital requirement would be critical monitorable factors.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Established track record and experienced directors in the related field

PEL is providing educational services for more than 14 years, promoted by a group of professionals involved in education, economics, research, banking etc. sectors. PEL has ten member Board of Directors (BoD) chaired by Dr. Radhe Shyam Pradhan. Dr. Pradhan obtained Ph. D. Degree and has served as lecturer, reader and professor at Tribhuvan University for 4 decades. He is member of research and other committees in various universities within the country. Dr. Khagendra Prasad Ojha is the managing director of the company. Dr. Ojha obtained Ph. D. degree in Economics and has served as Associate Professor at Tribhuvan University for more than 3 decades. He is also the chairperson of various educational institutions in the group. Mr. Amba Datt Joshi is the principal of PEL. Mr. Joshi has around 15 years of experience as lecturer in different colleges. He looks after the day to day operations of the company along with the support of experienced management team.

Comfortable financial risk profile

Total revenue of PEL has increased by CAGR of ~30% to Rs. 308 Mn during FY19 over FY15, which increased by ~30% during FY19 over FY18 due to increased number of students and increased fee structure. Increased revenue leads to increase in PBILDT by ~31% during FY19 over FY18. PEL reported PBILDT margin of 43.82% during FY19 against 43.25% during FY18. Company reported ~14% increase in PAT mainly due to increase in PBILDT despite of increase in interest cost on the back of increase in term loan during the year.

Moderate capital structure and debt coverage indicators

The capital structure of the company is moderate with debt equity ratio of 1.45x and overall gearing ratio of 1.46x at the end of FY19 which improved from debt equity ratio of 2.07x and overall gearing ratio of 2.10x at the end of FY18. Overall gearing ratio improved due to increase in net worth of the company on the back of issuance of right shares and accretion of profit to networth. However, term loan also increased during FY19 with company availing additional loan for acquisition of another company and renovation of acquired building. Interest coverage ratio deteriorated to 2.06x at the end of FY19 from 2.52x at the end of FY18 due to increase in interest cost during the year on the back of increase in term loan. Due to increase in term loan, PEL reported increase in total debt to GCA ratio to 12.84x at the end of FY19 from 12.69x at the end of FY18.

Increasing number of students enrolled

Established track record of the college and pass records leads to increasing number of students enrolling with PEL over the years. For academic year 2017-18, 892 students were enrolled in Grade XI which has increased to 915 students during academic year 2018-19. With the introduction of plus 2 course on

science faculty during academic year 2019-20, PEL expects 350 additional students to be enrolled under science faculty.

Established track record of the college and pass records leads to increasing number of students enrolling with PEL over the years. PEL has more than 2000 students across Grade 11 and 12 during FY20. For academic year 2017-18, 892 students were enrolled in Grade XI which increased to 915 students during academic year 2018-19 with 905 new enrolment during academic year 2019-20. Further, PEL added Grade 11 and 12 in science faculty during academic year 2019-20 where 365 students were enrolled in Grade 11.

Growing female education concerns and increasing literacy rate in Nepal

Nepalese society had experienced positive transformation towards education gradually, especially towards female education. Female literacy was just 17% during census year 1991, which was increased to 35% during census year 2001 and further improved to 49% during census year 2011. Overall literacy rate has also improved to 72% during census year 2011 (63% during census year 2001). With the growing concerns towards female education and increasing literacy rate of Nepal, education has become one of Nepal's largest sectors - both in terms of revenue and employment.

Various courses offered by PEL and subsidiary companies

PEL is involved in providing plus two level classes under management faculty affiliated from National Examinations Board (NEB). Further during academic year 2019-20, PEL started plus two level classes under science faculty affiliated from NEB under the name Global School of Science and will also Grade IX and X classes from FY22 in the name of Global School. Valley View English School Limited (100% subsidiary of PEL) is offering school level classes upto Grade X. Global College of Management Limited (100% subsidiary of PEL) is offering Bachelor in Business Studies (BBS) and Masters in Business Studies (MBS) courses affiliated from Tribhuvan University.

To tap students preferring Pokhara University courses, PEL has acquired 100% ownership of Liberty Academic Network Pvt. Ltd. (LANL) and offering Bachelor in Business Administration (BBA) and Bachelor in Hotel Management (BHM) courses. Further to attract students preferring Mid- Western University courses, PEL has acquired 100% ownership of Global College International Pvt. Ltd. (GCIL) and offering BBA, BHM, Bachelor of Travel and Tourism Management (BTTM), Master of Business Administration (MBA) courses. Further GCIL is offering General Certificate of Education Advanced Level (GCE A level) of Cambridge University.

Key Rating Weaknesses

Debt funded capex and investments in different institutions within the education sector

PEL acquired 100% share capital of LANL for Rs.70 Mn during FY19. To finance the acquisition of LANL and for repairs and renovation of buildings, PEL availed Rs.49 Mn term loan during FY19.

Further, PEL has capex plan of Rs. 412 Mn for FY20 and FY21 for construction of building which is proposed to be financed from Rs. 330 Mn term loans from bank.

Exposure to volatile interest rates

Nepalese banking sector fix interest rates on lending, based on quarterly published base rate by the banks. Due to tight liquidity in the market, the interest rate has been high and volatile during the last 12 months. Therefore, funding from Banks and Financial Institutions are exposed to volatile interest rate.

Stiff competition in the industry

PEL is operated in a highly competitive industry. There are various players in the industry providing plus 2 programs under faculties like Management, Science, Humanities, Education etc. There are more than 4000 colleges in Nepal offering Grade XI and XII classes under the affiliation of NEB. Also, there are numerous colleges providing equivalent level of course under foreign board/ university such as Central Board of Secondary Education (CBSE) of India, GCE A level of Cambridge University etc.

Exposure to regulatory risk related to industry

Government of Nepal (GoN) has passed The Education Act (Eighth Amendment), 2016. As per the amendments, school education will now be categorized into two levels; basic education (Grade I to VIII) and secondary education (Grade IX to XII) in contrast of current four levels; primary level (Grade I to V), lower secondary level (Grade VI to VIII), secondary level (Grade IX to X) and higher secondary level (Grade XI to XII). Schools can run classes either from Grade I to XII or in the combination of I-VIII and IX-XII based on physical infrastructure. To meet the regulatory requirements PEL is planning to start Grade IX and X classes from academic year 2021-22 in the name of Global School. GoN, through budget speech for the FY20 announcing free education up to the secondary education level may impact operations of PEL in the medium to long run.

About the Company

Professional Educators Limited (PEL) is a public company incorporated under the Companies Act, 2006. PEL was established with the objective of operating educational institutions delivering education from the primary level to higher degree level. Immediately after incorporation, PEL acquired the ownership of Global College of Management (GCM) and Valley View English School (VES). GCM was operating Bachelor in Business Studies (BBS) course with affiliation from Tribhuvan University (TU) since academic year 1998-99 and plus 2 programs in management faculty with affiliation from National Examinations Board (NEB; former Higher Secondary Education Board) since academic year 2001-02. Later on PEL added Masters in Business Studies (MBS) course with affiliation from TU from the academic year 2005-06. Following the direction from University Grants Commission and TU, to operate university level education program, PEL established separate subsidiary company in the name Global College of Management Limited (GCML) to operate programs affiliated from TU since academic year

2016-17. Currently PEL operates only those programs affiliated from NEB. PEL has Rs. 360 Mn paid up capital as on July 16, 2019.

Brief Financial Performance of PEL during last 3 years is given below:

(Rs. In Million)

For the year ended Mid July,	FY17 (A)*	FY18 (A)*	FY19 (A)*
Income from Operations	189	238	308
PBILDT	72	103	135
PAT	32	24	27
Overall Gearing (times)	2.14	2.10	1.46
Interest coverage (times)	2.26	2.52	2.06

*Audited

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Annexure 1: Details of the Facilities rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	622.77	CARE-NP BBB-
Long Term Bank Facilities	Hire Purchase Loan	2.75	CARE-NP BBB-
Long Term Bank Facilities	Proposed Loan	29.34	CARE-NP BBB-
Short Term Bank Facilities	Overdraft Loan	20.00	CARE-NP A3
Total		674.86	