

Rating Rationale
Professional Educators Limited

Rating

| Facility | Amount (Rs. In Million) | Rating ¹ | Rating Action |
|----------------------------|----------------------------|-------------------------------|---------------|
| Long Term Bank Facilities | 658.86 | CARE-NP BBB- [Triple B Minus] | Assigned |
| Short Term Bank Facilities | 16.00 | CARE-NP A3 [A Three] | Assigned |
| Total Facilities | 674.86 | | |

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned rating of ‘CARE-NP BBB-’ to the long term bank facilities and ‘CARE-NP A3’ 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 derives strength from established track record and experienced directors in the related field, comfortable financial risk profile during FY18 (refers to 12 months period ended mid-July 2018), increasing number of students enrolled, growing female education concerns and increasing literacy rate in Nepal positive for the education industry, various courses offered by PEL and subsidiary companies. The ratings are, however, constrained by moderately leveraged capital structure and debt service coverage indicators, 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 shall be key rating sensitivity.

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

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

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 ~31% to Rs.238 Mn during FY18 over FY15, which was increased by ~26% during FY18 over FY17 due to increased number of students and increased fee structure. Increased revenue leads to increase in PBILDT by ~43% during FY18 to Rs.103 Mn over FY17 with PBILDT margin of 43.25%. The company reported ~26% decrease in PAT to Rs.24 Mn during FY18 over FY17 mainly due to increase in interest expense on bank loans and profit on sale of fixed assets of Rs.31 Mn during FY17 which was nil during FY18. PEL reported Rs.160 Mn total revenue with PBILDT margin of ~56% and PAT margin of ~15% during H1FY19 (refers to 6 months period ended mid-January 2018).

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.

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). From academic year 2019-20, PEL is offerings classes under science faculty affiliated from NEB. 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

Moderately leveraged capital structure and debt service coverage indicators

The capital structure of the company is moderately leveraged with debt equity ratio of 2.07x and overall gearing ratio of 2.10x as on July 16, 2018 on back of additional term loans availed during FY18. PEL has moderate interest coverage ratio of 2.52x and total debt to GCA ratio of 12.69x as on July 16, 2018.

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

PEL acquired 100% share capital of LANL for Rs.70 Mn during 9MFY19. To finance the acquisition of LANL and for repairs and renovation of buildings, PEL availed Rs.49 Mn term loan during 9MFY19. Further, PEL has capex plan of Rs.299 Mn for FY20, including construction of building for expansion of classes and the same is proposed to be financed from Rs.216 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 program 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 programme 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 program affiliated from NEB. PEL has Rs.230.29 Mn paid up capital as on July 16, 2018. PEL issued 10% bonus share and after that issued right share in the proportion of 2:1 for the existing shareholders during FY19.

Brief Financial Performance during last 3 years:

(Rs. In Million)

| For the year ended Mid July, | FY16 (A) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|----------|
| Income from Operations | 111 | 165 | 218 |
| PBILDT | 27 | 72 | 103 |
| PAT | 11 | 40 | 32 |
| Overall Gearing (times) | 2.50 | 2.14 | 2.10 |
| Interest coverage (times) | 4.24 | 2.26 | 2.52 |

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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 | 655.57 | CARE-NP BBB- |
| Long Term Bank Facilities | Hire Purchase Loan | 3.29 | CARE-NP BBB- |
| Short Term Bank Facilities | Overdraft Loan | 16.00 | CARE-NP A3 |
| Total | | 674.86 | |