

Lord Buddha Educational Academy Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Long Term Bank Facilities	96	CARE-NP B [Single B]	Assigned
Short Term Bank facilities	904.00	CARE-NP A4 [A Four]	Assigned
Total Facilities	1,000.00 (One Thousand Million Only)		

**Details of instruments / facilities in Annexure-1*

CARE Ratings Nepal Limited (CRNL) has assigned rating of 'CARE-NP B' to the long-term bank facilities and rating of 'CARE-NP A4' to the short-term bank facilities of Lord Buddha Educational Academy Limited (LBEA).

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of LBEA is constrained by declining enrolment ratio in education vertical coupled with weak financial risk profile marked by declining revenues, low profitability and weak debt service coverage indicators. The ratings, also factors the highly competitive nature of the industry, regulatory & reputational risk and volatile interest rates.

The company, however, derives strength from experienced promoters and management team, established track record of operations in healthcare & related education and satisfactory infrastructure with diversification across various specialties.

The ability of the company to improve the enrolment in different courses coupled with improvement in overall financial risk profile along with rationalization of its debt levels would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Lower enrolment ratio of medical college

LBEA operates medical college and Nursing college with various programs under the affiliation of Kathmandu University and Council for Technical Education and Vocational Training (CTEVT). The college operations started with the commencement of MBBS program in 1997, which was followed by Nursing program in 2000. There were no enrollments in MBBS, MD/MS and BSC (Nursing) during FY20 on account delay in entrance examination due to COVID-19 and the enrollment happened in FY21 and enrolment ratio stood low at 22% in FY21 which reduced from 82% in FY19. Furthermore, during FY21, PCL nursing course was cancelled by the government for LBEA on account of regulatory obligations and there were no students available for the enrollment in BSC Nursing. There has been no new enrollment in current academic year (FY23) also due to delay in the admission process on account of the lingering impact of the COVID-19 pandemic.

Financial risk profile marked by declining revenues, modest profitability and weak debt service coverage indicators

LBEA reported declined in total income by 3.44% during FY20 over previous year and reported total operating income of Rs. 1,381 Mn. The company reported moderated growth in total revenue by 6% to Rs. 1,464 Mn in FY21. Revenue from the hospital operations during FY20 and FY21 was impacted due to COVID-19; though, the LBEA was operated as COVID specific hospital at Kohalpur. The same was attributed to impact on other regular services and medical facilities due to pandemic. Furthermore, there was no new enrollment of the students due to the COVID-19 and the admission process got delayed by one year. Also, the regular classes were interrupted and the decreased MBBS fee hampered the revenue collection from students. The company reported the PBILDT of Rs. 40 Mn during FY21 as compared to Rs. 38 Mn in FY20. In past (pre-covid pandemic),

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

PBILDT margin of the company was ~12%. However, the same has been declined during FY20 & FY21 and remained at ~3% on account of increase in operational cost coupled with decline in revenue.

The gearing ratio of the company was high at 2.50x at the end of FY21 (FY20: 1.52x). The gearing ratio of the company deteriorated during FY21 on account of increased working capital loan to fund the operations of the company coupled with decrease in net worth of the company due to accumulated losses over the period.

LBEA reported stressed interest coverage ratio of which were much below unity in last 2 financial years (FY20 & FY21). Additionally, total debt to GCA was also very high during the said period. The company has taken additional working capital loans to fund the operations of the company.

Highly competitive nature of the industry coupled with challenges of attracting and retaining quality doctors and medical professionals

The company operates in a highly competitive industry. There are various organized and unorganized players in the market. It faces stiff competition from other hospitals and private clinics in the area. Thus, differentiating factors like range of services offered, quality of service, pedigree of doctors, success rate in the treatment of complex cases, word of mouth etc. are crucial in order to attract patients and increase occupancy levels. Moreover, the hospital has to remain very careful with its operations and has to follow various regulations imposed by the government. Furthermore, with the increasing competition due to mushrooming of private clinics / small hospital in the region, the retention of the trained medical staff seems to be an area of concern for the company. Going forward retention of trained medical staff would be critical for the company to profitably scale up its operations.

Reputation risk and Regulatory framework for both healthcare & educational sector in Nepal

Despite, the increasing trend of privatization of education and healthcare sector in Nepal, both the sectors continue to operate under stringent regulatory control. Accordingly, the players, at times, find difficult to realize their plans or cope with the regulatory framework. Hence, regulatory challenges continue to pose a significant risk to private healthcare & educational institutions as they are highly susceptible to changes in regulatory framework.

Healthcare is a highly sensitive sector where any mishandling of a case or negligence on the part of any doctor and/or staff of the unit can lead to distrust among the masses. Thus, all the healthcare providers need to monitor each case diligently and maintain high operating standard to avoid the occurrence of any unforeseen incident which can damage the reputation of the hospital to a large extent.

Key Rating Strength

Established track record and experienced directors in the related field

LBEA is providing health related and academic services for more than 25 years. It has 8 Board of Directors, chaired by Mr. Dinesh Shrestha, who has more than 32 years of experience in various sectors. Dr. Suresh Kumar Kanodia, Managing Director, has been involved in the medical sector for more than 4 decades. Other directors of the company have also long experience in various sectors and supported by experienced management team.

Satisfactory infrastructure with diversified revenue stream

LBEA is a multi-specialty hospital and has been providing wide range of health services to the patients through. The company has 2 academic blocks and hospitals are located at Kohalpur and Nepalgunj. LBEA generates revenues from medical College that offers different courses. LBEA earned around 50% of the total operating income from hospital operations, followed by 25.25% from medical college during FY21.

Growing demand of healthcare services in Nepal

Healthcare has become one of Nepal's largest sectors both in terms of revenue and employment. Healthcare comprises hospitals, medical devices, clinical trials, outsourcing, telemedicine, medical tourism, health insurance and medical equipment. The Nepalese healthcare sector is growing at a good pace due to its strengthening coverage, services and increasing

expenditure by public as well private players. Rising income level, greater health awareness, increased precedence of lifestyle diseases and improved access to insurance would be the key contributors to growth.

About the Company

Lord Buddha Educational Academy Limited (LBEA) is a private company established by a group of doctors in Chitwan District in 1996. LBEA is engaged in imparting education in the area of medical sciences and providing health services. The company operates Nepalgunj Medical College and Nepalgunj Nursing Campus. Furthermore, the college has two teaching hospitals that are located at Kohalpur and Nepalgunj of Banke district in Nepal. The teaching hospital in Kohalpur has the capacity of 750 beds and teaching hospital in Nepalgunj has the capacity of 250 beds. However, the company has currently 700 operational beds.

Financial Performance

(Rs. in Mn)

Particulars	FY19	FY20	FY21
	Audited	Audited	Audited
Income from Operations	1,430	1,381	1,464
PBILDT Margin (%)	12.20	2.73	2.75
Overall Gearing (times)	1.11	1.52	2.50
Interest coverage (times)	2.34	0.47	0.61
Current Ratio (times)	0.70	0.67	1.01
Total Debt/Gross Cash Accruals (times)	6.02	347.78	100.86

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities	Term Loan	96.00	CARE-NP B
Short Term Bank Facilities	Overdraft	904.00	CARE-NP A4
Total Facilities		1,000.00	

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