

Ullens Education Foundation

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	600.00	CARE-NP BBB- [Triple B Minus]	Assigned
Short Term Bank Facilities	50.00	CARE-NP A3 [A Three]	Assigned
Total Facilities	650.00		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP BBB-' to the long term bank facilities and the rating of 'CARE-NP A3' to the short term bank facilities of Ullens Education Foundation (UEF).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of UEF derive strengths from the established track record of its flagship Ullens School and experienced management/trustee in the related field along with well-established infrastructure. The ratings also factor in steady operating income and surplus supported by healthy enrollment ratio, and comfortable capital structure with healthy coverage indicators. The ratings also take cognizance of the growing demand of quality educational services in Nepal. The ratings, however are constrained by highly competitive nature of industry coupled with challenges of attracting and retaining quality professionals. The ratings also factor in capital intensive nature of the education sector requiring regular investments on infrastructure development, exposure to regulatory risk and volatile interest rate risk.

Going forward, the ability of UEF to significantly improve revenue on the back of addition of new courses/opening up of new institutes under the foundation and higher enrollment ratio, while maintaining a comfortable capital structure and liquidity position, on a sustained basis will be the key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Established track record and experienced management/trustee in the related field

Operational since 2006, UEF has been providing educational services for almost two decades. UEF has four members in its Board of Trustees, chaired by Mr. Som Prasad Paneru, Graduate of University of East Anglia, Norwich, UK where he earned his M.A. in International Child Welfare. Additionally, Mr. Paneru served a term as a board member in Central Child Welfare Board of Nepal. Mr. Hem Prasad Shrestha holds a master's degree in Public Administration, from Kathmandu University, Nepal. Since 2006, he has been actively involved as a crucial part of the Founder Board of Trustees within the Ullens Education Foundation (UEF). Ms. Sajani Amatya has been continuously serving in the UEF board since the inception of the foundation in 2006. Ms. Sajani also served as the founding and active board member of the Happy House Foundation, the non-profit child welfare organization of the Ullens.

Steady income profile with healthy surplus margins

During FY24, UEF's total operating income (TOI) was Rs. 756 Mn, steady as compared to the income of Rs. 754 Mn in FY23. UEF's PBILDT (surplus before interest, lease, depreciation and tax) margin has remained healthy over the past four fiscals and improved to 30.54% in FY24 as against 27.86% in FY23 owing to rationalization of employee benefit and operating expenses. Also, surplus after tax margin improved to 12.74% in FY24 from 11.92% in FY23 and GCA increased to Rs. 155 Mn in FY24 from Rs. 148 Mn in FY23. Although majority of the free cash was used for capital expenditure in

¹Complete definitions of the ratings assigned are available at <https://www.careratingsnepal.com/> and in other CRNL publications

FY24, UEF's cash accruals is expected to remain steady over the medium term boosted by healthy enrollment ratio and incremental fees.

Comfortable capital structure coupled with healthy coverage indicators

UEF's capital structure remained comfortable with debt-to-equity and overall gearing ratios of 0.86x and 0.94x respectively, as on FY24, though slightly increased from 0.75x and 0.77x respectively, as on FY23. This slight increment is mainly due to increase in total debt in FY24 as against FY23. Total debt increased to Rs. 648 Mn at FY24 end from Rs. 469 Mn at FY23 end. The company had incurred capital expenditure amounting Rs. 309 Mn in FY24. This was pertaining to purchase of land and school vans. The debt coverage indicators also remained comfortable as total debt to gross cash accruals (TD/GCA) and interest coverage ratio stood at 4.17x and 3.97x respectively, in FY24. Going forward, with no major proposed capex plans, the overall gearing and debt coverage indicators are expected to sequentially improve. Any higher-than-envisaged debt-funded capex resulting in significant deterioration in overall gearing shall remain negative from credit perspective.

Well established infrastructure

UEF has over 1200 students from K-12 and IBDP, supported by over 150 faculty and 300 staff members. The building has over 40,000-square-feet of operational space. UEF has a cafeteria, science labs, performing arts rooms, and three libraries housing 20,000 books, periodicals and resource materials. It also features a 500-seat auditorium for events and performances. Additionally, UEF also has an outdoor learning center in Nala, Kavrepalanchowk for recreational and extracurricular activities, with capacity for up to 72 students and 6 teachers.

Growing demand of quality educational services in Nepal

Educational sector has become one of Nepal's largest sectors both in terms of revenue and employment. Educational services comprise quality faculty members, online teaching, delivering off-campus lectures etc. The Nepalese educational sector is growing at a good pace due to its strengthening coverage, services and increasing expenditure by public as well as private players. Rising income level, greater educational awareness, improved lifestyle and access to educational services would be the key contributors to growth.

Key Rating Weaknesses

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

The entity operates in a highly competitive industry owing to the fact that the educational sector is highly fragmented leading to high level of competition. Thus, differentiating factors like range of services offered, quality of service, pedigree of lecturers etc. will be crucial in order to attract students and increase occupancy levels. Moreover, the educational institutions have to remain very careful with its operations and have to follow various regulations imposed by the government. Furthermore, with the increasing competition due to mushrooming of private educational institutes in the region, the retention of the trained professionals is an area of concern for the industry. While competition for secondary education (till Grade 12) is highly competitive, there is relatively low competition for the IBDP programme as there are few such programmes operational in the country currently. Nonetheless, the IBDP programme faces some competition from other alternative equivalent programmes under foreign board/ university such as General Certificate of Education Advanced Level (GCE A level) of Cambridge University etc.

Exposure to regulatory risk

UEF is exposed to regulatory risks normally associated with educational institutions. Ullens school, operated by UEF, is regulated by multiples agencies and bodies of the Government. Moreover, education being a matter of public concern remains susceptible to policies and regulations of the Government for this sector. Additionally, UEF's IBDP programme also remains exposed to regulatory risk associated with foreign programmes. The licensing of new foreign-affiliated colleges in similar fields of education could affect UEF's occupancy level and revenue profile. Likewise, any modifications to the regulations or directives concerning foreign affiliations could notably affect the entity's revenue and incremental cash flows.

Exposure to volatile interest rates

Nepalese banking sector has a floating interest rate regime, where a certain premium is added to the monthly base rate and interest rate is changed accordingly on monthly basis. The base rates of the banks and financial institutions (BFIs) in Nepal remain quite volatile as they are impacted by available liquidity in the system, which leads to change in interest rates. Any significant rate hikes could put increased interest burden on the entity, squeezing its profitability and impacting its liquidity position. Therefore, funding taken by the entity from BFIs is subject to volatile interest rate.

About the Company

Ullens Education Foundation (UEF) is a non-profit organization established on January 05, 2006 to promote world-class education in Nepal and to promote education as a non-profit venture fostering a great level of social responsibility. UEF runs the Ullens School (K-12 & IBDP). Its 10+2 programme (grade 11 and 12) is affiliated from the National Examinations Board under GoN and its IBDP is affiliated from the International Baccalaureate Organization of Switzerland.

Brief financial performance of UEF during last 3 years is given below:

For the year ended Mid-July	FY22 (Audited)	FY23 (Audited)	FY24 (Unaudited)
Income from Operations	630	754	756
PBILD Margin (%)	29.20	27.86	30.54
Overall Gearing (times)	1.03	0.77	0.94
Interest Coverage (times)	3.51	3.30	3.97
Current Ratio (times)	0.71	1.20	0.74
Total Debt/Gross Cash Accruals (times)	3.91	3.17	4.17

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan and Hire Purchase Loan	600.00	CARE-NP BBB-
Short Term Bank Facilities	Fund Based Limits	50.00	CARE-NP A3
Total		650.00	

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