

ICRA Lanka assigns the issuer rating of [SL]BBB with Stable outlook for Oxford College of Business (Pvt) Ltd.

February 25, 2021

| Instrument | Current Rated Amount (LKR Mn) | Rating Action |
|---------------|----------------------------------|----------------------------|
| Issuer Rating | N/A | [SL]BBB (Stable); assigned |

Rating action

ICRA Lanka Limited has assigned the issuer rating of [SL]BBB (Pronounced SL triple B) with Stable outlook for Oxford College of Business (Pvt) Limited (OCB or the Company).

Rationale

The rating factors in the track record in Education sector, leading market position in 12 months postgraduate programmes among the private educational institutes, and healthy financial profile. The Company reported healthy performance in H1FY2021 marked by revenue growth and improvement in operating margin, supported by healthy enrolment levels for postgraduate courses. The Company's financial profile remains comfortable characterised by healthy capital structure and healthy debt protection indicators. This apart, the Company has a comfortable liquidity profile driven by cash and liquid investments. The rating takes comfort from the established track record of OCB spanning more than a decade, and the strong brand equity of its 12 months postgraduate programme. The rating also factors in the favourable long-term outlook for private sector higher education in Sri Lanka.

The rating, however, is constrained by the high reliance of the Company on its postgraduate courses for its revenues, as it accounted for around ~85% of the revenues in H1FY2021 (82% in FY2020 and 71% in FY2019), with the revenues from the undergraduate and professional courses remaining modest. Further, the rating takes note of the geographical concentration risk with the presence of OCB only in Colombo, and significant competition in the private sector higher education industry. These apart, given that the private higher education sector is unregulated in Sri Lanka, the Company is exposed to significant regulatory risks associated with future stringent regulatory requirements that may be imposed by the University Grants Commission (UGC) and other relevant regulatory authorities.

Outlook: Stable

The Stable Outlook reflects ICRA Lanka's expectations that OCB would continue to sustain its healthy financial profile, supported by healthy enrolment levels for postgraduate courses. Downward pressure on the rating could emerge if any adverse regulatory developments impact the Company's operational or financial profile. The rating could also be downgraded if liquidity position or capital structure weakens significantly on account of any sizeable capex.

Key Rating Drivers

Credit strengths

Long term track record of postgraduate courses with strong brand equity: OCB was incorporated in 2003 offering professional courses. The Ranasinghe family holds 95% stake of the Company. OCB has steadily scaled up and transformed into a higher education institute offering postgraduate and undergraduate programmes. The Company has a presence in the postgraduate education sector for more than a decade. It

pioneered the 12 months MBA programme in Sri Lanka in partnership with the Australian Institute of Management. Presently it offers postgraduate and undergraduate programmes affiliated with the University of Bedfordshire and Australian Institute of Management. The Company is a leading player in the 12 months MBA programmes offered by the private sector higher education institutes with more than 1,000 student enrolments in 2020. The Company also offers professional courses of the Association of Business Executives, Confederation of Tourism and Hospitality and Organization Tourism and Hospitality Management of UK.

Stable cash flows underpinned by healthy enrolment levels for postgraduate programmes and potential demand for undergraduate programmes; On the back of the strong demand for its postgraduate courses, given the six rolling intakes per annum, the enrolment levels have been healthy at 95% for its postgraduate courses. Given the healthy enrolment rates, the Company generates stable cash flows from the postgraduate fees, which constitutes nearly 85% of its total income in H1FY2021. The Company envisages diversifying its revenue streams by offering new undergraduate programmes in the medium term. Given the low enrolment rate (19.1% in 2019) to State Universities, ICRA Lanka foresees future potential demand for the undergraduate programmes.

Healthy financial profile; The Company's revenue witnessed a healthy CAGR of 25% during the last five years, backed by an increase in student enrolment. The same resulted in better absorption of fixed expenses, which resulted in improvement in operating margin to 40.1% in H1FY2021 from 10.7% in FY2020 and PAT margins to 36.2% in H1FY2021 from 6.2% in FY2020. Despite the current pandemic situation, the enrolment levels have remained high and fee collection has been regular in H1FY2021. The Company's capital structure is healthy as reflected by a low gearing of 0.2 times as in Sep-20, which improved from 0.4 times as in Mar-20. With improved profitability, coupled with low debt levels, the debt coverage metrics improved to healthy levels with interest coverage ratio at 15.6 times and Total Debt/ OPBDITA at 0.2 times in H1FY2021. The liquidity position is strong with the Company having healthy cash and bank balances as in Sep-20.

Credit challenges

Revenue considerably dependent on postgraduate courses; The Company's main source of income is course fees constituting around 98% of it. Fees from postgraduate courses form a major share of around 85% of the total fee income. However, the ongoing diversification into undergraduate courses will mitigate the revenue concentration risk to some extent in the medium term. Presently, Management is working with two foreign universities to offer new undergraduate programmes.

Regulatory risk; OCB is not under the purview of University Grants Commission as the private sector higher education is highly unregulated in Sri Lanka. However, affiliated universities of OCB are recognized by the University Grants Commission. Going forward, the Company is exposed to significant regulatory risks if UGC and other regulatory authorities impose stringent regulatory requirements.

Analytical approach: For arriving at the ratings, ICRA Lanka has applied its rating methodologies as indicated below.

Links to applicable criteria: <https://www.icralanka.com/issuer-rating-methodology/>

About the Company:

Oxford Business College (Pvt) Ltd was incorporated in Sri Lanka on 14th March 2003. The Ranasinghe family holds 95% stake. OCB started operations in 2003 offering the professional qualification of Association of Business Executives, UK (ABE) as a certified teaching centre. Thereafter it started its English languages courses such as Diploma in English and Spoken English programmes. In 2007 it partnered with the Australian Institute of Business and pioneered the first 12 months foreign MBA programme in Sri Lanka. In 2016, OCB tied up with the Australian Institute of Management (AIM) and the University of Bedfordshire (UoB). Initially, the OCB offered AIM's general MBA programme and MSc and undergraduate programmes from UoB. In 2017 OCB partnered with UoB to offer the General MBA and specialized programmes in Marketing, Finance, Human Resources and Hospital & Health Services Management. The Company also offers undergraduate programmes in partnership with UoB.

Key financial indicators (audited)

| In LKR Mn | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | H1FY2021* |
|---------------------------------------|--------|--------|--------|--------|---------|-----------|
| Operating Income | 85.9 | 97.0 | 99.6 | 138.9 | 263.6 | 136.4 |
| OPBDITA | 13.7 | 3.7 | 13.4 | 18.0 | 28.3 | 54.6 |
| PAT | 5.9 | -6.8 | 0.9 | 6.1 | 16.5 | 49.4 |
| ROCE (%) | 19.6% | 0.9% | 12.3% | 20.1% | 38.9% | 124.9% |
| NWC / OI (%) | 12.1% | -10.8% | -32.8% | -97.9% | -136.2% | -163.6% |
| Total Debt | 39.9 | 42.5 | 49.1 | 48.4 | 21.3 | 16.6 |
| Networth | 40.2 | 33.4 | 34.3 | 33.7 | 50.2 | 99.6 |
| Gearing (x) | 1.0 | 1.3 | 1.4 | 1.4 | 0.4 | 0.2 |
| OPBDITA/Interest & Finance Charges(x) | 2.7 | 0.5 | 1.8 | 2.2 | 2.9 | 15.6 |
| Total Debt/OPBDITA (x) | 2.9 | 11.6 | 3.7 | 2.7 | 0.8 | 0.2 |

*Unaudited

Rating history for last three years

| Instrument | Current Rating (2021) | | | | Chronology of Rating History for the past 3 years | | | |
|-----------------|-----------------------|-----------------------|-----------------------------|------------------|---|---------------|---------------|--|
| | Type | Amount Rated (LKR Mn) | Amount outstanding (LKR Mn) | Date & Rating | Date & Rating | Date & Rating | Date & Rating | |
| | | | | Feb 2021 | | | | |
| 1 Issuer Rating | - | - | - | [SL]BBB (Stable) | N/A | N/A | N/A | |



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