

ICRA Lanka revises the issuer rating of Oxford College of Business (Pvt) Ltd.

May 25, 2022

Instrument	Current Rated Amount (LKR Mn)	Rating Action
Issuer Rating	N/A	Revised to [SL]BBB- (Negative) from [SL]BBB (Stable)

Rating action

ICRA Lanka Limited has revised the issuer rating of Oxford College of Business (Pvt) Ltd (OCB or the company) to [SL]BBB- (Pronounced SL triple B Minus) with a Negative outlook from [SL]BBB (pronounced SL triple B), with Stable outlook.

Rationale

The rating revision factors the increased debt levels and deteriorated coverage indicators of the company. Total debt of the company has increased to LKR 470 Mn in FY2021 from LKR 21 Mn in FY2020 due to debt funded acquisition of the college building towards the end of FY2021 and the total debt remained at LKR 394 Mn as in Dec-21. Interset coverage has declined to 2.89x in Dec-21 vis-à-vis 4.75x in FY2021 and DSCR has reached 0.84x in Dec-2021 (3.76x in FY2021 and 2.34x in FY2020). Furthermore, gearing has increased to 6.89x in FY2021 (improved to 4.44x in Dec-2021) compared to 0.42x in FY2020 and 1.44x in FY2019. The rating revision also factors in the challenging operating environment faced by the company, especially in terms of making the forex payments to its affiliate universities, overseas.

However, the rating factors in the track record of OCB in the education sector and leading market position in 12 months postgraduate programmes among the private educational institutes. The Company reported healthy performance in 9MFY2022 marked by revenue growth and improvement in operating margin, supported by healthy enrolment levels for postgraduate courses and reduction in operating costs. Also, ICRA Lanka expects the company to benefit from the increasing preference for foreign education, among the Sri Lankans.

Outlook: Negative

The negative outlook primarily reflects the challenges operating environment faced by the company due to exacerbating dollar shortage in the market and thus increasing the forex risk to the OCB to meet its obligations to affiliated professional bodies.

Key Rating Drivers

Credit strengths

Long term track record of postgraduate courses with strong brand equity: OCB was incorporated in 2003 offering professional courses. Mr Malindu Ranasinghe is the main shareholder of the Company with 76% stake and the Ranasinghe family holds 98% stake in 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 Business. Presently it offers postgraduate and undergraduate programmes affiliated with the University of Bedfordshire and the 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 2021. 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 98.7% for its postgraduate courses. Given the healthy enrolment rates, the Company generates stable cash flows from the postgraduate fees, which constitute nearly 86% of its total income in 9MFY2022. The Company envisages diversifying its revenue streams by offering new undergraduate programmes in the medium term. Given the low enrolment rate for State Universities, ICRA Lanka foresees future potential demand for the undergraduate programmes.

Healthy profitability profile; The Company's revenue witnessed a healthy CAGR of 31% during the last five years, backed by an increase in student enrolment. The same resulted in better absorption of fixed expenses, which resulted in an improvement in operating margin to 36.2% in 9MFY2022 from 11.8% in FY2021 and PAT margins to 9.2% in 9MFY2022 from 6.7% in FY2021. ICRA Lanka also notes that the shift into online learning has created further cost savings for the company. Despite the current catastrophic events in Sri Lanka, the enrolment levels have remained high and fee collection has been regular in 9MFY2022.

Credit challenges

A sharp increase in debt levels resulting weaker coverage indicators; OCBs debt increased to LKR 394 Mn as of Dec-21, vis-à-vis LKR 21 Mn in FY2020. This has resulted in gearing increasing to 4.44x. Coverage indicators have also weakened with interest coverage ratio at 2.89x and Total Debt/ OPBDITA at 3.66x as in 9MFY2022. Further, DSCR is reflected as 0.84x in 9MFY2022 vis-à-vis 3.76x in FY2021 and 2.34x in FY2020.

Revenue is considerably dependent on postgraduate courses; The Company's main source of income is course fees constituting around 99% of it. Fees from postgraduate courses form a major share of around 86% 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 the 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.

Forex risk; OCB faces short to medium term forex risk between the time of collection and remitting to the respective University/professional body. This might get exacerbated by the prevailing macroeconomic conditions in the country. ICRA Lanka notes that the forex shortage in the market could affect the company's ability to make on time payments to its affiliate universities.

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

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. Mr Malindu Ranasinghe is the main promoter of the Company holding 76% stake and the Ranasinghe family holds 98% stake of the company. OCB started operations in 2003 offering the professional qualification of the Association of Business Executives, UK (ABE) as a certified teaching centre. Thereafter it started its English language courses such as Diploma in English and Total Immersion in 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	FY2019	FY2020	FY2021	9MFY2022*
Operating Income	138.9	263.6	283.8	222.6
OPBDITA	18.0	28.3	33.6	80.7
PAT	6.1	16.5	19.0	20.4
Total Debt	48.4	21.3	470.2	394.1
Networth	33.7	50.2	68.2	88.7
Gearing (x)	1.4	0.4	6.9	4.4
Total Debt/OPBDITA (x)	2.7	0.8	14.0	3.7
Interest Coverage (x)	2.2	2.9	4.8	2.9
DSCR (x)	1.3	2.3	3.8	0.8

*Unaudited

Rating history for last three years

Instrument	Current Rating (2022)				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	
				May 2022	Feb 2021			
Issuer Rating	-	-	-	[SL]BBB- (Negative)	[SL]BBB (Stable)	N/A	N/A	



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