PRESS RELEASE

PROFESSIONAL EDUCATORS LIMITED

March 2025

Ratings

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	1,441.80 (enhanced from 1,259.17)	IRN BB+	Upgraded from IRN BB
Short Term Bank Facilities	58.20 (reduced from 59.33)	IRN A4+	Upgraded from IRN A4
Total	**1,500.00**		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has upgraded the rating to IRN BB+ (Double B Plus) from IRN BB (Double B) assigned to the long-term bank facilities of NPR 1,441.80 Mn and upgraded the rating to IRN A4+ (A Four Plus) from IRN A4 (A Four) assigned to the short-term bank facilities of NPR 58.20 Mn.

Detailed Rationale

The upgradation of ratings assigned to the bank facilities of Professional Educators Limited (PEL) reflects its improving financial performance during FY24, marked by revenue growth and its improved profitability and Gross Cash Accruals. PEL, led by experienced professionals, reported an increase of 20% year-on-year in Total Operating Income (TOI) to NPR 751 Mn in FY24, supported by higher student enrollments and fee revisions. EBITDA grew to NPR 347 Mn in FY24, with margins improving to 46.24%. In 6MFY25, TOI stood at NPR 410 Mn, and EBITDA reached NPR 231 Mn, with margins strengthening to 56.37%. PAT margin improved to 18.61% in 6MFY25 from 8.66% in FY24, reflecting operational efficiency. The financial profile strengthened with Tangible Net Worth (TNW) rising to NPR 1,137 Mn, alongside an improved gearing ratio of 1.13x as of mid-January 2025. Interest coverage also strengthened to 3.80x in 6MFY25, indicating better debt servicing ability. Also, the ratings factor in acquisition of majority shareholding (~35%) of PEL by Nepal Life Insurance Company Limited (NLIC) at the beginning of FY25.

However, PEL faces a stretched working capital cycle, with its operating cycle extending to 135 days in 6MFY25 vis-à-vis 86 days in FY24 mainly due to increasing receivables. Regulatory risks and intense competition in the education sector remain concerns, along with interest rate fluctuations impacting borrowing costs. Despite these challenges, PEL's strong market position, experienced management, and improved financial metrics support its credit profile. The company's ability to sustain growth, manage working capital efficiently, and navigate regulatory changes will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established and long track record of operations, presence of institutional promoter along with experienced directors and management personnel

PEL is founded by a consortium of professionals with backgrounds in education, economics, research, banking, and other sectors. The company's Board of Directors (BoD) consists of six members, each possessing extensive experience in educational institutions and long-standing involvement in their promotion and operation. Dr. Khagendra Prasad Ojha serves as the Chairman of the BoD and also leads the management team as CEO of the company. Dr. Ojha holds a Ph.D. in Economics and has served as an Associate Professor at Tribhuvan University for over three decades. Dr. Ojha is an accomplished author with numerous publications and extensive research contributions in the fields of finance and accounting. Mr. Amba Dutta Joshi, the Principal of PEL, brings over 20 years of teaching experience at various colleges to his role. He oversees the company's day-to-day operations, supported by a seasoned management team. At the beginning of FY25, Nepal Life Insurance Company Limited became the majority shareholder with a 35% stake in the company. As a leading life insurer in Nepal and the first privately initiated life insurance company in the country, its association is expected to enhance the company's growth through its industry expertise.

Satisfactory students enrollments

PEL has maintained steady enrollment and revenue growth, particularly in the Management and Science faculties. In Management, total students increased by 7% in FY24, reaching 1,934, driven by a 1% rise in new enrollments and a higher retention rate in Class XII. Tuition fees saw an upward revision, with Class XI increasing by 25% and Class XII by 20%, contributing to overall revenue growth. Similarly, in Science, total students grew by 5% in FY24, reaching 1,263, though new admissions saw a marginal decline (-1%). A notable improvement was in carried students for Class XII, which increased from 546 in FY23 to 613 in FY24, ensuring revenue continuity. Tuition fees for Class XI rose by 25%, while Class XII saw a sharp 42% increase, reflecting strong pricing power. Additionally, the carried annual fee for Class XII surged by 41% in FY24, further strengthening revenue. While the overall enrollment trend remains satisfactory, the dip in new Science admissions and minor fluctuations in fee adjustments require close monitoring. Nonetheless, the institution's ability to increase fees while maintaining student growth highlights its strong market position and demand for its educational services.

Improving financial risk profile characterized by growth in Total Operating Income

TOI of PEL has grown to NPR 751 Mn in FY24 from NPR 636 Mn in FY23, with the company recording TOI of NPR 410 Mn in 6MFY25. This growth was driven by an increase in student enrollment and a revision in tuition fees, where Class XI fees were raised by 25% for both Management and Science faculties, while Class XII saw a fee hike of 20% in Management and 42% in Science. Improved revenue led to a rise in EBITDA, which increased by ~24% y-o-y in FY24 to NPR 347 Mn, with 6MFY25 EBITDA standing at NPR 231 Mn. EBITDA margins improved to 46% in FY24 from 45% in FY23 and further to 56% in 6MFY25, supported by cost optimization measures, including reduced office expenses. PEL's PAT margin also strengthened, increasing from 8.27% in FY23 to 8.66% in FY24 and significantly to 18.61% in 6MFY25, reflecting operational efficiency and improved profitability. Gross Cash Accrual (GCA) improved from NPR 117 Mn in FY23 to NPR 143 Mn in FY24 and stood at NPR 112 Mn in 6MFY25. The company's ability to sustain revenue growth, maintain profitability, and efficiently manage costs will be key factors in its financial performance going forward.

Moderate capital structure and debt coverage indicators

As of mid-January 2025, the overall gearing ratio improved to 1.13x from 1.96x in FY24 and 2.12x in FY23, supported by an increase in Tangible Net Worth (TNW) to NPR 1,137 Mn from NPR 811 Mn in FY24 and NPR 74 Mn in FY23, on account of improved profitability. The interest coverage ratio strengthened to 3.80x in 6MFY25, compared to 2.03x in both FY24 and FY23, driven by higher EBITDA. Total Debt/EBITDA stood at 5.56x in 6MFY25, after improving to 4.58x in FY24 from 5.58x in FY23. Meanwhile, Total Debt/GCA stood at 11.53x in 6MFY25, slightly increasing from 11.13x in FY24, though still lower than 13.54x in FY23. The Total Outside Liabilities to Tangible Net Worth (TOL/TNW) ratio improved to 1.46x in 6MFY25 from 2.45x in FY24 and 2.44x in FY23, indicating a stronger financial position.

Key Rating Weaknesses

Moderate working capital cycle
The company's working capital cycle has lengthened over time, primarily due to a significant rise in receivables. In 6MFY25, the average collection period increased to 189 days from 140 days in FY24 and 72 days in FY23. Receivables from students surged to NPR 198 Mn in 6MFY25, compared to NPR 49 Mn in FY24 and NPR 21 Mn in FY23. Similarly, receivables from subsidiaries stood at NPR 210 Mn in 6MFY25, after rising to NPR 369 Mn in FY24 from NPR 113 Mn in FY23. Meanwhile, the average payables period remained at 54 days in both 6MFY25 and FY24, up from 33 days in FY23. As a result, the company's operating cycle extended to 135 days in 6MFY25, compared to 86 days in FY24 and 39 days in FY23, indicating increased working capital requirements. Furthermore, as per the bankers, the utilization of fund-based working capital limits against drawing power was around 85% as of July 15, 2024, reflecting a high dependence on external funding.

Exposure to volatile interest rates
Interest rates on deposits and borrowing continue to play a crucial role in the Nepalese economy. Following the directives of the Nepal Rastra Bank (NRB), Banks and Financial Institutions (BFIs) typically determine loan interest rates by adding a premium to the base rates, which are adjusted quarterly. The interest rates set by BFIs have exhibited historical volatility over the past 12 months due to tight liquidity in the market. Consequently, borrowing from banks and financial institutions exposes PEL to the risk of fluctuations in interest rates.

Exposure of regulatory risks and presence in competitive nature of industry
The Government of Nepal has enacted the Education Act (Eighth Amendment), 2016, which brings significant changes to the education system. The national-level school termination examinations, previously conducted by the Office of the Controller of Examinations (SLC board) at the end of Grade X, will now take place at the end of Grade XII. Additionally, the education system will now be divided into two levels: basic education (Grade I to VIII) and secondary education (Grade IX to XII), as opposed to the current four-tier system. Schools are permitted to offer classes ranging from Grade I to XII if they meet the required physical infrastructure standards. However, those that do not meet these standards may provide classes from Grade I to X or a combination of Grade I-VIII and IX-XII. The government's commitment to providing free education up to the high school level, as stipulated in Article 31 (2) of the constitution, may impact operations of PEL in the medium and long run.
PEL operates in a highly competitive industry where numerous institutions offer a variety of programs including Management, Science, Humanities, and Education at the plus two level. Nepal is home to approximately 8,700 plus two colleges accredited by the National Examination Board (NEB), offering Grade XI and XII classes. Additionally, a significant number of colleges, including NEB-affiliated ones, provide similar courses under foreign boards or universities such as the Central Board of Secondary Education (CBSE) of India and the General Certificate of Education Advanced Level (GCE A level) of Cambridge University. In this landscape, PEL faces stiff competition from neighbouring colleges in the region.

Analytical Approach: Standalone

Applicable Criteria:
Corporate Credit Rating Methodology

Past Rating Rationale
Professional Educators Limited: Bank Loan Rating Assigned

About the Company:

Professional Educators Limited (PEL), founded in 2004, is a publicly held educational conglomerate led by distinguished scholars and educators. Through its diverse portfolio of institutions, including Valley View English School, Global College of Management, Global College International, Global School of Science, Liberty College, Global College of Social Science and Technology and Uniglobe College, PEL offers comprehensive educational programs from school to university levels across multiple disciplines such as Science, Management, Law, and Technology. At the beginning of FY25, Nepal Life Insurance Company Limited became the majority shareholder with a 35% stake in the company.

Financial Indicators (Standalone)

For the year ended* As on	FY22	FY23	FY24	6MFY25
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	528	636	751	410
EBITDA Margin (%)	46.53	44.51	46.24	56.37
Interest Coverage Ratio (x)	2.27	2.03	2.03	3.80
Total Debt/ EBITDA (x)	4.54	5.58	4.58	5.56
Current Ratio (x)	0.42	0.53	0.97	1.19
Overall Gearing Ratio (x)	1.81	2.12	1.96	1.13

Earning before Interest Tax Depreciation Amortization (EBITDA)
**Classification as per Infomerics Nepal standards*

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	1,130.45	IRN BB+
Fund Based Bank Facilities- Term Loan (Proposed)	Long Term	311.35	IRN BB+
Fund Based Bank Facilities- Working Capital Loan	Short Term	58.20	IRN A4+
Total Facilities		**1,500.00**	

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About Infomerics Credit Rating Nepal Limited:

Infomerics Credit Rating Nepal Ltd. is Nepal's third Credit Rating Agency licensed by the Securities Board of Nepal (SEBON) on March, 2022. Infomerics Nepal is a subsidiary of Infomerics Valuation and Rating Private Limited (Infomerics India) which is a SEBI registered and RBI accredited Credit Rating Agency licensed in 2015. Infomerics Nepal aims to provide investors with objective analysis and evaluation of credit worthiness of Banks, NBFCs, Large Corporates and Small and Medium Scale Units (SMUS) via its rating and grading services. Thus, it is playing a key role in serving the financial markets by reducing the information asymmetry among varied lenders and investors and facilitating borrowers/issuers to various fundraising opportunities/avenues. Infomerics observes and maintains ethical standards in its activities.

For more information, visit https://infomericsnepal.com/

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