



ICRA Rating Feature

PRIVATE HIGHER EDUCATION INSTITUTES: OPPORTUNITIES ABOUND, BUT CREDITWORTHINESS STILL LOW**Contacts****Anjan Ghosh**

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Summary Opinion

It might appear that higher education institutes (HEIs)¹ in India should enjoy a strong credit profile, given the visibility and stability of their operating cash flows, their favourable working capital cycle backed by upfront payment of fees by the students, exemptions from income tax, limitations on withdrawal of profits, and the robust demand-supply scenario prevailing in the domestic education sector. However, on the ground, these advantages are diluted significantly by several factors, the major ones being a complex regulatory structure, shortage of faculty, lumpiness of cash flows, regular capital expenditure requirements, and weak governance.

The extent of the drag that the negative factors exert is evident from the fact that over three-fourth of the HEIs in the universe of ICRA-rated HEIs are in the non-investment grade. The factors offsetting their strengths include high gearing levels (generally because of large initial capital outlays and regular capital expenditure to maintain tax-free status), delays in receipt of fee from State Governments for reserved seats, and weak financial discipline. Most of the HEIs are fragmented, and as a result, suffer from geographical concentration risks and low economies of scale. Among the HEIs, the newly-established ones face the additional disadvantages of a limited track record and a yet-to-be-built brand name - factors that usually serve to weaken the credit profile. Further, HEIs with weak governance carry additional risks of possible diversion of funds to other entities, limited accounting transparency, and irregularity in regulatory compliance, factors that can lead to litigation, reputational damage, or even de-recognition.

All these limitations notwithstanding, HEIs with an established track record, diversified portfolio of colleges, structured cash flows and balanced financial risk profile have been able to exploit the opportunities offered by the Indian education sector, and have obtained strong credit ratings.

Website

www.icra.in

¹ In this note, the term HEI has been used to refer to a Society, a Trust, or a Company under Section 25 of the Companies Act, 1956, that offers higher education through its college(s) and/or institute(s).

Background

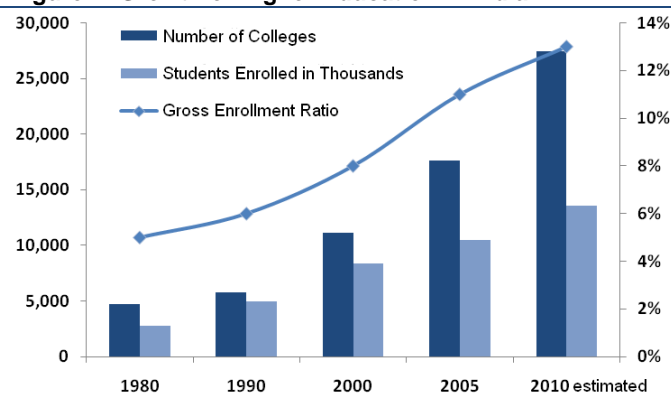
The Indian higher education system is one of the largest in the world featuring over 20,000 institutes and around 13 million annual enrolments. However, despite the large number of enrolments, the country's gross enrolment ratio (GER)² still ranks alongside the GERs of lower-middle-income³ countries. Moreover, the higher education system in India is weak on quality parameters like student-teacher ratio, research activities and infrastructure. The public expenditure per student in India is also significantly lower than that in other developing countries like Brazil, China and Russia, although the shortfall in expenditure has been met to an extent by the private sector, particularly during the last decade.

Higher education in India is placed in the Concurrent List of the Constitution and thus comes under the purview of both the Central Government and the State Governments. The sector is regulated by the Ministry of Human Resources (MHRD) at the national level, by the education ministries in each State, as well as by Central bodies like the University Grants Commission (UGC) and 14 professional councils (*Annexure 1*). The operating and financial flexibility of HEIs are limited, as regulations govern almost all aspects of operations, including fee structure, number of seats, changes in curriculum and infrastructure requirements. Further, the HEIs in India need to be run with a not-for-profit motive, and are therefore required to be registered either as trusts, societies, or companies under Section 25 of the Companies Act, 1956. While they are allowed to make reasonable profits, withdrawal of funds is not permitted and the surplus has to be redeployed in the same entity.

While regulation is essential to prevent commercialisation of education, the complex regulations along with uncertainties and political interventions serve to discourage private sector participation in the country's education sector. However, despite these challenges, a number of private players have shown interest in the higher education sector in India. This is partly because structures have evolved that allow appropriation and withdrawal of profits from HEIs by way of allocation of some profits to other group companies in exchange of goods and services such as lease rentals, management fee for providing content, canteen services, and transportation facilities. Additionally, educational groups with a strong franchise in India have been able to expand into other countries that have a sizable population of people of India origin and where HEIs are allowed to make profits.

Despite the hurdles, the higher education sector in India has grown at a steady pace and has been able to scale up significantly over the last two decades, primarily because of the large demand-supply gap persisting (*Figure 1*). With that, the number of colleges in the country has increased from around 5,750 in 1990 to around 27,000 in 2010; private colleges account for over three-fourths the total number. The share of the private sector has risen because of the limited public expenditure made on higher education. Going forward, private sector participation in higher education is expected to rise further, considering the robust macro-economic factors and the demographic push.

Figure 1: Growth of Higher Education in India



Sources: University Grants Commission (UGC) reports, ICRA research

To encourage greater private sector involvement in the country's higher education sector, the Government has recently demonstrated its intent to simplify the regulatory structure. To reduce bureaucracy and eliminate multiple controls and regulations, both the National Knowledge Commission and the Yash Pal Committee (*Annexure 2*) had recommended that a single body be set up to replace these multiple councils. Further, the Government has introduced four Bills on higher education in Parliament, which if passed could transform the way higher education is regulated in the country.

² Gross Enrolment Ratio (GER) is a statistical measure of the access of a given population set to a particular level of education. The GER for higher education is the ratio of persons in all age groups enrolled in various higher education programmes to the total population in the eligible age bracket (18 to 23 years of age).

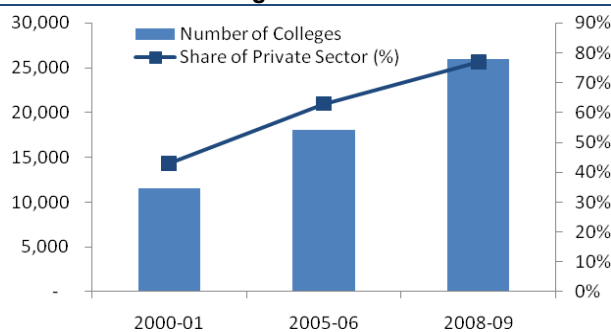
³ Classified by World Bank as countries whose Gross National Income per capita in 2005 is between USD 876 & 3,465

Key issues for private entities running higher education institutes

Share of private sector has grown on the back of favourable demand and limited expenditure by the Government; demand-supply scenario expected to remain favourable in medium term

The number of colleges in the country has doubled over the last decade, primarily because of the additions made by the private sector. The large demand-supply gap, along with the limited Government spending on higher education, has prompted many private players to venture into the Indian higher education sector. The sharp increase in the number of private colleges, besides the limited growth in public sector institutions, has led to the private sector's share of colleges rising from around 43% in 2000-01 to around 77% in 2008-09 (Figure 2).

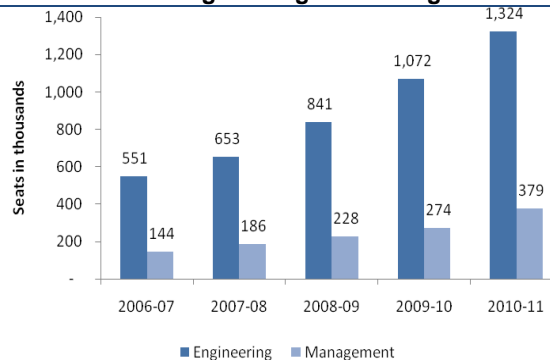
Figure 2: Number of Colleges and Private Sector's Share



Sources: UGC reports, ICRIER⁴ working paper, ICRA research

While the number of colleges has increased significantly over the last 10 years, the demand-supply gap is still substantial. However, the gap between the demand and supply is not spread evenly across the education streams and geographies. The demand for MBBS (Bachelor of Medicine and Bachelor of Surgery) courses far exceeds the number of available seats, with the result that occupancies in these courses is robust. However, the scenario is weaker in disciplines like engineering and management on account of the rapid growth in the number of colleges in these streams (Figure 3). Engineering colleges are witnessing oversupply in certain pockets of Uttar Pradesh, Karnataka and Andhra Pradesh, and as a result, many seats in private institutions for these courses have remained vacant in these States. In Karnataka for instance, around 22,000 seats (more than 25%) are expected to remain vacant this year in Engineering and Dental Colleges. Part of this can be attributed to dwindling supply of students from outside the State after eligibility for the Common Entrance Test (CET) was restricted to students of Karnataka. Apart from regional concentration, poor infrastructure and unsatisfactory placements have also contributed to low occupancies in many private colleges.

Figure 3: Number of Engineering and Management Seats



Sources: AICTE⁵ reports, ICRA research

Demand for higher education is expected to remain robust in India over the medium term, given the favourable demographic profile, which is skewed towards the younger population. Among persons aged 24 years or less, the largest proportion is within the age group of 11-17 years, and this section would be eligible for higher education in the next five years. Thus, the population eligible for higher education is expected to increase significantly from about 13 crore⁶ currently to about 17 crore over the next five years.

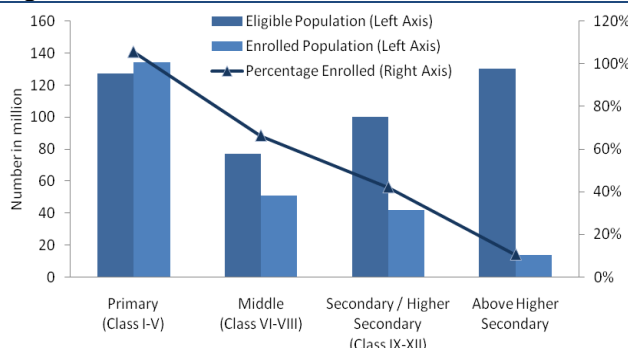
⁴ Indian Council for Research on International Economic Relations (ICRIER)

⁵ All India Council for Technical Education (AICTE)

⁶ 1 crore = 10 million = 100 lakhs

A breakup of the enrolment ratio shows the steep fall in enrolment ratios as the level of education increases from Primary Education to Higher Secondary and above (Figure 4). Supply-side constraints and affordability are cited as the major reasons for the country's low GER in higher education, which stands at around 12% (as of 2010), as against the global average of around 23%, and the BRIC (Brazil, Russia, India and China) nations' average of 31%. Going forward, with the income levels of the middle class rising, and more higher education financing options being available, the affordability of higher education in India is set to improve. This along with the continued growth of the economy, particularly the service sector, is likely to increase employment opportunities and push up salary levels, which in turn should provide a further boost to the demand for higher education. For instance, the fee for the full B.Tech course is generally Rs. 2 to 3 lakh, which is close to the annual salary that an entry level engineer gets on an average, thus making the proposition financially viable. The higher salary levels have also ensured that the payback period for higher education has remained largely unchanged despite the increasing fee at the private colleges.

Figure 4: Pattern in Enrolment for Education in India

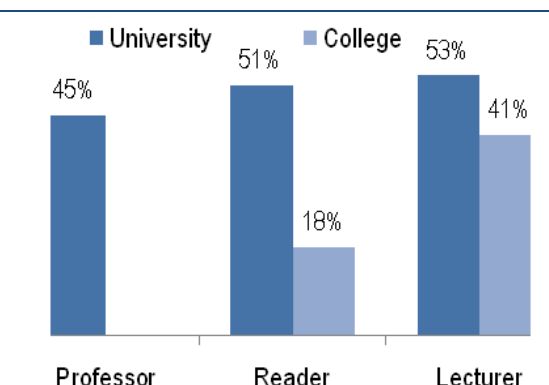


Sources: UGC reports, Ministry of Human Resource Development (MHRD), National Sample Survey, ICRA research

Shortage of qualified faculty and lack of competitive salary structure pose significant challenge to growth of HEIs in the long run

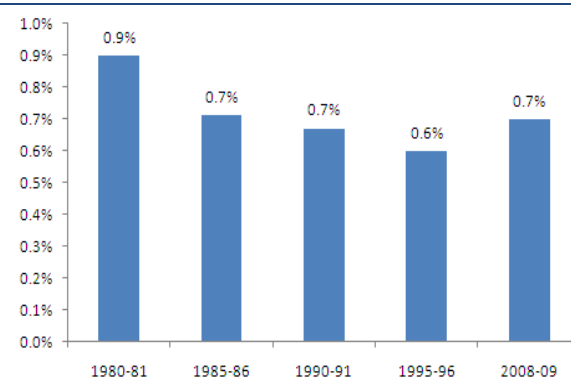
The student-teacher ratio in India is among the highest in the world, with increase in student enrolments outstripping growth in the number of teachers over the years. Compared with the 1980 figure of less than 10 times, the student-teacher ratio now stands at about 26 times. Putting this in perspective, the All India Council of Technical Education (AICTE) prescribes a student-teacher ratio of not more than 15 times for the predominant Engineering and MBA/MCA disciplines. To meet the faculty shortage, institutions are hiring part-time faculty or faculty from the corporate world, who have limited academic experience. However, despite these measures, a large number of faculty positions are vacant across colleges (Figure 5). The situation may only be expected to worsen, if the number of students pursuing PhD is an indication of future supplies of faculty (Figure 6).

Figure 5: Faculty Positions Vacant in 2007-08



Sources: UGC reports, ICRA research

Figure 6: Enrolments in PhD as Percentage of Total Enrolments in Universities



Considering that regulations provide for a minimum student-teacher ratio, faculty strength can turn out to be the limiting factor for educational institutes in the long run. The shortage may not only hit institutes seeking to increase student intake so as to capitalise on the growing base of students, but also the established ones, who could face high attrition in a scenario of severe demand-supply mismatch. Further, reduction in student intake on account of faculty shortage can severely impact the profitability of educational institutes, given that they tend to have high fixed costs.

So far, most educational institutes have been managing with candidates without a PhD/MPhil, since UGC regulations permit appointment of post-graduates as Assistant Professors in both Engineering and Management disciplines (Figure 7). However, over the long run, this strategy may prove inadequate, as even post-graduates (PG) now form just 9.4% of the total students enrolled in higher education, and of these only a low percentage would join the academic world (Figure 8). Additionally, a PhD is mandatory for promotion to the post of a Professor, and an institute needs to have a certain minimum number of Professors, depending on the student intake. Thus, in the long term, radical reforms would be required to bridge the faculty gap.

Figure 7: Percentage of Faculty without PhD/MPhil

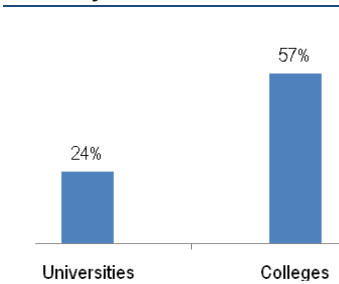
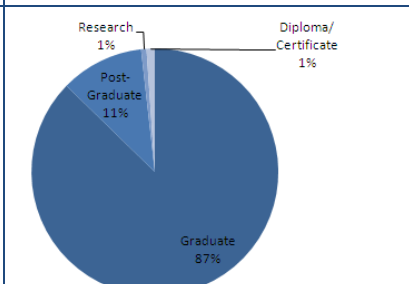


Figure 8: Enrolment in PG and Research in 2008-09



Sources: UGC reports, ICRA research

One of the factors dissuading post-graduates from joining academics is the difference between the pay scales in academics and in the corporate world. Despite the substantial increases in salary prescribed by the Sixth Pay Commission, a Professor's salary remains significantly below that of her/his counterpart in the corporate sector. In the public sector, the gap between the pay scales in academic and corporate world has now reduced after the latest pay scale revision. Nonetheless, institutes in the public sector continue to witness faculty shortages because of the stringent recruitment conditions, which are relatively more flexible in the private sector.

Given the shortage of good teachers, many self-financed colleges have been offering additional financial benefits or perquisites to attract talent. While for the public colleges, the increase in faculty compensation would largely be funded by the Central and State Governments, the private sector would need to meet the higher costs from its internal accruals. Increasing salaries could put stress on some HEIs in the short term, as faculty cost is generally the largest cost component, accounting for 25-35% of the total income of an HEI. A substantial portion of the higher faculty cost is likely to be met by increases in student fees over the long term, but in the interim the operating margins may be expected to come under pressure.

Fee regulation for HEIs limits financial flexibility; public institutes benefit from State funding, which allows them to charge lower fee, and thus attract more students

The highly regulated nature of the higher education sector often hampers the ability of private institutions to function on an autonomous basis. The prevailing regulations require that institutions obtain approval for multiple aspects of operations, including establishment, admission/allocation of students, fees, infrastructure, recruitment and remuneration, and curriculum.

The fee structure for HEIs is regulated by the State/Central Government. Since Government policies have been against profit-making in the past, student fees have historically been kept low. Although HEIs are allowed to allot 15% of the seats to their preferred candidates, a differential fee structure is not permitted for such candidates⁷. Thus, the concept that a section of privileged students cross-subsidises the remainder 85% is not permitted under the present set of regulations.

HEIs have to adopt the fees fixed by the universities, which limits their financial flexibility, except in the case of groups that are constituted as deemed universities and can determine fee internally. After the increase in salaries on account of the Sixth Pay Commission, the fee determined by most universities seems inadequate to ensure healthy surpluses for HEIs. Thus, operating surpluses are likely to fall significantly over the next few years. Moreover, since student fees are reviewed once every three years, colleges remain exposed to the possibilities of financial stress caused by cost increases during the interim period. Some HEIs have worked around the problem by charging for support services, such as

⁷ In 1993, the Supreme Court had laid down the framework for a differential fee structure, but this was revoked in 2002, when a bench of the Supreme Court deemed differential fees as unconstitutional

transportation fees and hostel fees. However, since such components are not a substantial portion of the total fee structure, recovery of fee through increasing charges for support services generally does not have a meaningful impact on profitability.

Exhibit 1: The Fee Fixation Process for Higher Education

Fees for State university institutions are decided by the State Fee Committee, which takes up the audited accounts statements for the previous three years and looks at depleted infrastructure development cost, academic cost (laboratories, equipment, library, IT support services, salaries of teaching and support staff), and the cost for other support services (hostels, sports facilities, medical facilities). It also takes into account the report of accrediting agencies. Thus, the fees for a given course may vary from one institution to another.

On the fee front, self-financed institutes also face stiff competition from public sector institutes, for whom the fee collected from students is not the main source of financing. Thus, public institutes, in general, can charge lower fees than private HEIs which makes them an attractive option for students with limited means of financing. Although this factor can subdue demand for the private sector HEIs, public expenditure on higher education has not been substantial enough to impact the demand-supply scenario so far.

Large initial capital expenditure and regular subsequent expenditures to retain tax-free status often weaken financial risk profiles of HEIs

For most disciplines in the higher education sector, establishing an institute requires a large investment. To set up an engineering college with a yearly intake of 400 students, investment of about Rs. 20-25 crore is required (can vary, depending on the cost of land). For a medical college with a yearly intake of 100 students, the capital expenditure can be upwards of Rs 45 crore. However, since HEIs offer predictability of cash flows and create an asset cover, debt funding of the capital expenditure remains a viable option. Thus, it is not uncommon for HEIs to fund their capital expenditure at a high debt-equity ratio of up to 4:1. The high debt component allows trusts with limited initial corpus to set up an institute of sufficient scale, and reap the benefits commensurate to it. However, the flipside to this strategy of having a high proportion of debt in the capital structure is that over-leveraging often leads to stressed debt coverage indicators particularly in the initial years as it takes few years for an institute to reach full capacity⁸. Many HEIs start generating cash profits only after two to three years of operation, with the result that the liquidity position remains tight during the initial years. However, in cases where the loan repayment period stretches over 7-10 years or an initial moratorium is granted, the liquidity position tends to be better off.

Even after the initial expansion stage, HEIs generally need to incur capital expenditure regularly to get rebate from income tax. For HEIs claiming exemption under Section 11 of the Income Tax Act⁹, 1961, 15% of the current year gross income of a trust/society is exempt from income tax. The balance 85%, in order to be exempted, must be applied for meeting the purposes of the trust. Since capital expenditure is considered a valid expenditure under the purview of this section¹⁰, HEIs keep incurring this expenditure to obtain tax exemption, when there is a shortfall in expenditure under other heads¹¹. Moreover, repayment of loans taken to fulfil objectives of the trust is also considered a valid application of income; this too encourages HEIs to raise debt for expansion. However, in the case of an established institution, the cash flows are more predictable, and the institute's corpus has been built gradually up over time, which provides it with sufficient headroom to incur regular capital expenditure on expansion without having its credit profile weakened. On the other hand, newly established institutes generally have a smaller corpus, which makes them highly dependent on external borrowings thereby resulting in high gearing levels which can get further stretched in the event of an aggressive capital expenditure, such as rapid expansion of the number of seats.

⁸ Full capacity here refers to a stage when the first batch reaches the final year of the course. For instance, in the case of a B. Tech programme, the institute reaches full capacity in the fourth year of its operation.

⁹ HEIs can also avail tax exemption under Section 10(23C)(iiiad) of the Income Tax Act, 1961 if their annual gross receipts do not exceed Rs 1 crore. Under this section, the condition of application of 85% of the income does not apply

¹⁰ For the purpose of this section, no distinction is made between revenue and capital expense

¹¹ The unexpended income can be accumulated for a period of five years under Section 11(2), and applied for charitable purposes later. Till such amount is applied, it must remain invested in designated investments

Cash flow visibility remains high because of long course tenure and low attrition; cash flow structuring can mitigate risks from lumpiness in cash flows, and improve debt repayment capacity

Established HEIs benefit from high cash flow visibility, given that once a student is enrolled, the fee income is largely ensured for the tenure of the course (usually two to five years), the student attrition rates being low. Cash flow visibility is higher for HEIs with strong selection-to-application ratios and occupancy levels. The working capital cycle for most HEIs also tends to be favourable, as according to the MHRD guidelines, students have to pay the fee in advance for a semester. Most running expenses, on the other hand, are incurred after the collection of fee, with faculty payments being made monthly. This effectively builds up the cash in the system during the fee collection period, and this cash is then disbursed as and when expenses are incurred.

The working capital cycle can however turn unfavourable in certain cases, especially when the HEI has to rely on reimbursement of tuition fee from the State Government. This has happened in Andhra Pradesh, where certain HEIs have had to face delays in obtaining reimbursements of tuition fees under a 2008 scheme launched by the State Government to benefit students belonging to the minority community and with annual parental income less than Rs 1 lakh (later increased). The delays in reimbursement led to severe liquidity pressures on the HEIs concerned, forcing them to delay payment of salaries. Liquidity pressure has also been felt in cases where the admission process has been delayed by the University concerned, which in turn has affected the cash inflows for the affiliated HEIs.

The receipt of tuition fee in advance, while allowing HEIs to have a favourable working capital cycle, can also lead to misallocations at institutes with weak control systems. In the case of such HEIs, the cash surplus could be diverted to capital expenditure, stretching the liquidity position.

Some HEIs have mitigated the risk arising out of lumpiness of cash flows by creating Debt Service Reserve Accounts (DSRA) or by synchronising debt repayments with the receipt of fee, instead of spreading it evenly throughout the year.

Private sector remains fragmented despite growth in Indian higher education sector; large educational groups tend to have better credit risk profiles

Private sector participation in the Indian higher education sector remains highly fragmented, with numerous societies and trusts individually having just one or two colleges under them. As a result, there are just a few institutions with sustainable scale advantages. In 2009, the average intake per engineering college stood at 373 students (for degree level colleges); for MBA and management diploma awarding institutes, the average intake was just 92 students.

Moreover, only a few private educational groups have a pan-Indian presence, or are adequately diversified in terms of course offering. The deemed university status also allows such groups to charge higher fees, and enhance the course offerings to ensure better acceptability among students and recruiters. Additionally, some larger institutes have strengthened their cash flows by offering superior hostel facilities; in their case the hostel income adds significantly to the total income of the trust. Besides, large HEIs possess stronger financing capabilities on the strength of their large asset blocks, and can build better infrastructure as the cost gets spread over a larger student base.

Deficiencies at the academic and infrastructure level can lead to an HEI being derecognised or to withdrawal of approvals

Despite the proliferation of higher education during the last 10 years, with almost 10,000 colleges coming up during this period, most lack infrastructure and research & development facilities. The UGC has identified 153 universities and 9,875 colleges with infrastructure deficiencies, which effectively means that 48% of the universities and 69% of the colleges under the UGC have been found wanting on the infrastructure front. The shortcomings exist both at the academic level (faculty shortages, weak research & development) and at the level of physical infrastructure (inadequate books and computers per student). The overall student-teacher ratio also stands at 26 times, as against the AICTE-prescribed 15.

If an institute were to be derecognised because of infrastructure deficiencies, the move would not only impact the institute's revenues (as it would lose its autonomy to fix fees and start new courses), but also damage its reputation, which in turn can lead to lower occupancy levels in the long term.

In January 2010, the Central Government informed the Supreme Court that it intended to derecognise 44 out of the 130-odd deemed universities in India. The task force and the Tandon Committee set up by the Government made the submission that the universities were being run as family fiefdoms rather than on academic considerations. The Tandon Committee report also mentions that another 44 deemed universities were found lacking in certain areas, and had been directed to fill up the gaps. The HRD Ministry also indicated that the concept of deemed university would be abolished in due course; this, however, can have negative implications as it would reduce the autonomy of HEIs.

Exhibit 2: Deemed University Status Fetches Greater Autonomy

The Deemed University status is granted by the Department of Higher Education, Union HRD Ministry, on the advice of the UGC, under Section 3 of the UGC Act, 1956. The deemed university status not only provides an with institute degree-granting powers, but also gives it full autonomy in setting the syllabus, conducting examinations, laying down guidelines for admissions, and setting its own fee structure. Thus, deemed universities have greater financial flexibility even while being a part of the tightly regulated higher education sector.

Lack of standardisation in presentation of financial statements poses challenges in credit analysis

In the absence of prescribed formats for financial reporting by HEIs, there is much diversity in the way these institutes present their financial statements, which in turn makes for limited accounting transparency. As of now, there are no statutory guidelines on the presentation of accounts by HEIs. Institutes that have been set up as Trusts and Societies are not required to present their accounts under Schedule XVI of the Companies Act, 1956. Also, since Trusts laws tend to differ across States and Union Territories, the formats for financial statements, even if prescribed under a State or Central Act, lack uniformity. As for Section 25 companies, while they do have reporting formats prescribed for them, there are just a few HEIs that have been set up under this provision¹².

Further, HEIs are also outside the purview of accounting standards¹³, which leads to non-standardised reporting. Therefore, on key accounting issues, such as, related party disclosures, segregation between restricted and unrestricted funds, and accounting for fixed assets, HEIs tend to follow different policies. Unlike in the US, where private colleges and universities have to compulsorily follow FASB-117¹⁴, HEIs in India are not bound by any prescribed accounting norms. Although The Institute of Chartered Accountants of India (ICAI) has a technical guide¹⁵ for not-for-profit organisations since 2003, the guide has not yet evolved into an accounting standard (and is therefore not mandatory).

Thus, in analysing the financial statements of HEIs, similar problems are faced as in the case of partnership firms and proprietorship concerns, that is, challenges in comparing financial performance and disclosure of transactions relevant for credit analysis, such as related party transactions. And what adds to the problem is the non-applicability of accounting standards. Hence, HEIs with a robust accounting and management information system, and those who prepare detailed financial statements with the relevant disclosures, provide greater comfort to a credit rating agency.

¹² Financial reporting by a Section 25 company is significantly better than that by a Trust or a Society as a Section 25 company is governed by several sections of the Companies Act, 1956, which also makes it mandatory for it to apply the relevant accounting standards issued by ICAI.

¹³ According to Para 3.3 of the 'Preface to the Statements of Accounting Standards', which defines the applicability of accounting standards to various entities, if no part of the activity of an entity is commercial, industrial or business in nature, the accounting standards need not be applied.

¹⁴ Statement of Financial Accounting Standards No. 117–Financial Statements for Not-for-Profit Organisations

¹⁵ Technical Guide on Accounting for Not-for-Profit Organisations (NPOs), ICAI (2003)

Trends and Outlook

Although opportunities abound for private players in the higher education sector in India, there are several challenges confronting them as well. The private HEIs face keen competition from their public sector counterparts many of which are the first preference for students because of their lower fees, better infrastructure and established track record. Further, with heightened economic uncertainties having characterised the last few years, the demand for some professional courses like management has seen some moderation. Nevertheless, institutes with good reputation and track record have been able to perform well. Going forward, the occupancy levels at HEIs would be influenced most by the market position of the institute concerned and the regional demand-supply situation.

On the regulatory front, the environment is likely to improve in the education sector with the Government taking steps to increase the autonomy and accountability of educational institutes while also seeking to introduce greater transparency and simplify procedures. The major steps in this direction include the four Bills related to the higher education sector that the Government has introduced into the Parliament (*Exhibit 3*). These Bills if passed could transform the higher education landscape in India.

Exhibit 3: Proposed Bills related to Higher Education

The four Bills that the Government has introduced in the parliament are:

- *Foreign Educational Institutions Bill*: To regulate the entry and operations of foreign institutions in India.
- *National Accreditation Regulatory Authority for Higher Educational Institutions Bill*: To make accreditation for HEIs mandatory, and to establish an independent statutory authority for this
- *Educational Tribunals Bill*: To set up national and State level tribunals to adjudicate disputes related to HEIs and students or the faculty and institutions and statutory authorities.
- *Prohibition of Unfair Practices in Technical Educational Institutions, Medical Educational Institutions and Universities Bill*: To improve transparency and mandatory disclosures, and to penalise unfair practices like charging of capitation fees, not issuing receipts for payments made, and publishing misleading or false advertisements.

October 2011

Annexure 1: Regulatory Bodies for Higher Education in India

Ministry of Human Resource Development (MHRD): The Department of Higher Education at the MHRD is responsible for regulating the HEIs.

University Grants Commission (UGC): UGC is the central regulatory body for universities in India. Since HEIs have to be affiliated to a university, UGC also plays an important role in the regulation of HEIs.

Professional Councils: Each stream of HEI has a specific body known as a professional council, which is responsible for granting recognition to courses, promoting professional institutions, and providing financial support in the form of grants. These professional councils are:

- All India Council for Technical Education (AICTE)
- Distance Education Council (DEC)
- Indian Council for Agriculture Research (ICAR)
- Bar Council of India (BCI)
- National Council for Teacher Education (NCTE)
- Rehabilitation Council of India (RCI)
- Medical Council of India (MCI)
- Pharmacy Council of India (PCI)
- Indian Nursing Council (INC)
- Dentist Council of India (DCI)
- Central Council of Homoeopathy (CCH)
- Central Council of Indian Medicine (CCIM)
- Council of Architecture
- State Councils of Higher Education

Annexure 2: Glossary of terminologies referred in this Note

College: A college is an institution offering a course of study, and the students who are successful in completing such a course are awarded qualification from a university to which such college is affiliated. In some cases, colleges might not be affiliated to a university, but are approved by AICTE, and can therefore only award diplomas instead of degrees.

As per the UGC Act, 1956, College has been defined as "any institution, whether known as such or by any other name which provides for a course of study for obtaining any qualification from a university and which, in accordance with the rules and regulations of such university, is recognised as competent to provide for such courses of study and present students undergoing such courses of study for the examination for the award of such qualification".

University: In simple terms, a University is an institution that has the right to confer degrees. The UGC Act, 1956, defines a University as an institution referred to in sub-section (1) of section 22 of the same Act. As per the said section, the right of conferring or granting degrees shall be exercised only by a University established or incorporated by or under a Central Act, a Provincial Act or a State Act or an institution deemed to be a university under section 3 or an institution specially empowered by an Act of Parliament to confer or grant degrees.

Private university: As per UGC, private university means a university duly established through a State / Central Act by a sponsoring body viz. a Society registered under the Societies Registration Act 1860, or any other corresponding law for the time being in force in a State or a Public Trust or a Company registered under Section 25 of the Companies Act, 1956.

Deemed university: An institution, which is not a university, can be considered such if appropriate declaration is made by the Central Government. As per Section 3 of the UGC Act, 1956, the definition runs thus "The Central Government may, on the advice of the Commission, declare by notification in the Official Gazette, that any institution for higher education, other than a University, shall be deemed to be a University for the purposes of this Act, and on such a declaration being made, all the provisions of this Act shall apply to such institution as if it were a University within the meaning of clause (f) of section 2."

Yash Pal Committee: A National Advisory Committee was set up by the Government in March 1992 under the chairmanship of Professor Yash Pal, former Chairman of the UGC to suggest ways and means to reduce academic burden on school students. The Committee, popularly known as Yash Pal Committee, submitted its report in July 1993.

National Knowledge Commission: The National Knowledge Commission (NKC), set up in June 2005, is a high-level advisory body to the Prime Minister of India, with the objective of transforming India into a knowledge society. The NKC has submitted around 300 recommendations on 27 focus areas during its three and a half year term. While the term of the NKC has come to an end, the implementation of NKC's recommendations is currently underway at the Central and State levels.

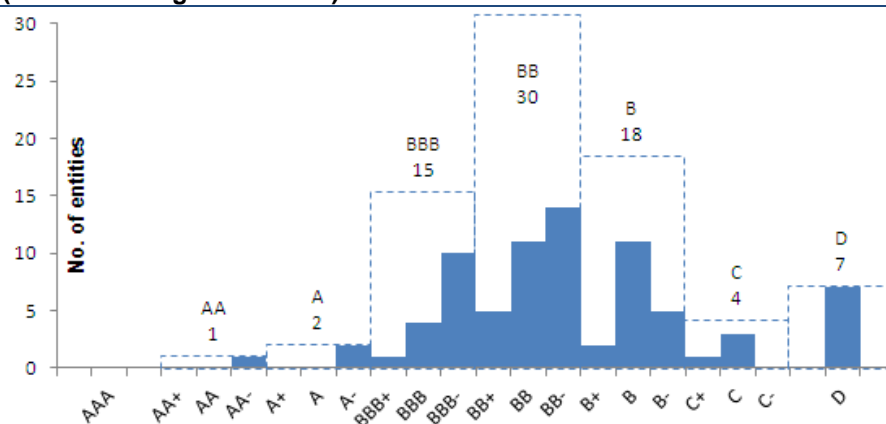
Section 25 Company (as per the Companies Act, 1956): Section 25 companies are those that are formed for the sole purpose of promoting 'commerce, art, science, religion, charity or any other useful object' and have been granted a licence by the central government recognizing them as such. The company should intend to apply its profits or other income only for promoting its objects.

As per the Companies Act, 1956, where it is proved to the satisfaction of the Central Government that an association is about to be formed as a limited company for promoting commerce, art, science, religion, charity or any other useful object, and intends to apply its profits, if any, or other income in promoting its objects, and to prohibit the payment of any dividend to its members, the Central Government may, by licence direct, that the association may be registered as a company with limited liability, without the addition to its name of the word "Limited" or the words "Private Limited".

Annexure 3: Overview of ICRA-rated Entities in the Education Sector

Over three-fourths of the educational institutions in the universe of ICRA-rated HEIs currently carry non-investment grade ratings (Figure 9), largely because of their initial stage of operations, high gearing levels, over-dependence on a few institutes, or weak financial discipline. However, trusts with an established track record, strong financial controls, a diversified portfolio of colleges, and adequate debt coverage indicators have been able to score high on both operating and financial risk parameters. The highest rated entity within the ICRA universe is Manipal Academy of Higher Education (MAHE), which has a rating outstanding of LAA- (stable).

Figure 9: Distribution of ICRA-assigned Ratings in the Education Sector (Rated on Long-Term Scale)



Source: ICRA

Table: List of ICRA-rated Entities in the Education Sector

Entity	Rating outstanding as on October 09, 2011
A M Kanniappa Mudaliar & A M K Jambulinga Mudaliar Educational Trust	LB
A.H. Memorial Educational Trust	LBBB-(Stable)
Abhyudaya Educational Trust	[ICRA]D
Agrawal Education Mandal	[ICRA]D
Alva's Education Foundation	LB
Ambalika Institute of Management and Technology	LBB(Stable)
Amrith Educational & Cultural Society	LC
Anand Education & Research Trust	LB-
Bhagwan Mahavir Education Foundation	LBB (Stable)
CMS Educational Trust	LC+
Dashmesh Educational Charitable Trust	LBB(Stable)
Desh Bhagat Memorial educational trust	LB
Eshwar Trust	LB-
Global Cultural and Education Foundation	LBB-(Stable)
Globetrotters Educational Innoventions Pvt. Ltd	LBB-(Stable)
Guru Gobind Singh Educational Charitable Trust	LBB-(Stable)
Gurudeva Charitable Trust	[ICRA]D
H R Charitable Trust	[ICRA]BB-(Stable)
Harish Chand Maina Devi Memorial Trust Society	LB
Institute of Chartered Financial Analysts of India	LA-(Stable)
Jai Prakash Educational Society	LB+
JMJ Education Society	LBB-(Stable)
K.S.C. Educational Society	LBB-(Stable)
Karnataka Education Society	LBBB-(Stable)
Kohinoor Education Trust	LBB(Stable)/A4
KPR Charities	LBBB-(Stable)
Kunj Behari Lal Charitable Trust	[ICRA]BB-(Stable)/[ICRA]A4
Lala Munni Lal Mange Ram Charitable Trust	LBBB-(Stable)
Lavu Educational Society	LB-
Laxmi Memorial Education Trust	LBB+(Stable)
Lord Krishna Educational Trust	LC/A5
Maharaja Agrasen Technical Education Society	LBBB+(Stable)

Continued...

Entity	Rating outstanding as on October 09, 2011
Maharashtra Academy of Engineering and Educational Research	LA-(Stable)
Mahatma Gandhi Vidya Peetha Trust	A2
Maluk Educational Health and Charitable Trust	LBB-(Stable)
Manav Rachna Education Society	[ICRA]D
Manglam Education Society	LBB-(Stable)
Manipal Academy of Higher Education	LAA-(Stable)
Manipal Universal Learning Pvt Ltd	LBBB(Stable)
Meenakshi Ammal Trust	[ICRA]B/[ICRA]A4
Modern Vidya Niketan Society	LBBB(Stable)
Pravara Rural Education Society	[ICRA]D
Rajasthan Vikas Sansthan	LBB(Stable)
Rishi Aurobindo Educational Society	[ICRA]BB-(Stable)
Royal's Education Society	[ICRA]BB (Stable)
Samagra Sikshana Samithi Trust	LB
Saraswati Education Society	[ICRA]D
Saurashtra Medical Centre	[ICRA]BB-
Shaheed Kartar Singh Sarabha Charitable Trust	LB
Shikshayatan Foundation	LBBB-(Stable)
Shrinivas Education Society	[ICRA]BBB-(Stable)
Silicon Institute of Technology	LBBB-(Stable)
Smt Rukmanrani Education Foundations	LBB+(Stable)
Smt. Ramrakhi Murti Smarak Trust	[ICRA]B-
Sri Balaji Educational and Charitable Public Trust	LB
Sri Bhagawan Mahaveer Jain Educational & Cultural Trust	LBB(Stable)
Sri Bhagwan Mahaveer Jain Educational & Cultural Society	LC
Sri Manakula Vinayaga Educational Trust	LB
Sri Muthukumaran Educational Trust	[ICRA]D
Sri Sathyanarayana Educational Society	[ICRA]BBB(Stable)
Sri Venkata Sai Educational Society	[ICRA]BB(Stable)
St. Sirdi Sai Education Society Ltd	LBB(Stable)
Step by Step Shiksha Samiti	LBBB-(Stable)
Subramanya Education Society	LBB(Stable)
Sunder Deep Education Society	LB
T A Pai Management Institute	LBB+(Stable)
The Academy of Engineering and Management Trust	[ICRA]BB-(Stable)
The Academy of Higher Education	LBBB-(Stable)
The Institute of Computer Engineers (India)	LBBB-(Stable)
The Madras Medical Mission	LBB-(Stable)/A4
Tirthanjali Educational Society	LBBB(Stable)
Umak Educational Trust	LBB(Stable)
V. Ponnusamy Educational and Charitable Trust	LB+
Vanshpati Smriti Shiksha Samiti	LBB+(Stable)
Vestal Educational Services Private Limited	LBB-(Stable)
Vi Micro Educational Trust	LB-
Vidya Bal Mandli Society	LBB+(Stable)
Vidya Niketan Samiti	[ICRA]B



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