



This methodology note stands superseded. Refer to ICRA's website www.icra.in to view the updated methodology note on the sector.

RATING METHODOLOGY FOR HIGHER EDUCATION SECTOR

Background

The Indian education system can be classified under two key segments – formal education and informal education. These are alternatively termed as core and non-core education segments, respectively. The formal education sector, consisting of schools, colleges and universities, is highly regulated by the government, whereas the informal education, which primarily consists of pre-schools, training institutes and coaching centres is unregulated. This apart, while the private sector has been present in schooling and informal education sector for many decades, their involvement in colleges and universities has increased only over the last one decade.

The funding of government schools, colleges and universities is done through budgetary allocations from the Central government and the State governments with no borrowings by the government owned institutions on their own balance sheets. Due to this, the rated universe of ICRA in higher education space largely consists of private institutions. Further, formal education being an important social objective, it has been classified as a not-for-profit activity by the government and hence private sector participation is largely through institutions managed by not-for-profit societies, trusts or Section 25 companies.

This rating methodology explains ICRA's approach to analyzing the credit risk profile of entities operating in the education sector with a focus on higher education within the formal education segment. The objective of this note is to help issuers, investors and other interested market participants understand ICRA's approach in analyzing quantitative and qualitative risk characteristics for evaluating the credit profiles of not-for-profit entities engaged in imparting higher education through colleges and universities operating under their aegis. For analytical convenience, the key factors are grouped under three broad heads – Operational Risk Assessment, Financial Risk Assessment and Management Quality & Governance

Operational Risk Assessment

- Market Position
 - Student Preference
 - Teaching quality and effectiveness
 - Course specialisation/diversification
 - Operating history
 - Quality of infrastructure
 - Placements and Industry Interface
- Regulatory Landscape
- Other factors
 - Philanthropic Support
 - Pricing Power and Philosophy

Financial Risk Assessment

- Revenue Diversity and Growth Visibility
- Cost Structure and Expenditure Flexibility
- Leverage and Debt Coverage
- Cash Flows and Liquidity
- Tenure Mismatches, and Risks Relating to Interest Rates and Refinancing
- Debt Servicing Track Record
- Adequacy of Future Cash Flows
- Accounting Quality

Management Quality & Governance

Operational Risk Assessment

A) Market Position

Higher education in India has witnessed a manifold increase in the number of universities and colleges. The number of universities¹ increased from 27 in 1951 to 254 in 2001 and 733 in 2015; and the number of colleges² increased from 578 in 1951 to 10,152 in 2001 and 36,671 in 2014. Within this, the private sector has seen an increase in participation during the last decade on account of an increasing demand for higher education but limited government spending. This is reflected in the increase in the number of state private universities from less than 5 in 2001 to 224 in 2014 and the number of private colleges to more than 20,000 in 2015 from a total of 10,152 colleges (private and government) in 2001.

While the increased private participation has supported the government's effort towards increasing the gross enrolment ratio (GER³) from a ~8% in 2002 to the current levels of ~22%, there is a significant difference in terms of quality of infrastructure and perceived value, which is reflected in the acceptance ratio⁴ and enrolment levels of various institutes. While the low GERs reflect significant opportunities in the Indian higher education space, low occupancies/enrolment levels in many institutes reflect the lack of quality institutions as well as socio-economic factors such as need to opt for early employment and high level of unemployment even amongst educated population, which constrain demand for higher education.

As reflected by the large number of higher education institutes in India (highest in the world), the higher education sector is highly segmented. Accordingly, the market position of an institute's programs determines the demand for courses offered. A strong market position improves the university's ability to attract high quality students and faculty, which in-turn leads to better learning environment and better perception amongst recruiters resulting in better job placements, thereby enhancing the market positioning. The market positioning is assessed by ICRA by analyzing the following parameters:

- A1) Student preference
- A2) Teaching quality and effectiveness
- A3) Course specialisation/diversification
- A4) Operating history
- A5) Quality of infrastructure
- A6) Placements and Industry Interface

Many government institutes which have a long operating history and score well on above parameters, apart from subsidized course fees, pose strong competition to private institutes. Hence, the ability of an institute to have one or more differentiators supports the enrolments amidst a scenario of demand-supply mismatch resulting in high competition with large number of options available to students.

While some of the above parameters are subjective, many of them are quantifiable and ICRA assesses them as under:

A1) Student Preference

The student preference for one institute over others is one of the most important indicators of market reputation or perceived value of education imparted by a college or university. The extent of student interest in the courses offered by an institute also determines the flexibility available in deciding student selection process and fee structure. While assessing this parameter, ICRA reviews the following trends:

- Seat occupancy and seat-to-applications ratio
- Quality of applicants on the basis of test scores / ranks
- Composition of applicants in terms of geographic diversity

¹Including Central Universities, State Universities, State Private Universities, Institutes of National Importance, and Deemed Universities (Government, Government Aided and Private)

²Including Private Un-Aided Colleges, Private Aided Colleges and Government Colleges

³ Gross Enrolment Ratio (GER) in a specific level of education is enrolment expressed as a percentage of the eligible population. GER in Higher education in India is calculated for 18-23 years of age group

⁴ Number of applications accepted/Total number of applications received

The quality of students enrolled is a critical factor as it is one of the key determinants of the student performance in terms of academic results and placements. ICRA notes that some courses like MBBS / MS / Ph.Ds, which are in high demand but short supply, can command healthy occupancy across institutes despite the wide difference in quality of education imparted. So even if the occupancy is high, it may not be a sufficient indicator of good overall market position.

A2) Teaching Quality and Effectiveness

Quality and adequacy of teaching faculty: Qualified and experienced faculty can be a key differentiator and a source of competitive strength for an educational institute besides the infrastructure facilities and latest teaching methodologies supporting the delivery of knowledge and experience to the students. ICRA believes an institution with an adequate number of good quality faculty is in a better position to deliver good education. This subsequently gets reflected in the performance of the students in academics and placements, and in turn elevates demand for the college among better candidates. ICRA assesses the faculty profile and adequacy on the basis of following parameters:

- Student-teacher ratio
- Educational background, years of teaching experience, industry exposure, research papers published and positions of eminence held by teaching staff
- Proportion of permanent and guest faculty

Besides the availability of quality faculty, ICRA believes it also important for an institute to ensure stability among teaching staff. Given the shortage of competent faculty, it is imperative to be able to attract, develop and retain talent, for which effective human resource policies are required. Additionally, apart from salary, perks and training programs, another indicator of effective human resource policies is the assistance provided by the institution to its faculty to carry out research and consultancy.

Student performance: While parameters such as acceptance ratio and enrolment ratio reflect the existing perception of the institute among the student community; the performance of students in examinations reflects the effectiveness of the faculty, curriculum and pedagogy in imparting knowledge to the students. This in-turn not only impacts the employability of the students but also has a bearing on the perception of the institute going forward. ICRA assesses several indicators of student performance including the following:

- Academic performance
- Employability and recruiters' satisfaction as reflected in placements statistics

A3) Course Specialisation/diversification

ICRA believes that an institute specialising in a particular course and enjoying a leadership position in the same enjoys more stability in enrolments and revenues as it can attract better quality students. Also, given the better demand for such courses offered, the fee structure can be revised upwards without impacting the occupancy, thereby supporting stable surpluses for improvement in infrastructure and growth even during the period of changes in student preferences due to demographic and economic changes. The focused approach also facilitates undivided availability of the senior management for managing and enhancing the course content, industry interface etc. ICRA assesses an institute's specialization and leadership in a course from the quality of students applying for the institute besides the track record in terms of years of successful operations.

Additionally, an established and well perceived presence in multiple courses adds greater stability and shields the operations from shifts in student preferences in situations of economic or demographic change. However, merely a large portfolio of course offerings without specialization / differentiation in a course isn't considered a positive attribute.

Nevertheless, diversified operations in terms of course portfolio results in a larger scale, and thereby may provide benefits by way of economies of scale. A larger scale may support better absorption of administrative overheads, and facilitate larger advertising campaigns and better infrastructure facilities besides greater impact in the region that can be leveraged to secure regulatory and philanthropic support. Moreover, diversified geographic footprint can partially mitigate region specific risks including regulatory risks.

In case of an institute offering a large number of courses without a leadership position in any course, the management's flexibility to react to changing student preferences in a timely manner by expanding or reducing number of course offerings is important as the non-performing courses can have an adverse impact on the perception of the institute. Moreover, the non performing courses could become a drain on the financial resources.

A4) Operating History

The higher education industry is highly capital intensive with large upfront investment required in fixed assets. The operating leverage is also high as a sizeable proportion of the operating cost is fixed in nature and has to be borne from the date of commencement given the stringent operating norms applicable by way of multiple regulations governing an institution. Moreover, the gestation period is long as the ramp up in student strength progresses at the pace of enrolment of new student batches. Thus, apart from the large upfront investment, regular financial support is required during initial years to cover the fixed operating costs. Subsequently, upon the achievement of reasonable scale of operations, the operational surpluses relatively improve the funding capability for growth vis-a-vis a newly established institution.

Sufficient operating vintage coupled with a track record of healthy enrolment ratio results in higher occupancy and thus utilisation of the available capacity. This higher utilization besides reflecting the healthy perception and demand for courses offered also generally results in higher and stable surpluses, and thus better credit profile.

Apart from financial implications, an institution with an established track record usually has greater visibility among its applicants, a larger alumni network, more tie-ups and better ability to attract and retain experienced faculty. In the case of colleges affiliated to a university, the market position and track record of the concerned university is also taken into account.

A5) Quality of Infrastructure

For an educational institute, the quality and adequacy of physical and learning infrastructure is critical as it is the platform from which education is delivered. Besides impacting the learning experience, outcome and effectiveness, it also impacts the brand perception amongst various stakeholders including industry participants, philanthropists, and prospective students and faculty. Thus, it has a bearing on future enrolments and on the operational as well as financial profile.

While assessing a college or university's internal infrastructure as a part of site visits, ICRA focuses on adequacy and effective utilization of facilities including campus (hostel, mess etc), information technology infrastructure, knowledge building resources (library), and laboratories and workshops. Besides the adequacy of internal infrastructure and its ability to support the teaching-learning process, the external infrastructure, in terms of location and connectivity, is also vital as that influences several aspects including industry interface, faculty retention, and placements.

A6) Placements and Industry Interface

Given the evolving industry dynamics and business models, the curriculum of an educational institute needs to be in line with the latest trends and demand of the industry. Further, industry interface is also critical as it not only helps students understand and respond to practical situations, but also enables the institute strengthen its relationships with the industry. This in turn impacts the opportunities for students in terms of placements, internships and research support. Also, industry specific guest faculties help students gain practical insights and knowledge additional to curriculum based learning.

While assessing the industry interface of a college or university, ICRA observes the type and quality of relationships the institute has with the corporate world, research institutes and industry bodies, besides the initiatives taken to connect with the industry. Besides the aforementioned parameters, the job placement statistics are a key indicator of quality and effectiveness of industry interface achieved by an institute.

The quality of placements is a crucial parameter while assessing the credit profile of an institute as it is not only a measure of student quality and performance but also serves as a key indicator of the institution's acceptability in the corporate world. Also, as placement statistics form a key driver of student preference for an institute, a healthy and stable placement track record lends enrolment stability and revenue visibility.

Key placement statistics paid attention to are the placement ratio, the number of offers made per student, the number of foreign offers made, and the kind of compensation packages offered to assess the

employment prospects, while also making a qualitative assessment of the corporate entities that visited the campus. The placement statistics are suitably adjusted for the number of students opting for higher education programmes after graduating from the subject institute. Notwithstanding the importance of placement statistics, it is noted that the criticality of placements may vary depending upon the type of courses offered. Though placements are a very important consideration while assessing the effectiveness of an institute offering technical courses, the significance of the same may be low in other courses, such as medical education.

B) Regulatory Landscape

The Indian education industry is highly regulated by the government because of its social importance and associated positive externalities. Further, education is part of the concurrent list of the Indian Constitution, whereby both the state as well as the central government has powers to regulate the sector, thereby resulting in multiplicity of regulators. Apart from formal education being classified as a not-for-profit activity, the sector is also regulated through various regulatory bodies, such as:

- University Grants Commission (UGC)⁵
- All India Council for Technical Education (AICTE)⁶
- Medical Council of India (MCI)
- Dental Council of India (DCI)
- Bar Council of India (BCI)
- Indian Nursing Council (INC)
- National Council for Teacher Education (NCTE)
- Distance Education Council (DEC)

These entities besides providing regulatory approvals for various courses also specify various operational norms and infrastructure requirements to maintain the quality standards. So, the regulations on various aspects of formal education sector coupled with multiplicity of regulatory bodies, result in operational and financial challenges for the sector, and are thus an important factor impacting the risk profile of entities imparting higher education.

Accordingly, ICRA attaches importance to the degree of operational autonomy and regulatory risk that a college or university is exposed to given its structure and affiliations, if any, as these factors can impair its ability to continue operations and hence influence its credit profile.

While the scope of regulations affecting the Indian higher education industry is very wide, from an operational autonomy perspective, regulations could limit the flexibility of determining the curriculum, seat allocation, student selection criterion and fee structure. Also, regulations could influence criteria related to qualifications and number of faculty, requirements for establishment of a college or university and procedure for commencement and closure of a course.

While assessing the degree of operational autonomy and its impact on credit risk profile, ICRA takes into account the constraints faced by them on various operational parameters like fee fixation, student intake and course offerings etc.

In contrast, deemed universities, private universities or colleges which have operational autonomy are in a better position to review the courses offerings, curriculum and examination pattern periodically. Thus, colleges enjoying autonomous status are better positioned as they are free to fix and revise the fee structure, student intake and course offerings.

In India, each state has different policies for regulating the seat allocation and fee structure of private colleges, whereby the colleges may be required to allocate a certain percentage of sanctioned intake towards the government quota for admissions based on specified entrance exams. The fee charged for enrolments under different quotas is also regulated, with a wide difference in the fee levels, thereby having a bearing on the financial performance.

C) Other factors

C1) Philanthropic Support

⁵ UGC was established for the coordination, determination and maintenance of standards of university education in India

⁶ AICTE was established with a view to proper planning and co-ordinated development of the technical education system

Funding support (by way of donations) received from industry, alumni and research bodies can be a key source of financial flexibility for an educational institute. Besides, it reduces the dependence upon income generated from enrolments for funding the growth requirements. While assessing the philanthropic support available to an educational institute, key parameters assessed are:

- Diversity, quality and stability of support received
- Quantum of support in relation to requirements

Given such financial support is voluntary, the timing and the quantum of such support cannot be predicted reasonably in advance. Thus, high reliance on such support for meeting funding requirements for operational/ growth purposes can stretch the liquidity of the entity, hence its debt servicing ability.

Diversified, reputed, identifiable and stable stream of donations though are positive attributes, however high reliance on such funding support, especially for operational purposes may not be seen positively.

Given the lack of recurring/operational nature of these funds, ICRA treats these as a part of the corpus funding and not as revenue receipts. However, receipts such as development fund or building fund, which are charged as a part of student fees are treated as revenue receipts, though it may be for capital expenditure purposes. Reported financials adjusted for these variables are taken into account by ICRA for the assessment of financial risk profile.

C2) Pricing Power and Philosophy

Growth in revenue receipts of an institute is a function of increase in the student enrolments as well as the fee hikes implemented to cover for any increase in operating costs especially the employee costs. As the costs such as employee costs, power costs, transportation etc tend to witness steady year on year increase, it is critical for an institute to have sufficient pricing power to implement an adequate fee hike without impacting the enrolments.

Besides the constraint arising from possible adverse impact on enrolments, ICRA notes that institutes, especially colleges affiliated to various state universities, may have limited flexibility to revise the fee structure due to regulatory constraints (as discussed earlier). Also, as the fee hikes are generally applicable for new batches, the increase in overall revenue receipts typically may not be commensurate with the increase in employee expenses, which can thereby impact the surpluses and hence debt servicing. Given the aforementioned importance of regular and adequate fee revisions for sustaining satisfactory credit profile, ICRA examines the impact of regulations on pricing flexibility, management's philosophy and strategy on fee hikes, basis for fee computation, and frequency of fee revision besides making a comparison with peers on the fees charged.

Financial Risk Assessment

While ICRA believes that a strong operational profile drives strong financial profile in long-term, the financial profile of the entity is also governed by the risk appetite and growth plans of the management. Accordingly, while assessing the financial risk profile, apart from the past and current financial position in terms of surplus generation and leverage, ICRA also takes into account the growth plans of the entity and its impact on the future financial position. Also, ICRA evaluates the financial flexibility available to determine if adequate funds would be available for managing seasonality in cash flows, improvement of infrastructure and meeting contractual obligations.

A) Revenue Diversity and Growth Visibility

The revenue diversity (in terms of income streams like tuition fee, hostel fee, transport fee, mess fee or in terms of courses/campuses) and growth visibility are key parameters factored in while assessing the credit profile of issuers. These indicators reflect the market position of the entity and its ability to capitalize the same to generate healthy enrolments and growth in revenue receipts. While analyzing the revenue visibility, the proposed fee hikes for various courses and expected occupancy given operating seats, current enrolments and past trends are taken into account.

B) Cost Structure and Expenditure Flexibility

Given the capital intensity of the higher education sector, which requires significant investments in physical infrastructure, the asset turnover is typically low at ~50%, hence requires the institutions to operate at high

operating surplus margins to cover the fixed capital costs. Besides, expenses related to faculty, power, transportation, subscription of journals etc are typically fixed in nature. Thus, given the high operating leverage because of fixed capital costs and operating costs, the management's ability and willingness to quickly adjust its operations during times of weak enrolments or limited fee hikes is critical for the stability of credit profile. An effective management should be able to build in expenditure flexibility by way of strategic initiatives such as outsourcing of certain non critical support services and infrastructure facilities, use of a prudent mix of full time faculty and guest faculty, and flexibility to defer capital expenditure towards infrastructure improvement or addition of new courses.

Institutes, especially colleges, generally have limited flexibility to revise their fee structure. Further, as the fee hikes are generally affected for new batches, the increase in revenue receipts may not be commensurate with the increase in employee expenses, thereby resulting in a decline in operating surpluses. ICRA therefore assesses the management's ability and preparedness to monitor and identify such adverse trends and have contingency plans in place to manage operating costs without impacting market reputation.

C) Leverage and Debt Coverage

The credit profile of entities that pursue an aggressive financial policy, including heavy reliance on debt financing, is likely to be more vulnerable to decline in enrolments/ operating surpluses than entities that employ a lesser degree of financial leverage. Low leverage not only improves the financial flexibility of the entity, but also keeps the fixed financing expenses low. Higher education industry being fixed capital intensive results in high funding requirements for investment in fixed assets. ICRA takes into consideration the funding mix of the entity towards such investments and its ability to maintain a healthy liquidity profile against the back drop of seasonality in tuition fee collection.

Leverage ratios are an indicator of the degree of financial flexibility an entity enjoys in terms of its ability to raise funds from alternate sources in times of pressure on surpluses. Such flexibility is reflected in an entity's Total Debt-to-Capitalization ratio, Total Debt-to-Operating Surplus ratio and Free Cash Flows-to-Debt ratio. A low leverage ratio indicates adequate cushion available in terms of raising funds primarily from external sources (debt borrowings) for meeting funding requirements and is a credit positive. Strong Free Cash Flows-to-Debt ratio indicate the ability of an entity to fund investments in infrastructure and make debt repayments.

Overall, a strong Total Debt-to-EBIDTA and Free Cash Flows-to-Debt ratio is a credit positive as it reiterates the ability of the entity to service its debt obligations; fund growth opportunities and improve its competitive position without being overly reliant on external sources.

Depending on the operating history, the debt coverage indicators of an issuer may vary significantly vis a vis peers for a given scope of operations. Also, the tenure of the term debt is a key driver for the debt coverage as entities with longer tenure debt and similar levels of leverage will be more comfortably placed as compared to entities with shorter tenure debt.

D) Cash Flows and Liquidity

Entities operating in the formal education industry have to operate on a not-for-profit basis and are permitted a 'reasonable surplus' to meet cost of expansion and improvement of facilities. Also, the surplus money has to be ploughed back into the institution and no dividend can be distributed to the members of the entity who operate the institute.

Though 'reasonable surplus' has not been defined, the guidelines under the Income Tax Act allow tax exemption to institutions as long as the quantum of spending of income (towards revenue expenditure and capital expenditure) is at least 85% of its revenue and capital receipts in any given year. In case of above spending being less than 85% in any given year, the difference is allowed to accumulate for a period of five years without becoming taxable⁷.

Earlier (Prior to Finance Act, 2001), the clause of spending a minimum percentage of income was not applicable. Subsequently, Finance Act 2001 imposed the condition of spending at least 75 % of income, where Finance Act 2002 further increased the quantum of spending of income to be at least 85%. Any

⁷ Any university or educational institute as prescribed under section 10 (23C), is mandated to apply its income or accumulate wholly and exclusively only for the objects for which it is established. In case more than 15% of income is accumulated after April 2002, the period of accumulation of the amount exceeding 15% of its Income, in no case can exceed five years.

further change in the quantum of spending as required under the Finance Act could impact the level of surpluses which an entity can operate at, hence remains a regulatory risk.

The use of revenue receipts/income includes operating expenses, financing cost and principal repayments; however, as mature entities in higher education industry generate healthy operating surpluses, there is a tendency to undertake continuous capital expenditure, thereby resulting in cash outflows instead of retention to improve liquidity position. ICRA thus assesses, whether the issuer is undertaking prudent financial planning on the basis of expected cash flows, while pursuing the objective of maintaining tax exempt status.

Also, as the tuition fee is not received on a monthly basis, the cash inflows of an educational institute are not uniformly spread across the year, though the operating expenses and outflows towards capital expenditure are spread over the entire year. Thus, prudent management of cash flows and liquidity becomes vital from a credit perspective. It is a credit positive if an issuer maintains sufficient liquidity by way of undrawn overdraft bank limits or liquid investments to not only meet operating expenses on an ongoing basis but also for debt servicing, given the lumpy nature of fee collections. On the positive side, given that the fees are collected in advance from the students for the academic year/semester, the institutes are able to generate cash flows and working capital requirement tends to be negative, which is in contrast to manufacturing companies.

While tuition fee is typically collected in advance, an institute can have sizeable receivables on account of delay in receipt of reimbursements from government pertaining to courses offered to students who are sponsored under various government schemes. As the procedural aspects generally result in these delays, it is important to assess the contribution of such income to the overall revenue receipts and steps taken to manage the cash flow mismatches arising because of this.

E) Tenure Mismatches, and Risks Relating to Interest Rates and Refinancing

Large dependence on short-term borrowings to fund long-term investments can expose an entity to significant liquidity and re-financing risks. The ratings factor in the existence of adequate long-term funding in line with its requirements and buffers of liquid assets/bank lines to meet short-term obligations/cash flow mismatches and the extent to which the entity could be impacted by interest rate movements on borrowed funds.

F) Debt Servicing Track Record

The debt servicing track record of an entity is an important input for a credit rating exercise. Any delays or defaults in the past in the repayment of principal and/or interest payments reduce the comfort level with respect to future debt servicing capability or willingness.

G) Adequacy of Future Cash Flows

Since the prime objective of the rating exercise is to assess the debt servicing capability of an entity, ICRA draws up projections on the likely financial position of the entity based on the expected movements in operating performance factoring in capital expenditure and investment requirements as well as upcoming debt obligations to assess the impact on revenue growth and surplus generation, cash flows, leverage as well as debt protection indicators. ICRA also assesses the anticipated funding requirements of an entity and the funding options available to it.

H) Accounting Quality

As formal education has been classified as a not-for-profit activity, most entities in the education sector are registered as trusts or societies under the State or Central Government Act. While these entities typically follow the accounting standards applied across corporate sector entities, there is no standard accounting norm applicable for trusts or societies. So, the accounting policies followed by these entities are taken into account and necessary adjustments are made while assessing credit profile. Also, the quality of internal controls, management information systems, and audit are aspects that are examined closely as the presentation of accounts by educational institutions is not governed by the Companies Act, 2013.

Management Quality & Governance

In addition to the operational and financial risk analysis, all debt ratings necessarily incorporate an assessment of the quality of the issuer's management. The assessment of the credit profile of an entity operating in educator sector factors in the commitment of the management to the institution's day-to-day operations, and the steps taken by them to promote and improve the institution. The quality and stability of the key decision makers like Deans and Heads of Departments are considered crucial from the point of view of continuity and completion of strategic plans. Usually, a detailed discussion is held with the management to understand its plans, strategies and views on past performance, besides the outlook on the sector and direct competition. Some of the other points assessed are:

- Experience of the management in the education industry
- Commitment of the management to the institutes
- Risk appetite of the management and risk mitigation plans
- Viewpoint of the management on fee structure and revision, and expenditure flexibility
- Policies on leveraging and interest rate risks
- Plans on infrastructure improvement, new projects, expansion, etc.

Periodic interaction with the management provides insights into the operations of the entity and ongoing developments and further helps understand the management's commitment and strategies. The interaction with the management also helps ICRA assess the management's tendency to deviate from its philosophy in times of stress.

Summing Up

ICRA's credit ratings are a symbolic representation of its opinion on the relative credit risk associated with the instrument being rated. This opinion is arrived at following a detailed evaluation of the issuer's operational and financial risks, its competitive strengths, its likely cash flows over the life of the instrument being rated and the adequacy of such cash flows vis-à-vis its debt servicing obligations and other funding requirements. Credit profile of entities operating in higher education industry involves an assessment of the operational strengths and weaknesses as reflected by their market positioning in backdrop of regulatory landscape. While the operational strengths and weaknesses are typically reflected in financial performance, the financial risk profile of an educational entity is also governed by the measures deployed to manage liquidity in the backdrop of seasonality in tuition fee receipts and the planned incremental investment in fixed assets given the incentive to undertake regular expenditure towards creation of fixed assets to retain tax exempt status.



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