

August 29, 2022

## DAV University: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund Based – Term Loan	70.00	50.00	[ICRA]A+(CE)(Stable); Reaffirmed
<b>Total</b>	<b>70.00</b>	<b>50.00</b>	
<b>Unsupported rating without explicit support</b>			[ICRA]BBB-

\*Instrument details are provided in Annexure-1. Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

### Rationale

#### For the [ICRA]A+(CE)(Stable) rating

The rating is based on the unconditional and irrevocable corporate guarantee issued by the DAV College Trust and Management Society [CTMS; rated [ICRA]A+ (Stable)] for the due payment of the captioned facility to the bank. The [ICRA]A+(CE) (Stable) rating for the instrument addresses the servicing of the bank lines to happen as per the underlying terms of the instrument and the guarantee agreement for the same. The rating also assumes that the guarantee will be duly invoked by the lender, as per the terms of the instrument. The Stable outlook on the rating of DAV University's (university) term loan programme reflects the Stable outlook on CTMS' rating.

#### Adequacy of credit enhancement:

The rating of the instrument is based on the credit substitution approach, whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument. However, the guarantee does not include any structured payment mechanism for invocation of the guarantee, on or before the due date. Nevertheless, the university's strong business linkages with the guarantor (CTMS) provide additional comfort to the credit profile of the company. Taking cognisance of these factors, the guarantee provided by CTMS is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]BBB- without explicit credit enhancement. If the rating of the guarantor undergoes a change in future, the same would reflect in the rating of the aforesaid instrument as well.

#### Salient covenants/clauses related to the credit enhancement

- » An unconditional and irrevocable guarantee provided by CTMS for the repayment of principal and interest over the entire tenure of the bank loans.
- » In case of a default, the guarantor shall, upon demand, forthwith pay to the bank without any demur or protest and without any set-off, deductions and/or adjustments of any kind whatsoever, the amount of the guaranteed obligations as may be claimed by the bank in relation to the facilities, as stated in a demand notice to be issued by the bank to the guarantor.
- » Any demand raised or made to any guarantor by way of a demand notice shall be final, conclusive and binding on the guarantor.

- » The guarantee deed does not include any structured payment mechanism for invocation of the guarantee, on or before the due date.

#### For the [ICRA]BBB- rating

The rating considers the strong brand association of the DAV brand, which has an operational track record of over 136 years. This has helped the university in increasing its student strength in the initial years. Further, the rating takes into account the financial linkages of the university with CTMS, as reflected in the track record of financial support from the institutions under the trust to the university. It is noted that the university's liquidity has improved from Stretched to Adequate mainly due to a reduction in the encumbered cash from Rs. 12 crore to around 2 crore in FY2022 and adequate free cash and cash equivalents of Rs. 47.05 crore as of end-March 2022. The same is adequate for repayment obligation of the term loans in the near term. Moreover, the university continues to receive strong financial support from CTMS for debt servicing.

The rating is, however, constrained by the university's initial stage of operations with a reduced student strength and admissions in AY2021 and AY2022. The rating is also constrained by the sizeable concentration of students in engineering and science stream that accounted for 41% of the student strength in AY2022. Further, its muted financial profile with pressure on profitability, negative net worth position and weak coverage ratios adversely impact the rating. Moreover, intense competition from the higher education institutes in the northern region and exposure to regulatory risk continue to be a key credit challenge.

### Key rating drivers and their description

#### Credit strengths

**Corporate guarantee issued by DAV College Trust and Management Society** – The rating is based on an unconditional and irrevocable corporate guarantee issued by CTMS to the bank for the due payment of the rated facility.

**Strong association of DAV brand and financial linkages with institutions in the Group** – The rating takes into account the strong association of the DAV brand, which has an operational track record of over 136 years. This has helped the university in increasing student strength in the initial years. Further, the rating considers the financial linkages of the university with CTMS, as reflected in the track record of financial support from the institutions under the trust to the university.

#### Credit challenges

**Early stage of operations makes the university dependent on promoter support to fund capex and principal repayment** – The university is in the early stage of operations and hence has low cash accruals vis-à-vis the repayment obligations. Further, the university is undertaking capex for expansion. Hence, it depends on funding support from the Group entities for meeting cash flow shortfalls.

**Subdued operational performance** – The total student admissions at the university declined in AY2021 and AY2022 owing to the pandemic. There has been a decline in some major courses offered by the university.

#### Liquidity position (Guarantor): Strong

On a consolidated basis, the society had a large cash reserve of Rs. 4,495.46 crore as on March 31, 2021, resulting in a strong liquidity position. The cash balance is dispersed across multiple locations with the respective institutes and therefore, the mobility of funds may be lower, though fungibility remains strong. Further, the society has robust cash generation from operations as well as treasury income on liquid balances with relatively lower funding commitment for debt servicing (Rs. 35.77 crore repayment in FY2023). The society also receives sizeable amount of grants and donations. Therefore, the society has a demonstrated track record of generating strong residual cash after meeting all its obligations, including sizeable capex funded primarily from internal accruals and support extended to needy institutes in the Group. Hence, the society has a strong liquidity profile. On a standalone basis, it receives management fees from its network of educational institutes.

## Liquidity Position (DAV University) – Adequate

The liquidity position of the university has improved from Stretched to Adequate mainly due to a reduction in the encumbered cash from Rs. 12 crore to around Rs. 2 crore in FY2022 and adequate free cash and cash equivalents of Rs. 47.05 crore as of end March, 2022. The same is adequate for repayment obligation of the term loans in the near term. Moreover, the university continues to receive strong financial support from CTMS for debt servicing.

## Rating Sensitivities

The rating would remain sensitive to any movement in the rating or outlook of the guarantor, CTMS.

**Positive factors** – The rating may be upgraded if there is an improvement in the parent entity's (CTMS) credit profile.

**Negative factors** – The rating may be downgraded if there is a deterioration in the parent entity's (CTMS) credit profile and weakening in the linkages with the parent entity. The rating may also be downgraded if there is a decline in the revenues that results in further weakening of its financial profile and any major deterioration in its liquidity.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Rating Methodology for Entities in the Higher Education Sector</a> <a href="#">Rating Approach – Consolidation</a> <a href="#">Rating Approach – Implicit Support from Parent or Group</a> <a href="#">Approach for rating debt instruments backed by third-party explicit support</a>
Parent/Group support	The rating is based on unconditional and irrevocable corporate guarantee from CTMS for the rated term loan of Rs. 70 crore
Consolidation/Standalone	Standalone

## About the company (DAV University)

DAV University is the first university set up by CTMS in 2013. The main campus is situated in Jalandhar, Punjab, spread across 70 acres. Its course offerings include B.Tech, M.Tech, B.Sc, M.Sc, MBA, etc. The university had a student strength of over 3,238 during AY2022. As the university is still growing, it is dependent on support from other DAV institutes, which is channelled through CTMS.

In FY2022, the university reported an operating profit of Rs. 6.4 crore on revenue receipts of Rs. 29.3 crore compared to an operating profit of Rs. 5.7 crore on revenue receipts of Rs. 25.2 crore in the previous year.

## About the Guarantor (CTMS)

DAV College Trust & Management Society (CTMS) is a non-Governmental educational organisation managing a chain of more than 830 educational institutions including 769 schools and one state private university. The first DAV Institution was established in Lahore in June 1886. The management has established several senior secondary schools, public schools, management colleges, ayurvedic colleges, dental colleges, law college, agricultural college, engineering institutes, industrial training centres, hospitals, university, etc. The operations of the society are managed by the DAV College Management Committee (DAV CMC), New Delhi.

### Key financial indicators (audited) – DAV University

University	FY2021	FY2022*
Operating income (Rs. crore)	25.2	29.3
PAT (Rs. crore)	-18.2	-13.9
OPBDIT/OI	22.7%	21.9%
PAT/OI	-72.1%	-47.5%
Total outside liabilities/Tangible net worth (times)	-8.5	-6.1
Total debt/OPBDIT (times)	54.5	48.5
Interest coverage (times)	0.6	0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*Provisional

Source: DAV University; ICRA Research

### Key financial indicators (audited) – CTMS (Guarantor)

CTMS	FY2020	FY2021
Operating income (Rs. crore)	4,151.8	3,391.2
PAT (Rs. crore)	374.8	192.4
OPBDIT/OI	4.7%	-0.3%
PAT/OI	9.0%	5.7%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	0.8	-13.6
Interest coverage (times)	11.8	-0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: CTMS; ICRA Research

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2022 (Rs. crore)	Date and Rating in Aug 29, 2022	Date & Rating		
						FY2022	FY2021	FY2020
1	Fund based – Term Loan	Long-term	50.00	31.41*	[ICRA]A+(CE)(Stable)	May 21, 2021	-	Mar 06, 2020
						[ICRA]A+(CE)(Stable)	-	[ICRA]A+(CE)(Stable)

\*\*Note: Out of Term Loans of Rs. 70 Crore, Rs. 45.23 crore has been disbursed till date.

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term Fund based – Term Loan	June 2016	NA	Oct 2026	50.00	[ICRA]A+(CE)(Stable)

**Source:** DAV University

## Annexure II: List of entities considered for consolidated analysis: Not Applicable

## ANALYST CONTACTS

**Jayanta Roy**

+91 33 7150 1120

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Priyesh Ruparelia**

+91 022 6169 3328

[priyesh.ruparelia@icraindia.com](mailto:priyesh.ruparelia@icraindia.com)

**Manish Pathak**

+91 124 4545397

[manishp@icraindia.com](mailto:manishp@icraindia.com)

**Sandeep Aggarwal**

+91 124 4545377

[sandeep.aggarwal@icraindia.com](mailto:sandeep.aggarwal@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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