February 17, 2022

VIT Trust: Ratings upgraded; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated Limits	73.00	82.70	[ICRA]A+(CE)(Stable); upgraded from [ICRA]A(CE) (Positive); Outlook revised to Stable from Positive
Long-term Fund Based – Term Loans	227.00	217.30	
Total	**300.00**	**300.00**	

Rating Without Explicit Credit Enhancement	[ICRA]A

**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

The above rating is based on the strength of the letter of comfort (LoC) provided by Vellore Institute of Technology [VIT/LoC provider; rated [ICRA]AA (Stable)] for the rated bank facilities of VIT Trust (VITB). The Stable outlook on this rating reflects ICRA's outlook on the rating of the LoC provider, VIT. As per the terms of the LoC, VIT has promised timely financial support in case VIT Trust is unable to meet its debt obligations starting from 2017, which would continue till 2029.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the LoC issued by VIT in favour of the said instrument. Taking cognisance of the above, ICRA has assigned a rating of [ICRA]A+ (CE)(Stable) to the said instrument against the unsupported rating of [ICRA]A. If the rating of the LoC provider, VIT, undergoes a change in the future, the same would have a bearing on the rating of the said instrument as well. The rating of this instrument may also undergo a change if, in ICRA's assessment, there is a change in the strength of the business linkages between the LoC provider and the rated entity or there is a change in the reputation sensitivity of the LoC provider to a default by the rated entity or there is a change in the strategic importance of the rated entity for the LoC provider.

Salient covenants of the rated facility

- Undertaking-cum-authorisation letter from VIT to provide financial support from the cash flows of VIT Vellore and Chennai campuses to VIT Bhopal in case of any shortfall in collections or liquidity crunch for servicing instalment and interest dues of VIT Bhopal
- Margin money of term loan by way of donation from VIT Trust to be retained until the loan is repaid
- Personal guarantee of the trustees of VIT and VIT Trust: Mr. G Viswanathan, Mr. Sankar Viswanathan and Ms. Kadambari S. Viswanathan

The upgrade in the ratings of VIT Trust follows the rating upgrade of the LoC provider, VIT, and a significant improvement in the scale of operations of VITB in FY2021 and 9M FY2022, reflected by a ~33% YoY increase in student admissions in AY2022 coupled with healthy enrolment levels across the courses. VITB recorded a 31.7% YoY increase in its operating income to Rs. 96.8 crore, despite negligible revenues from hostels owing to the pandemic, and a 710-bps improvement in operating margins to 60.8% in FY2021. In 9M FY2022, the operating revenues stood at Rs. 107.5 crore with an operating margin of 61.7%. With the increasing rate of vaccination in the country and the waning away of the third wave of the pandemic, ICRA expects VITB to open its campus for students from the new academic year beginning June-July 2022, which is expected to result in further augmentation of revenues by ~Rs. 50-60 crore annually. Healthy cash accruals have further aided in reducing dependence on VIT for funding capital expenditure and debt repayments. Going forward, ICRA expects the increasing student strength to aid the university in improving its scale of operations, translating into better cash accruals and improved debt protection metrics.

The ratings positively factor in the strong brand name of VIT, which is expected to aid the new university to continue to attract meritorious students even in new geographies like Madhya Pradesh. While VITB is autonomous, it follows the operating procedures and curriculum of VIT, which has wide acceptance and recognition. The extensive experience of the managing trustees (common to both VIT and VITB) in the field of education for over three decades further provides comfort. Further, the ratings also take account of the significant autonomy enjoyed by the university in deciding its fees and offering additional courses owing to its status as a state private university.

The ratings, however, continue to be constrained by the high reliance of the university on engineering courses, which account for ~92% of total admissions for AY2020-21. However, introduction of additional courses in post-graduation and non-engineering streams is expected to lend diversity to the operating profile of VITB in the long term. The ratings also factor in the nascent stage of setup of the university, which entails a sizeable capex of ~Rs. 80 crore per annum, to be financed partly through debt and partly through internal accruals and donations. The ratings consider the significant competition in higher education, which puts pressure in attracting and retaining faculty members as well as meritorious students over the long term. These apart, the university is exposed to significant regulatory risks associated with stringent compliance requirements by numerous regulatory bodies. However, VIT's reputation and established presence are expected to support student offtake and scale up of operations in the medium term.

Key rating drivers and their description

Credit strengths

Comfort from LoC provided by VIT and extensive experience of trustees – Established in 2016 as a state private university in Madhya Pradesh, VIT Trust is managed by the same trustees as VIT, who have extensive experience in the Indian higher education sector spanning three decades. Further, Vellore Institute of Technology has provided letter of comfort, promising timely financial support in case VIT Trust is unable to meet its debt repayment obligations starting from 2017 which would continue 2029.

Increasing student intake coupled with healthy enrolment levels backed by strong brand name – VIT Trust shares the brand name of VIT which has, over a span of three decades, established itself as one of India's top higher education institutions. VIT is accredited by the Accreditation Board for Engineering and Technology (ABET), USA and A++ by the National Assessment and Accreditation Council (NAAC). Further, VIT is ranked 12th among engineering institutes in India in the NIRF-2021 rankings. The high brand recall and established reputation aid VIT Trust in attracting meritorious students. The university has recorded a 33% YoY increase in student admissions in AY2022 to ~3,200 students. Moreover, the enrolment levels have been healthy at 80-85% across the courses. ICRA expects VIT Trust to continue to improve its scale of operations by leveraging the VIT brand while adopting its best practices.

Strong geographical diversity of students reflects favourably on the trust's reputation – VIT Trust continues to attract students from across the country. This is reflected in the top three states accounting for 60% of the students admitted in AY2021. Further, the geographical advantage of being situated in Bhopal, which has good connectivity with most north Indian states also aids in attracting students to its campus.

Credit challenges

Nascent stages of set up of university; sizeable capex requirements – VIT Trust incurred a capex of Rs. 43 crore in FY2021 and ~Rs. 35 crore in 9M FY2022, largely towards construction of student and faculty residences and development of campus infrastructure. With the university still in the nascent stages of operations, ICRA expects VIT Trust to have sizeable capex requirements to the tune of ~Rs. 80 crore per annum over the next 2-3 years. This is expected to be funded partly through internal accruals and partly through bank facilities, with need-based support from VIT through donations. Although the capex is sizeable, the trust has a comfortable liquidity profile with free cash of Rs. 55 crore and undrawn term loans of Rs. 60 crore as on December 31, 2021.

Course concentration risk – VIT Trust offers diversified courses in engineering and non-engineering streams structured around four schools. Nevertheless, there is high course concentration with engineering courses contributing to ~95% of admission in AY2021. This exposes the university to the risks emanating from changing preferences of students away from engineering. Introduction of various courses in non-engineering streams is likely to aid in diversification of revenues in the long term.

Intense competition from other reputed public and private institutions in Madhya Pradesh – Madhya Pradesh has two central universities, two regional universities and eight centrally-funded universities. Although intense competition puts pressure on VIT Trust in attracting meritorious students and retaining talented and reputed faculty members, the established brand of VIT is expected to aid the university.

High regulatory risk – The higher education sector in India is highly regulated by numerous bodies including the University Grants Commission (UGC) and the All India Council for Technical Education (AICTE), which have stringent compliance requirements. This exposes the university to significant regulatory risks associated with unanticipated changes in regulations, which may have an adverse impact on its operational or financial profile.

Liquidity position (VIT Trust): Adequate

VIT Trust's liquidity is adequate, characterised by unencumbered liquid investments of Rs. 54.8 crore and undrawn term loan balance of Rs. 60 crore as on December 31, 2021. Against this, the trust has sizeable capital expenditure plans of ~Rs. 80 crore per annum. Debt repayment obligations are expected to be Rs. 7 crore, Rs. 12 crore and Rs. 19 crore in FY2022, FY2023 and FY2024, respectively. Steady growth in the number of students along with the expected reopening of campus from the next academic year are expected to aid growth in net accruals. Further, with the need-based support expected from VIT, the LoC provider, the liquidity position of VIT Trust is likely to remain comfortable.

Liquidity position of LoC Provider (Vellore Institute of Technology): Strong

VIT has a strong liquidity profile with sizeable cash and unencumbered liquid investments of Rs. 606 crore as on March 31, 2021 (provisional) and Rs. 842 crore as on December 31, 2021. Its liquidity is further supported by the debt free status of the trust and an unutilised sanction of Rs. 200 crore from banks. ICRA expects VIT to incur sizeable capital expenditure of ~Rs. 300 crore per annum over the next 2-3 years, funded entirely through internal accruals, which are expected to be ~Rs. 500 crore per annum. VIT Trust (VITB), beneficiary of the letter of comfort extended by VIT, has an outstanding debt of Rs. 154.5 crore as on December 31, 2021 with repayment obligations of Rs.7 crore, Rs. 12 crore and Rs. 19 crore in FY2022, FY2023 and FY2024, respectively. VIT is expected to extend monetary support to its sister trusts through donations of Rs. 120-150 crore per year.

The detailed rating rationale of Vellore Institute of Technology is available at the following link: Click Here

Rating sensitivities

Positive factors: The ratings would remain sensitive to any movement in the rating or outlook of the LoC provider. A sharp improvement in the credit profile of VIT Trust could also support a ratings upgrade.

Negative factors: Pressure on the ratings could arise if the support or linkage with the LoC provider weakens and/or if there is a deterioration in the credit profiles of VIT Trust and/or the LoC provider.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Entities in the Higher Education Sector] [Approach for rating debt instruments backed by third-party explicit support]
Parent/Group Support	ICRA expects VIT Trust's parent, Vellore Institute of Technology (VIT) [rated [ICRA]AA (Stable)], to be willing to extend financial support to VIT Trust if there is a need, given the high strategic importance that VIT Trust holds for VIT in meeting its diversification objectives. Both VIT Trust and VIT share a common brand name, which in ICRA's opinion would persuade VIT to provide financial support to VIT Trust to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The ratings are based on the standalone financial profile of VIT Trust

About the company

VIT Trust was established by Vellore Institute of Technology in 2016 as a state private university offering undergraduate, post graduate and doctoral programmes in engineering and management. It is located in Kothri Kalan in Sehore district of Madhya Pradesh and has a campus spread over 175 acres of land. Its academic year commenced in 2017-18 with 412 students. It enrolled 3,185 students in AY 2021-22, taking the total student strength to 7,526.

Key financial indicators (audited)#

VIT Trust	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	73.6	96.8	107.5
PAT (Rs. crore)	28.0	33.4	45.7
OPBDIT/OI (%)	53.7%	60.8%	61.7%
PAT/OI (%)	38.0%	34.5%	42.5%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	1.6	1.1
Total Debt/OPBDIT (times)	3.8	2.8	1.7
Interest Coverage (times)	2.6	3.9	6.9

**Provisional*

 # The financial statements have been adjusted for depreciation and amortisation by ICRA

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

About Vellore Institute of Technology (LoC Provider)

Vellore Institute of Technology (VIT), established in 1984 by Dr. G. Viswanathan, is one of the established self-finance educational institutions in India offering higher education. VIT offers courses in various branches of undergraduate, post graduate and doctoral programmes in engineering, science, business administration, hotel management, law and architecture. It was founded as Vellore Engineering College in Vellore, Tamil Nadu, affiliated to the University of Madras. In June 2001, it received the deemed university status from the Government of India and was rechristened as VIT University. The Chennai campus of the university became operational in AY2010-2011. VIT conducts its own entrance examinations for undergraduate (VIT Engineering Entrance Exam, VITEEE) and post graduate (VIT Master's Entrance Exam, VITMEE) programmes and the admission is based on merit.

Key financial indicators (audited)#

VIT Trust	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	1,290	1,174	856
PAT (Rs. crore)	341	329	395
OPBDIT/OI (%)	43.9%	56.2%	60.1%
PAT/OI (%)	26.4%	28.1%	46.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.2	0.3
Total Debt/OPBDIT (times)	0.0	-	-
Interest Coverage (times)	1525	5120	17144

**Provisional #The financial statements have been adjusted for depreciation and amortisation by ICRA*
PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 17, 2022	Dec 01, 2020	Jun 25, 2019	Apr 06, 2018
1.	Unallocated Limits	Long-term	82.70	-	[ICRA]A+(CE) (Stable)	[ICRA]A(CE) (Positive)	[ICRA]A(S) (Stable)	[ICRA]A(S) (Stable)
2.	Term Loans	Long-term	217.30	154.5	[ICRA]A+(CE) (Stable)	[ICRA]A(CE) (Positive)	[ICRA]A(S) (Stable)	[ICRA]A(S) (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term – Unallocated Limits	N.A.
Long-term Fund Based – Term Loans	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, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Unallocated Limits	NA	NA	NA	82.70	[ICRA]A+(CE) (Stable)
NA	Term Loan – I	FY2018	7.90%	FY2030	105.50	[ICRA]A+(CE) (Stable)
NA	Term Loan – II	FY2020	8.45%	FY2030	111.80	[ICRA]A+(CE) (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Vipin Jindal
+91 124 4545355
vipin.jindal@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Raunak Modi
+91 8377850550
raunak.modi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

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

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches

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