May 26, 2022

Vellore Institute of Technology: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated Limits	200.00	200.00	[ICRA]AA (Stable); reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the rating considers the healthy improvement in the operational and financial profiles of VIT in FY2021 and FY2022 despite the impact of the pandemic and ICRA's expectations of continued strong performance in the medium term. The trust recorded a slight moderation in revenues in FY2021 due to reduced hostel receipts as the campus was closed owing to the pandemic. However, the operating margins improved significantly to 53.6% in FY2022 (provisional) and 55.3% in FY2021 from 43.9% in FY2020 owing to reduced fixed expenses due to online classes. With the increasing rate of vaccination in the country and waning of the third wave of the pandemic, VIT has started reopening its campuses in a phased manner from February 2022. ICRA expects VIT to fully reopen its campuses in AY2023, resulting in increased revenue from hostels to the tune of ~Rs. 150-200 crore annually. VIT continues to record a healthy growth in student admissions across both Vellore and Chennai campuses with the total admissions increasing to ~47,000 in AY2022 from ~40,000 in AY2020. The enrolment levels have remained healthy at ~85% over the last three academic years. The university continues to remain debt free on a standalone basis with a strong liquidity profile, characterised by cash and liquid investments of Rs. 842 crore as on December 31, 2021 (provisional), up from ~Rs. 510 crore as on March 31, 2020.

The rating continues to favourably factor in the established brand equity of VIT for over three decades, experience of the promoter group in the higher education space and the institute's strong academic and placement track record. The university has improved its ranking to 12th among engineering institutes in the NIRF 2021 ranking released by the Government of India (18th in NIRF 2019). VIT has ranked 9th in the country in the Webometrics Ranking of World Universities 2022. Further, its accreditation in the highest A++ grade by NAAC in 2021 and recognition as an Institute of Eminence are expected to help VIT to have better collaboration with international institutes, further improve its global standing and attract more foreign students. The ratings also derive comfort from the high degree of autonomy enjoyed by VIT in deciding course fees and introducing new courses owing to its status as a deemed university.

The rating, however, continues to be constrained by the high concentration of the university's revenues, both in terms of the stream of education and geographical location. Engineering courses continue to account for more than ~74% of the university's revenues in AY2022 while the Vellore campus continues to be the mainstay of the university, contributing ~80% to the operating revenues in FY2021. However, VIT's reputation and established presence supported a strong offtake in its engineering courses despite a muted outlook for engineering courses in the country and strong competition from other government and private institutions. The rating continues to factor in the significant regulatory risk as the higher education sector in India is highly regulated with stringent compliance requirements. The risks, however, are partly mitigated by the deemed university status of VIT.

The Stable outlook on the long-term rating reflects ICRA's opinion that VIT will continue to benefit from healthy student enrolments aided by its established reputation and strong placement track record while maintaining a strong liquidity profile.

Key rating drivers and their description

Credit strengths

Strong financial profile characterised by healthy debt protection metrics and sizeable liquid investments – VIT continues to maintain a strong financial profile, reflected by its net cash position with sizeable cash and liquid investments. Although VIT's operating income registered a modest decline of 9% YoY to Rs. 1,166 crore in FY2021 (due to negligible hostel fees as the campus was closed owing to the pandemic), its operating margins improved to 55.3% in FY2021 from 43.9% in FY2020 on the back of reduced expenses. In FY2022, VIT has maintained its performance with ~3% YoY growth in operating income and operating margins greater than 50%. Its financial profile is further aided by cash and liquid investments worth of Rs. 608 crore as on March 31, 2021.

Long and established track record and strong reputation aid in healthy enrolments – Founded in 1984, VIT is one of the well-established education institutions offering higher education in India. VIT is accredited by Accreditation Board of Engineering and Technology (ABET), USA. VIT has received the highest grade, A++, from the National Assessment and Accreditation Council (NAAC) in the fourth cycle in 2021 with a score of 3.66 out of 4 and is among the only 8 universities in this grade. It is ranked 12th among engineering colleges, 12th among research institutions and 13th among universities in the National Institutional Ranking Framework (NIRF) – 2021 rankings. VIT is one among the top 10 and the only private university from India in the Shanghai ARWU World Rankings 2021, while seven subjects offered by VIT are ranked by QS World University Ranking by Subjects 2021. Moreover, its status as a deemed university and an Institute of Eminence by the GoI give its high degree of autonomy to take independent quality initiatives and further enhance its world rankings. VIT offers a flexible curriculum to students with a choice of any interdisciplinary course from other engineering schools. Banking on its reputation and track record, VIT has consistently recorded a healthy enrolment level and attracted meritorious students.

Strong geographical diversity of students and healthy placement track record – The university attracts students from across geographies (India and overseas), which reflects favourably on the strong demand for its courses and its reputation. VIT has strong placement track record of over 85% with 5,031 students placed in AY2020-21. A total of 803 companies visited VIT for recruitment in AY2020-21 with information technology (IT) companies dominating the placements.

Credit challenges

High revenue concentration risk – With the engineering stream accounting for more than 70% of first year admissions, VIT is exposed to high revenue concentration risk. Changes in students' preferences from engineering education could lead to a material impact on the operational profile of the university. Moreover, VIT accounts for ~80% of the Group's operating revenue which further exacerbates revenue concentration while exposing it to the risks emanating from disruption of operations due to localised incidents including natural disasters or other socio-political events.

However, VIT records healthy diversification between various specialisations (schools) of engineering with none of the schools having more than 30% of the total admitted students in AY2022. Further, VIT's efforts to diversify its revenues have resulted in increasing the share of non-engineering and research students to 25.6% in AY2022 from 6.5% in AY2017. Also, VIT has established three other campuses in Chennai, Madhya Pradesh and Andhra Pradesh, which are expected to aid in geographical diversification, going forward.

Intense competition and vulnerability to changing regulations – VIT faces intense competition from other reputed public institutions (including Indian Institutes of Technology and National Institutes of Technology) and private institutions in India, which puts pressure on attracting meritorious students and retaining accomplished faculty members. Nonetheless, VIT's strong brand name and reputation help it in a competitive sector. Moreover, the higher education sector is highly regulated by various bodies including the UGC, AICTE, etc, with strict compliance requirements. This exposes the university to significant regulatory risks associated with unanticipated changes in regulations, affecting the university's operations.

Large donation pay-outs and letters of comfort to Group trusts to fund capex requirements may impact earnings and liquidity – VIT has set up two new universities, VITB and VIT-AP, under separate trusts, in compliance with statutory requirements, to diversify its operations. The capital needs for expansion of these campuses are partly met through donations from VIT and partly through bank borrowings. In addition to this, VIT donates to Rajeshwari Educational and Charitable Trust and Vellore Educational and Charitable Trust, which are in the process of establishing international schools in Chennai and Bangalore, respectively. VIT has collectively paid donations of Rs. 125 crore in FY2022 (provisional) to these institutions.

VIT has extended a letter of comfort (LoC) to support the capital expenditure of its sister trust, VIT Trust (VITB), which is operating a state private university in Madhya Pradesh. VITB has an outstanding debt of Rs. 154.5 crore as on December 31, 2021 with repayment obligations of Rs. 12 crore, Rs. 19 crore and Rs. 25 crore in FY2023, FY2024 and FY2025, respectively. ICRA expects donations from VIT to be in the range of Rs. 120-150 crore per annum over the next 2-3 years. Any unexpected sizeable donation from VIT could impact its liquidity and will remain a key monitorable.

Liquidity position: Strong

VIT has a strong liquidity profile with sizeable cash and unencumbered liquid investments of Rs. 608 crore as on March 31, 2021 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 capex 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 is expected to extend monetary support to its sister trusts through donations of Rs. 120-150 crore per annum over the medium term.

Rating sensitivities

Positive factors – ICRA may upgrade VIT's ratings if the trust's scale of operations and accruals continue to grow at a healthy rate while it achieves revenue diversification.

Negative factors – Pressure on the ratings could emerge if any regulatory development adversely impacts VIT's operating and/or financial profile. The ratings could also be impacted if its liquidity position or capital structure weakens on account of sizeable debt-funded capital expenditure or high donation pay-outs. Specific credit metrics which could result in a downgrade include a return on capital employed (RoCE) of less than 20% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Higher Education Sector Rating Approach - Consolidation
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financial statements of Group entities (specified in Annexure – 2) given the close business, financial and managerial linkages among them.

About the company

Vellore Institute of Technology (VIT), established in 1984 by Dr. G. Viswanathan, is one of the established self-financing educational institutions in India offering higher education. It was founded as Vellore Engineering College in Vellore, Tamil Nadu, affiliated to the University of Madras. In June 2001, it was recognised as a deemed university by the Government of India and was rechristened as VIT.

The university offers undergraduate, post-graduate and doctoral programmes across branches including engineering, science, business administration, hotel management, law and architecture. It has been accredited in the A++ grade by NAAC in 2021

and is ranked 12th among engineering institutions in the NIRF-2021 rankings. The Chennai campus of the university became operational in AY2010-11. The university conducts its own entrance examinations for undergraduate (VIT Engineering Entrance Examination, VITEEE) and postgraduate (VIT Master's Entrance Examination, VITMEE) courses.

VIT Trust (VITB; rated [ICRA]A+(CE)(Stable)) was established in 2016 as a state private university in Madhya Pradesh. VIT has extended a letter of comfort (LoC) to VITB. VIT-AP was established in 2016 as a state private university in Andhra Pradesh. While VIT has provided donations to VIT-AP to support construction of the university, it has not extended any explicit support in the form of LoC. Both these trusts started their academic operations from AY2018.

Key financial indicators (audited)#

Vellore Institute of Technology	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	1,290	1,166	1,199
PAT (Rs. crore)	341	301	402
OPBDIT/OI (%)	43.9%	55.3%	53.6%
PAT/OI (%)	26.4%	25.8%	33.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3	0.2
Total Debt/OPBDIT (times)	-	-	-
Interest Coverage (times)	1525	5003	3214

**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

Note: ICRA has considered the combined financial statements of VIT, VIT Trust and Vellore Institute of Technology- Andhra Pradesh (VIT-AP) to arrive at the ratings. The KFIs of VIT Trust can be viewed here.

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 of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 26, 2022	Feb 17, 2022	Dec 01, 2020	Jun 26, 2019
1	Term Loan	Long-term	-	-	-	-	-	[ICRA]AA-(Stable)
2	Unallocated Limits	Long-term	200.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Unallocated Limits	N.A.

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	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Unallocated Limits	NA	NA	NA	200.00	[ICRA]AA (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
VIT Trust	-	Full Consolidation
Vellore Institute of Technology – Andhra Pradesh	-	Full Consolidation

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