

August 31, 2023

Vellore Institute of Technology - Andhra Pradesh: Rating upgraded; outlook revised to Positive from Stable

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------------------|--------------------------------------|-------------------------------------|--|
| Long-term fund-based – Term Loans | 430.00 | - | - |
| Long-term Unallocated Limits | - | 430.00 | [ICRA]A (Positive); upgraded from [ICRA]A-(Stable) and outlook revised to Positive |
| Total | 430.00 | 430.00 | |

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade and a change in the outlook to Positive consider the higher-than-expected increase in the scale of operations of Vellore Institute of Technology – Andhra Pradesh (VIT-AP) and ICRA's expectations of sustained improvement in operating and financial performance over the coming quarters. The same has been reflected in the enrolled strength increasing to more than 10,000 students in the academic year (AY) 2022-23, up 53% YoY, owing to an uptick in the student intake and healthy enrolment levels of 85-90% over the last three years. The rating action also considers prepayment of the entire outstanding term debt, including interest, (Rs. 433 crore as on March 31, 2022) in March 2023, funded by receipt of donation worth Rs. 430 crore from Vellore Institute of Technology [VIT, rated [ICRA]AA(Stable)] in FY2023, translating into a substantial improvement in VIT-AP's financial risk profile. ICRA expects the trust to sustain the improvement in its operating and financial risk profiles. VIT-AP's operating receipts jumped by ~85% YoY to more than Rs. 300 crore in FY2023 (provisional), led by recovery in hostel receipts with reopening of campus after the pandemic and a sustained increase in student intake. ICRA expects the university's operating receipts to grow by ~15% p.a. over the next two years. VIT-AP's operating surplus margin remained healthy at 48.5% in FY2023 (provisional) with better absorption of fixed costs. The margin is projected to sustain above 45% over the medium term. The university remained debt free as on March 31, 2023 and is estimated to maintain a sizeable net cash position, going forward.

The rating continues to favourably factor in the high degree of autonomy of VIT-AP owing to its status as a state private university, which allows it to decide its course fee and introduce new courses. The rating also considers the strong brand name of VIT, which is expected to aid VIT-AP in attracting meritorious students to its campus owing to the widely accepted curriculum and industry best practices of VIT. The rating also derives comfort from the comfortable capital structure and improved liquidity position of the entity, which are likely to support its medium term capex plans, coupled with strong linkages with VIT.

The rating, however, remains constrained by sizeable capital expenditure requirements of the university towards construction of physical campus infrastructure over the next 2-3 years. ICRA expects VIT-AP to incur capex of Rs. 150-160 crore p.a., which is likely to be funded through internal accruals and donations from VIT, if required. The rating also considers the significant concentration of VIT-AP's revenue on engineering courses, which accounted for ~90% of admissions in AY2022-23, exposing the university to moderation in demand for such courses. Besides, VIT-AP is exposed to intense competition from other public and private educational institutions. The rating also factors in the significant regulatory risks as the higher education sector in India is highly regulated by multiple authorities with stringent compliance requirements.

Key rating drivers and their description

Credit strengths

Substantial autonomy due to status as state private university and brand name of VIT – VIT-AP enjoys a high degree of autonomy in its operational matters including introduction of new courses and deciding its fee structure due to its recognition as a state private university in Andhra Pradesh. This provides it with a high degree of operational flexibility. Additionally, the university shares the brand name of VIT, which over the last three decades, has established itself as one of India's premier higher education institutions. The high brand recall value of VIT, especially in engineering education, and its established reputation are likely to aid VIT-AP in attracting meritorious students.

Improvement in scale of operations and financial risk profile – VIT-AP started accepting students from AY2017-18 with 586 admissions. Over the years, the total enrolled strength has increased to more than 10,000 students in AY2022-23, indicating a healthy scale-up of operations, driven by a sustained increase in student intake and enrolment level of 85-90% on a sustained basis. Consequently, the cash accruals also improved, translating into an interest cover of more than 4.0 times in FY2023 and prepayment of the entire outstanding term loan in March 2023 (funded through donations received from VIT). The improvement in the financial risk profile is demonstrated by VIT-AP's net cash position of ~Rs. 70 crore as on March 31, 2023 against net debt of Rs. 345 crore as on March 21, 2022. Going forward, ICRA expects the university to continue to improve its scale of operations by introducing new courses and increasing the sanctioned seat strengths, in line with the built-up of physical infrastructure of the campus.

Strong linkages and support from VIT – VIT-AP has strong operational and financial linkages with VIT. It admits students through the common entrance exams conducted by VIT and follows a similar curriculum and teaching pedagogy as it has wide acceptance in the teaching community. Further, the placements of students of VIT-AP are conducted together with VIT. Additionally, VIT has a demonstrated history of providing financial support in the form of donations to VIT-AP, aggregating to more than Rs. 800 crore over the last six years, which has been largely utilised towards capex and repayment of debt. ICRA expects VIT to continue to extend support to VIT-AP through donations, which are expected to aid the latter's liquidity position.

Credit challenges

Early stages of set up of university; sizeable capex requirements – VIT-AP incurred a capex of ~Rs. 125 crore in FY2023 (provisional) largely towards construction of campus infrastructure including academic blocks, student hostels and faculty residences. With the university still in the nascent stage of operations, ICRA expects VIT-AP to have sizeable capex requirements worth Rs. 150-160 crore per annum over the next 2-3 years. This is expected to be funded partly through internal accruals and partly through donations from VIT.

High concentration of revenue in engineering education – The university's revenue is highly concentrated in the engineering education with such courses accounting for over 90% of admissions in AY2022-23. The dependence on engineering education exposes the university to the risks emanating from changing preferences of students. Introduction of new courses in non-engineering streams is likely to aid in diversification of revenues over the long term.

Intense competition and vulnerability to changing regulations – VIT-AP faces intense competition from other reputed public and private institutions in India, which puts pressure on attracting meritorious students and retaining accomplished faculty members. However, the established brand of VIT is likely to aid the university. The higher education sector in India is highly regulated by numerous bodies like the University Grants Commission, All India Council of Technical Education, among others, which have stringent compliance requirements. This exposes the university to significant regulatory risks associated with unanticipated changes in regulations, which might have an adverse impact on its operating and/or the financial profile.

Liquidity position: Strong

VIT-AP's liquidity is strong, characterised by free cash and liquid investments of more than Rs. 70 crore as on March 31, 2023 (provisional). The university has prepaid the entire outstanding term loan in FY2023, funded by donations received from Group entities, and remained debt free as on March 31, 2023. ICRA expects the trust to generate cash flow from operations worth Rs. 170-190 crore p.a. over the next 2-3 years. Against this, it is estimated to incur capital expenditure worth Rs. 150-180 crore p.a. ICRA derives comfort from the demonstrated history and willingness of Vellore Institute of Technology [VIT, rated [ICRA]AA(Stable)] to extend timely financial support to VIT-AP to meet its financing requirements.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a sustained improvement in the scale of operations and diversification of revenue, translating into a healthy liquidity profile on a sustained basis. The rating remains sensitive to the improvement in the credit profile of Vellore Institute of Technology.

Negative factors – Pressure on the rating could arise if there is a substantial decline in enrolment levels or fee collection, adversely impacting the university's financial risk profile or liquidity position. Weakening of linkages or support from Vellore Institute of Technology, significant debt-funded capex or regulatory developments adversely impacting the university's financial or operational profile could also impact the rating. Specific credit metrics which could result in a rating downgrade include TOL/TNW above 1.4 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology – Higher Education Rating Approach – Implicit Parent or Group Support |
| Parent/Group support | Group Entity: Vellore Institute of Technology [VIT, rated [ICRA]AA(Stable)] ICRA expects VIT to be willing to extend financial support to VIT-AP to meet its capex and debt servicing requirements given its strategic importance to VIT and out of its need to protect its reputation. VIT has a demonstrated history of extending financial support, through donations, to VIT-AP over the past five years |
| Consolidation/Standalone | Standalone |

About the company

Vellore Institute of Technology – Andhra Pradesh (VIT-AP) was established as a state private university in Andhra Pradesh in 2016. It offers undergraduate, postgraduate and doctoral courses in engineering, science, commerce and management. Its campus is spread over 100 acres in Amravati, Andhra Pradesh. The university started accepting students from AY2017-18 with 586 admissions. Over the years, the total enrolled strength has risen to more than 10,000 students in AY2022-23. The university has close operational linkages with Vellore Institute of Technology.

Key financial indicators*

| Vellore Institute of Technology – Andhra Pradesh | FY2021 (audited) | FY2022 (audited) | FY2023 (provisional) |
|--|---------------------|---------------------|-------------------------|
| Operating income | 104 | 167 | 310 |
| PAT | 131 | 47 | 494 |
| OPBDIT/OI | 53.3% | 46.1% | 48.5% |
| PAT/OI | 126.3% | 28.2% | 159.3% |
| Total outside liabilities/Tangible net worth (times) | 1.4 | 1.2 | 0.0 |
| Total debt/OPBDIT (times) | 7.8 | 5.6 | - |
| Interest coverage (times) | 1.4 | 2.2 | 4.7 |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

*The financial statements of VIT-AP have been adjusted for depreciation and amortisation by ICRA

Note: The rating rationale (incl. KFI) of Vellore Institute of Technology (implicit support provider) can be viewed [here](#)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| Instrument | Type | Current rating (FY2024) | | Chronology of rating history for the past 3 years | | | | |
|------------|--------------------|-----------------------------|--|---|-------------------------|-------------------------|-------------------------|---|
| | | Amount rated (Rs. crore) | Amount outstanding as of Mar 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | |
| | | | | Aug 31, 2023 | May 27, 2022 | - | - | |
| 1 | Term Loans | Long-term | - | - | - | [ICRA]A- (Stable) | - | - |
| 2 | Unallocated Limits | Long-term | 430.00 | - | [ICRA]A (Positive) | - | - | - |

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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|---------------------------|------------------|-------------|----------|--------------------------|----------------------------|
| N.A. | Unallocated Limits | N.A. | N.A. | N.A. | 430.00 | [ICRA]A (Positive) |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – N.A.

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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